UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2013

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition period from ____ to ____

Commission file number 1-11314

LTC PROPERTIES, INC.

(Exact name of Registrant as specified in its charter)

Maryland (State or other jurisdiction of incorporation or organization)	71-0720518 (I.R.S. Employer Identification No.)

2829 Townsgate Road, Suite 350

Westlake Village, California 91361

(Address of principal executive offices, including zip code)

(805) 981-8655

(Registrant s telephone number, including area code)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ

The number of shares of common stock outstanding on August 1, 2013 was 34,751,910.

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FORM 10-Q

June 30, 2013

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LTC PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands)

	June 30, 2013 *(unaudited)*	December 31, 2012 *(audited)*
ASSETS		
Real estate investments:		
Land	$ 75,094	$ 75,094
Buildings and improvements	836,934	822,618
Accumulated depreciation and amortization	(209,581)	(197,407)
Net operating real estate property	702,447	700,305
Properties held-for-sale, net of accumulated depreciation and amortization: 2013 $804; 2012 $1,141	210	1,242
Net real estate property	702,657	701,547
Mortgage loans receivable, net of allowance for doubtful accounts: 2013 $396; 2012 $782	39,272	39,299
Real estate investments, net	741,929	740,846
Other assets:		
Cash and cash equivalents	63,315	7,191
Debt issue costs, net	2,701	3,040
Interest receivable	741	789
Straight-line rent receivable,(1) net of allowance for doubtful accounts: 2013 $1,532; 2012 $1,557	28,839	26,998
Prepaid expenses and other assets	6,262	7,548
Notes receivable	1,277	3,180
Total assets	$845,064	$789,592
LIABILITIES		
Bank borrowings	$	$115,500
Senior unsecured notes	185,800	185,800
Bonds payable	2,035	2,635
Accrued interest	3,296	3,279
Earn-out liabilities	6,963	6,744
Accrued expenses and other liabilities	11,712	12,492
Accrued expenses and other liabilities related to properties held-for-sale	33	34
Total liabilities	209,839	326,484
EQUITY		
Stockholders equity:		
Preferred stock $0.01 par value; 15,000 shares authorized; shares issued and outstanding: 2013 2,000; 2012 2,000	38,500	38,500
Common stock: $0.01 par value; 60,000 shares authorized; shares issued and outstanding: 2013 34,752; 2012 30,544	348	305
Capital in excess of par value	687,841	510,236
Cumulative net income	749,912	724,033
Other	134	152
Cumulative distributions	(841,510)	(810,125)
Total LTC Properties, Inc. stockholders equity	635,225	463,101
Non-controlling interests		7

Total equity	635,225	463,108
Total liabilities and equity	$845,064	$789,592

(1) On June 30, 2013 and December 31, 2012, we had $3,206 and $3,191 respectively, in straight-line rent receivable from a lessee that qualifies as a related party because the lessee s Chief Executive Officer is on our Board of Directors. See *Note 9. Transactions with Related Party* for further discussion.

See accompanying notes.

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LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share, unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Revenues:				
Rental income (1)	$24,539	$21,139	$49,015	$41,975
Interest income from mortgage loans	1,050	1,431	2,109	2,963
Interest and other income (2)	92	485	185	722
Total revenues	25,681	23,055	51,309	45,660
Expenses:				
Interest expense	2,798	2,004	5,931	4,037
Depreciation and amortization	6,124	5,355	12,250	10,509
General and administrative expenses	2,869	2,604	6,287	5,128
Total expenses	11,791	9,963	24,468	19,674
Income from continuing operations	13,890	13,092	26,841	25,986
Discontinued operations:				
Net Income from discontinued operations	27	21	52	43
(Loss) gain on real estate assets, net	(1,014)		(1,014)	16
Net (loss) income from discontinued operations	(987)	21	(962)	59
Net income	12,903	13,113	25,879	26,045
Income allocated to non-controlling interests		(10)		(21)
Net income attributable to LTC Properties, Inc.	12,903	13,103	25,879	26,024
Income allocated to participating securities	(91)	(91)	(189)	(185)
Income allocated to preferred stockholders	(818)	(818)	(1,636)	(1,636)
Net income available to common stockholders	$11,994	$12,194	$24,054	$24,203
Basic earnings per common share				
Continuing operations	$0.39	$0.40	$0.79	$0.80
Discontinued operations	($0.03)	$0.00	($0.03)	$0.00
Net income available to common stockholders	$0.36	$0.40	$0.76	$0.80
Diluted earnings per common share				
Continuing operations	$0.39	$0.40	$0.79	$0.80
Discontinued operations	($0.03)	$0.00	($0.03)	$0.00
Net income available to common stockholders	$0.36	$0.40	$0.76	$0.80
Weighted average shares used to calculate earnings per common share				
Basic	32,913	30,213	31,645	30,201
Diluted	32,946	30,258	31,679	30,246

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(1) During the three and six months ended June 30, 2013, we received $1,122 and $2,235, respectively, in rental income and recorded $3 and $16, respectively, in straight-line rental income from a lessee that qualifies as a related party. During the three and six months ended June 30, 2012, we received $1,095 and $2,181, respectively, in rental income and recorded $31 and $70, respectively, in straight-line rental income from a lessee that qualifies as a related party. The

lessee s Chief Executive Officer is on our Board of Directors. See *Note 9. Transactions with Related Party* for further discussion.

(2) During the three and six months ended June 30, 2013, we did not recognize interest income from any related parties. During the three and six months ended June 30, 2012, we recognized $55 and $235, respectively, of interest income from an entity that qualifies as a related party because the entity s Chief Executive Officer is on our Board of Directors. See *Note 9. Transactions with Related Party* for further discussion.

NOTE: Computations of per share amounts from continuing operations, discontinued operations and net income are made independently. Therefore, the sum of per share amounts from continuing operations and discontinued operations may not agree with the per share amounts from net income available to common stockholders.

See accompanying notes.

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LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands, unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	$12,903	$13,113	$25,879	$26,045
Reclassification adjustment	(8)	(16)	(17)	(30)
Comprehensive income	12,895	13,097	25,862	26,015
Comprehensive income allocated to non-controlling interests		(10)		(21)
Comprehensive income attributable to LTC Properties, Inc.	$12,895	$13,087	$25,862	$25,994

See accompanying notes.

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LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands, unaudited)

	Six Months Ended June 30, 2013	2012
OPERATING ACTIVITIES:		
Net income	$25,879	$26,045
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization continuing and discontinued operations	12,267	10,536
Stock-based compensation expense	1,508	910
Loss (gain) on sale of assets, net	1,014	(16)
Straight-line rental income continuing and discontinued operations(1)	(1,860)	(1,333)
Provision (recovery) for doubtful accounts continuing and discontinued operations	19	(21)
Non-cash interest related to earn-out liabilities	220	220
Other non-cash items, net	212	642
Increase (decrease) in accrued interest payable	17	(200)
Decrease in interest receivable	25	391
Net change in other assets and liabilities	(564)	(344)
Net cash provided by operating activities	38,737	36,830
INVESTING ACTIVITIES:		
Investment in real estate properties, net		(20,482)
Investment in real estate properties under development	(9,310)	(215)
Investment in real estate capital improvements	(4,506)	(446)
Proceeds from sale of real estate investments, net	1	1,248
Advances under mortgage loans receivable	(913)	
Principal payments received on mortgage loans receivable	938	3,752
Proceeds from redemption of marketable securities		6,500
Advances under notes receivable	(510)	(2,019)
Principal payments received on notes receivable	2,413	191
Net cash used in investing activities	(11,887)	(11,471)
FINANCING ACTIVITIES:		
Bank borrowings	2,000	23,000
Repayment of bank borrowings	(117,500)	(11,000)
Principal payments on bonds payable	(600)	(565)
Proceeds from common stock offering	176,301	
Stock option exercises	523	746
Distributions paid to stockholders	(31,385)	(28,096)
Redemption of non-controlling interests		(2,764)
Distributions paid to non-controlling interests	(7)	(59)
Financing costs paid	(35)	(716)
Other	(23)	
Net cash provided by (used in) financing activities	29,274	(19,454)
Increase in cash and cash equivalents	56,124	5,905
Cash and cash equivalents, beginning of period	7,191	4,408
Cash and cash equivalents, end of period	$63,315	$10,313

SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 6,040	$ 3,918

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(1) During the six months ended June 30, 2013 and 2012, we recorded $15 and $70, respectively, in straight-line rental income from a lessee that qualifies as a related party. The lessee s Chief Executive Officer is on our Board of Directors. See *Note 9. Transactions with Related Party* for further discussion.

See accompanying notes.

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. General

LTC Properties, Inc., a health care real estate investment trust (or REIT), was incorporated on May 12, 1992 in the State of Maryland and commenced operations on August 25, 1992. We invest primarily in senior housing and long term care properties through acquisitions, development, mortgage loans and other investments. We conduct and manage our business as one operating segment, rather than multiple operating segments, for internal reporting and internal decision making purposes. Our primary objectives are to create, sustain and enhance stockholder equity value and provide current income for distribution to stockholders through real estate investments in senior housing and long term care properties managed by experienced operators. Our primary senior housing and long term care property types include skilled nursing properties (or SNF), assisted living properties (or ALF), independent living properties (or ILF), memory care properties (or MC) and combinations thereof. To meet these objectives, we attempt to invest in properties that provide opportunity for additional value and current returns to our stockholders and diversify our investment portfolio by geographic location, operator, property type and form of investment.

We have prepared consolidated financial statements included herein without audit and in the opinion of management have included all adjustments necessary for a fair presentation of the results of operations for the three and six months ended June 30, 2013 and 2012 pursuant to the rules and regulations of the Securities and Exchange Commission (or SEC). Certain information and note disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles (or GAAP) have been condensed or omitted pursuant to rules and regulations governing the presentation of interim financial statements. The accompanying consolidated financial statements include the accounts of our company, its wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. The results of operations for the three and six months ended June 30, 2013 and 2012 are not necessarily indicative of the results for a full year.

Certain reclassifications have been made to the prior period consolidated financial statements to conform to the current period presentation, including changes as a result of the application of accounting guidance for properties disposed or classified as held-for-sale. During the six months ended June 30, 2013, we sold a 47-bed skilled nursing property located in Colorado for $1,000. At June 30, 2013, one of our lessees has a mandatory option to purchase one 30-bed skilled nursing property in Ohio. The purchase option provides for a mandatory closing on or before October 31, 2013. See *Note 2. Real Estate Investments* for further discussion of the purchase option. During the six months ended June 30, 2012, we sold a 140-bed skilled nursing property located in Texas for $1,248,000. Additionally, during the fourth quarter of 2012, we reclassified a 140-unit independent living property located in Texas from held-for-sale to held-for-use. Accordingly, this property has been reclassified from held-for-sale to held-for-use on the June 30, 2012 consolidated balance sheet and consolidated statement of income to conform to the current period presentation. Depreciation expense, which was not recognized during the held-for-sale period, was recognized at the date of reclassification. Due to the market conditions, the timing of the ultimate disposal of this property was uncertain. These adjustments are normal and recurring in nature. See *Note 2. Real Estate Investments* for further discussion of our property sales.

No provision has been made for federal or state income taxes. Our company qualifies as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. As such, we generally are not taxed on income that is distributed to our stockholders.

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

2. Real Estate Investments

Assisted living properties, independent living properties, memory care properties, and combinations thereof are included in the assisted living property type. Range of care properties (or ROC) property type consists of properties providing skilled nursing and any combination of assisted living, independent living and/or memory care services.

Any reference to the number of properties, number of schools, number of units, number of beds, and yield on investments in real estate are unaudited and outside the scope of our independent registered public accounting firm s review of our consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board.

Owned Properties. The following table summarizes our investments in owned properties at June 30, 2013 *(dollar amounts in thousands)*:

Type of Property	Gross Investments	Percentage of Investments	Number of Properties (1)	Number of SNF Beds	Number of ALF Units	Investment per Bed/Unit
Skilled Nursing	$454,021	49.7%	73	8,418		$53.93
Assisted Living	379,913	41.6%	96		4,502	$84.39
Range of Care	43,907	4.8%	8	634	274	$48.36
Under Development (2)	22,757	2.5%				
Schools	12,444	1.4%	2			
Totals	$913,042	100.0%	179	9,052	4,776	

(1) We have investments in 26 states leased to 35 different operators.

(2) Includes a MC development with 60 units, two combination ALF and MC developments with a total of 158 units, and a SNF development with 143 beds.

All of our owned properties are leased to our operators pursuant to non-cancelable operating leases generally with an initial term of 10 to 15 years. Each lease is a triple net lease covering one or more properties which requires the operator/lessee to pay all costs necessary in the operations of the facilities. Many of the leases contain renewal options and one master lease contains an option to purchase six skilled nursing properties with a total of 230 beds for an all cash purchase price of $11,000,000. As of June 30, 2013, the net book value for these six properties was $8,156,000. If the lessee fails to exercise its option to purchase these six properties on or before September 30, 2013, the lessee is obligated to purchase a 30-bed skilled nursing property out of the six property portfolio for $1,000,000 on or before October 31, 2013. The 30-bed skilled nursing property has a net book value of $210,000 as of June 30, 2013. The leases provide for fixed minimum base rent during the initial and renewal periods. The majority of our leases contain provisions for specified annual increases over the rents of the prior year that are generally computed in one of four ways depending on specific provisions of each lease:

(i) a specified percentage increase over the prior year s rent, generally between 2.0% and 3.0%;

(ii) a calculation based on the Consumer Price Index;

(iii) as a percentage of facility net patient revenues in excess of base amounts; or

(iv) specific dollar increases.

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

During the six months ended June 30, 2013, we completed the construction of a 120-bed skilled nursing property in Texas. This new property replaces a skilled nursing property in our existing portfolio. In July 2013, all the residents were relocated from the old property to the new property. The operator is responsible for closing and selling the old property. During the six months ended June 30, 2013, we funded $3,405,000 under the $9,094,000 development commitment for the new property. In July 2013, we funded $1,008,000 under this development commitment and we anticipate funding the remaining balance in August 2013. Also, during the six months ended June 30, 2013, we sold a 47-bed skilled nursing property in Colorado for $1,000 and recognized a $1,014,000 loss on sale.

In July 2013, we completed the construction of a 60-unit memory care property in Colorado. The new memory care property opened in July 2013. Total cost for the new property was approximately $9,817,000.

As of June 30, 2013, we have a commitment to provide, under certain conditions, up to $5,000,000 per year through December 2014 to an existing operator for expansion of the 37 properties they lease from us. The estimated yield of this commitment is 9.5% plus the positive difference, if any, between the average yields on the U.S. Treasury 10-year note for the five days prior to funding, minus 420 basis points as of June 30, 2013, no funds have been requested under this commitment. In addition, the following table summarizes our investment commitments as of June 30, 2013, excluding the $5,000,000 per year commitment, and year to date funding on our ongoing development, redevelopment, renovation and expansion projects *(excludes capitalized interest, dollar amounts in thousands)*:

Type of Property	Investment Commitment	2013 Funding (2)	Commitment Funded	Remaining Commitment	Number of Properties	Number of Beds/Units
Skilled Nursing	$29,550	$2,115	$7,651	$21,899	6	640
Assisted Living (1)	40,802	8,042	16,218	24,584	6	354
[redacted]						

(1) Includes the development of a 60-unit memory care property for $9,817 and two assisted living and memory care combination properties for a total of $16,385, and the expansion of three assisted living properties for a total $14,600.

(2) Excludes $260 of capital improvement on three completed projects with no remaining commitments and includes $6 funded under the commitment as marketing expense.

(3) In July of 2013, we funded $1,932 under investment commitments.

During the six months ended June 30, 2012, we purchased a 144-bed skilled nursing property located in Texas for an aggregate purchase price of $18,600,000. We also purchased a vacant parcel of land in Colorado for $1,882,000 and simultaneously entered into a lease and development commitment agreement to fund the construction of a 60 unit memory care unit. (See above for development commitment status.) Additionally, we sold a 140-bed skilled nursing property located in Texas for $1,248,000 and recognized a gain, net of selling expenses, of $16,000. This property was leased under a master lease and the economic terms of the master lease did not change as a result of this sale.

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

Mortgage Loans. The following table summarizes our investments in mortgage loans secured by first mortgages at June 30, 2013 *(dollar amounts in thousands)*:

Type of Property	Gross Investments	Percentage of Investments	Number of Loans	Number of Properties(1)	Number of SNF Beds	ALF Units	Investment per Bed/Unit
Skilled Nursing (2)	$24,730	62.3%	15	17	1,861		$13.29
Assisted Living	12,202	30.8%	3	8		211	$57.83
Range of Care	2,736	6.9%	1	1	99	74	$15.82
Totals	$39,668	100.0%	19	26	1,960	285	

(1) We have investments in 8 states that include mortgages to 11 different operators.

(2) Includes a mortgage and construction loan secured by a currently operating skilled nursing property and parcel of land upon which a 106-bed replacement property is being constructed. The agreement gives us the right to purchase the replacement facility for $13,500 during an 18 month period beginning on the first anniversary of the issuance of the certificate of occupancy.

At June 30, 2013, the mortgage loans had interest rates ranging from 7.0% to 13.5% and maturities ranging from 2014 to 2022. In addition, some loans contain certain guarantees, provide for certain facility fees and generally have 20-year to 25-year amortization schedules. The majority of the mortgage loans provide for annual increases in the interest rate based upon a specified increase of 10 to 25 basis points. During the six months ended June 30, 2013, we funded $913,000 under a $10,600,000 mortgage and construction loan and we have a remaining commitment of $7,067,000. In July 2013, we funded $1,897,000 under the mortgage and construction loan and we have a remaining commitment of $5,170,000. During the six months ended June 30, 2013 and 2012, we received $938,000 and $1,389,000, respectively, in regularly scheduled principal payments. During the six months ended June 30, 2012, we received $2,363,000 plus accrued interest related to the early payoff of two mortgage loans secured by two skilled nursing properties.

In August 2013, we entered into a $141,000,000 mortgage loan agreement with affiliates of Prestige Healthcare and secured by 15 properties with a total of 2,092 skilled nursing beds and 24 independent living units in Michigan. The loan is for a term of 30 years and will bear interest at 9.41% for five years, escalating annually thereafter by 2.25%. Payments will be interest-only for a period of three years, after which the borrower will make interest payments along with annual principal payments of $1,000,000.

Of the aggregate loan amount, we anticipate funding approximately $126,000,000 during the fourth quarter of 2013 with additional forward commitments of $12,000,000 for capital improvements and up to $3,000,000 for short-term working capital. The loan agreement also provides, under certain conditions and based on certain operating metrics and valuation thresholds achieved and sustained within the first twelve years of the term, for additional loan proceeds of up to $40,000,000 with such proceeds limited to $10,000,000 per twelve months.

The borrower will have a one-time option between the third and twelfth years to prepay up to 50% of the then outstanding loan balance without penalty. Exclusively for the purposes of this option, the properties collateralizing the loan have been separated by us into two pools of assets. If and when the option is exercised, we will identify which of the two pools we will release for prepayment and removal from portfolio of properties securing the loan. If the prepayment option is exercised and timely concluded, the borrower forfeits its opportunity to access any additional loan proceeds.

Additionally, under certain circumstances, including a change in regulatory environment, we have the option to purchase the properties.

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

3. Notes Receivable

Notes receivables consist of various loans and line of credit agreements with certain operators. During the six months ended June 30, 2013, we received $2,372,000 for the early repayment of an 8.5% term loan. At June 30, 2013, we had a 9.0% term loan outstanding with a carrying value of $622,000. Also at June 30, 2013, we committed to provide $1,850,000 under seven loans and line of credit agreements to certain operators. As of June 30, 2013, we funded $655,000 under these commitments and have a remaining commitment of $1,195,000. In July 2013, we funded $83,000 under these commitments. Accordingly, we have a remaining commitment of $1,112,000. These loans and line of credit commitments have interest ranging from 9.0% to 12.0% and maturities ranging from 2013 to 2014. During the six months ended June 30, 2013 and 2012, we received, including the repayment above, $2,413,000 and $191,000, respectively, in principal payments and we funded $510,000 and $2,019,000, respectively, under our notes receivable.

4. Marketable Securities

During 2012, Skilled Healthcare Group, Inc. (or SHG) redeemed all of their outstanding Senior Subordinated Notes at par value plus accrued and unpaid interest up to the redemption date. The SHG Senior Subordinated Notes had a face rate of 11.0% and an effective yield of 11.1%. During the six months ended June 30, 2012, we recognized $235,000 of interest income from our $6,500,000 investment in SHG Senior Subordinated Notes. One of our board members is the chief executive officer of SHG. See *Note 9. Transactions with Related Party* for further discussion.

5. Debt Obligations

Bank Borrowings. During 2012, we amended our Unsecured Credit Agreement increasing the commitment to $240,000,000 with the opportunity to increase the credit amount up to a total of $350,000,000. Additionally, the drawn pricing was decreased by 25 basis points, the undrawn pricing was decreased by 10 basis points and the maturity of the facility was extended for one additional year to May 25, 2016. The amendment also provides for a one-year extension option at our discretion, subject to customary conditions. Based on our leverage at June 30, 2013, the amended facility provides for interest annually at LIBOR plus 125 basis points and the unused commitment fee was 25 basis points.

During the six months ended June 30, 2013, we borrowed $2,000,000 and repaid $117,500,000 under our Unsecured Credit Agreement. At June 30, 2013, we had no outstanding balances under our Unsecured Credit Agreement and we were in compliance with all our covenants.

Senior Unsecured Notes. At June 30, 2013 and December 31, 2012, we had $185,800,000 outstanding under our Senior Unsecured Notes with a weighted average interest rate of 5.2% and $100,000,000 available under an Amended and Restated Note Purchase and Private Shelf agreement which provides for the possible issuance of senior unsecured fixed-rate term notes through October 19, 2014.

Bonds Payable. At June 30, 2013 and December 31, 2012, we had outstanding principal of $2,035,000 and $2,635,000 respectively, on multifamily tax-exempt revenue bonds that are secured by five assisted living properties in Washington. These bonds bear interest at a variable rate that is reset weekly and mature during 2015. For the six months ended June 30, 2013, the weighted average interest rate, including letter of credit fees, on the outstanding bonds was 2.9%. During the six months ended June 30, 2013 and 2012, we paid $600,000 and $565,000, respectively, in regularly scheduled principal payments. As of June 30, 2013 and December 31, 2012, the aggregate carrying value of real estate properties securing our bonds payable was $6,518,000 and $6,650,000, respectively.

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

6. Equity

Equity is allocated between controlling and non-controlling interests as follows *(in thousands)*:

	LTC Properties, Inc. Stockholders Equity	Non-controlling Interest	Total Equity
Balance at December 31, 2012	$463,101	$ 7	$463,108
Net income	25,879		25,879
Issue common stock	175,639		175,639
Vested restricted common stock	1,508		1,508
Stock option exercise	523		523
Reclassification adjustment	(17)		(17)
Non-controlling interest preferred return		(7)	(7)
Preferred stock dividends	(1,636)		(1,636)
Common stock dividends	(29,749)		(29,749)
Other	(23)		(23)
Balance at June 30, 2013	$635,225	$	$635,225

Preferred Stock. At June 30, 2013, we had 2,000,000 shares of our 8.5% Series C Cumulative Convertible Preferred Stock (or Series C preferred stock) outstanding. Our Series C preferred stock is convertible into 2,000,000 shares of our common stock at $19.25 per share. Total shares reserved for issuance of common stock related to the conversion of Series C preferred stock were 2,000,000 shares at June 30, 2013.

Common Stock. During the six months ended June 30, 2013, we acquired 600 shares of common stock held by employees who tendered owned shares to satisfy tax withholding obligations. During the three months ended June 30, 2013, we sold 4,025,000 shares of common stock in a public offering at a price of $44.50 per share, before fees and costs of $7,707,000. The net proceeds of $171,406,000 were used to pay down amounts outstanding under our Unsecured Credit Agreement, to fund acquisitions and our current development commitments and general corporate purposes.

During the three months ended June 30, 2013, we terminated the equity distribution agreement which allowed us to issue and sell, from time to time, up to $85,686,000 in aggregate offering price of our common shares. Sales of common shares were made by means of ordinary brokers transactions at market prices, in block transactions, or as otherwise agreed between us and our sales agents. During the six months ended June 30, 2012, we did not sell shares of our common stock under our equity distribution agreement. During the six months ended June 30, 2013, we sold 126,742 shares of common stock for $4,895,000 in net proceeds under our equity distribution agreement. In conjunction with the sale of common stock, we reclassified $662,000 of accumulated costs associated with the equity distribution agreement to additional paid in capital.

Available Shelf Registrations. On July 19, 2013, we filed a Form S-3ASR shelf registration statement to replace our prior shelf registration statement. This current shelf registration statement provides us with the capacity to offer up to $800,000,000 in common stock, preferred stock, warrants, debt, depositary shares, or units. We may from time to time raise capital under this current shelf registration in amounts, at prices, and on terms to be announced when and if the securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of the offering.

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Non-controlling Interests. We currently have no limited partners. During 2012, we had one limited partnership. The limited partnership agreement allowed the limited partners to convert, on a one-for-one basis, their limited partnership units into shares of common stock or the cash equivalent, at our option. Since we exercised control, we consolidated the limited partnership and we carried the non-controlling interests at cost.

During 2012, two of our limited partners exercised their conversion rights to exchange all of their 112,588 partnership units. At our discretion, we converted 23,294 partnership units into an equal number of our common shares. The partnership conversion price was $17.00 per partnership unit. At our discretion, we elected to satisfy the conversion of 89,294 limited partnership units with cash. We paid the limited partners $2,764,000, which represents the closing price of our common stock on the redemption date plus $0.05 per share multiplied by the number of limited partnership units redeemed. The amount we paid upon redemption exceeded the book value of the limited partnership interest redeemed by $1,246,000. Accordingly, the $1,246,000 excess book value of the limited partners interest in the partnership was reclassified to stockholders equity. We accounted for these conversions as an equity transaction because there was no change in control requiring consolidation or deconsolidation and remeasurement. Subsequent to these partnership conversions, the assets held by the limited partnership were transferred to other subsidiaries of the Company and the limited partnership was terminated.

The following table represents the change from net income attributable to us and transfers from non-controlling interest *(in thousands):*

	Six months ended June 30,	
	2013	2012
Net income attributable to LTC Properties, Inc.	$25,879	$26,024
Transfers from the non-controlling interest		
Decrease in paid-in capital for limited partners conversion		(1,246)
Change from net income attributable to LTC Properties, Inc. and transfers from non-controlling interest	$25,879	$24,778

Distributions. We declared and paid the following cash dividends *(in thousands)*:

	Six months ended June 30, 2013		Six months ended June 30, 2012	
	Declared	Paid	Declared	Paid
Preferred Stock				
Series C	$ 1,636	$ 1,636	$ 1,636	$ 1,636
Total Preferred	1,636	1,636	1,636	1,636
Common Stock (1)	29,749	29,749	26,460	26,460

Total	$31,385	$31,385	$28,096	$28,096

(1) Represents $0.155 per share per month and $0.145 per share per month for the six months ended June 30, 2013 and 2012, respectively.

In July 2013, we declared a monthly cash dividend of $0.155 per share on our common stock for the months of July, August and September 2013, payable on July 31, August 30 and September 30, 2013, respectively, to stockholders of record on July 23, August 22 and September 20, 2013, respectively.

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Other Equity. At June 30, 2013 and December 31, 2012, other equity consisted of accumulated comprehensive income of $134,000 and $152,000, respectively. This balance represents the net unrealized holding gains on available-for-sale REMIC Certificates recorded in 2005 when we repurchased the loans in the underlying loan pool. This amount is being amortized to increase interest income over the remaining life of the loans that we repurchased from the REMIC Pool.

Stock-Based Compensation. During the six months ended June 30, 2013, a total of 22,000 stock options were exercised at a total option value of $523,000 and a total market value on the date of exercise of $865,000. During the six months ended June 30, 2012, a total of 35,000 stock options were exercised at a total option value of $746,000 and a total market value on the date of exercise of $1,136,000. No stock options were issued during the six months ended June 30, 2013 and 2012. At June 30, 2013, we had 73,334 stock options outstanding and all stock options are exercisable. Compensation expense related to the vesting of stock options for the three and six months ended June 30, 2012 was $4,000 and $8,000, respectively.

During the three months ended June 30, 2013, we granted 8,400 shares of restricted common stock at $46.54 per share and 6,000 shares of restricted common stock at $41.83 per share. These shares vest ratably over a three-year period from the grant date. During the six months ended June 30, 2013, excluding the shares granted above, we granted 20,000 shares of restricted common stock at $36.26 per share. These shares all vest on June 1, 2016. Also during the six months ended June 30, 2013, we accelerated the vesting of 18,180 shares of restricted common stock due to the retirement of our Senior Vice President, Marketing and Strategic Planning. Accordingly, we recorded $457,000 of compensation expense related to the accelerated vesting. During the three and six months ended June 30, 2013, we recognized $523,000 and $1,508,000, respectively, of compensation expense related to the vesting of restricted common stock.

During the six months ended June 30, 2012, we granted 8,000 shares of restricted common stock at $31.87 per share and 56,200 shares of restricted common stock at $31.77 per share. The vesting of these shares are as follows: 8,000 shares vest ratably over a three-year period from the grant date, 14,000 shares vest ratably over a five-year period from the grant date, 30,000 shares all vest on June 15, 2015, and 12,200 shares all vest on January 10, 2016. During the three and six months ended June 30, 2012, we recognized $454,000 and $902,000, respectively, of compensation expense related to the vesting of restricted common stock.

7. Commitments and Contingencies

As part of an acquisition in 2011, we committed to provide a contingent payment if certain operational thresholds are met. The contingent payment was recorded at fair value, which was estimated using a discounted cash flow analysis, and we are accreting the contingent liability to the estimated settlement amount as of the payment date. The fair value of such contingent liability is re-evaluated on a quarterly basis based on changes in estimates of future operating results and changes in market discount rates. Any changes in estimated fair value are recognized in our results of operations. During each of the three and six months ended June 30, 2013 and 2012, we recorded non-cash interest expense of $110,000 and $220,000 related to the contingent liability. At June 30, 2013 and December 31, 2012, the contingent liability had a carrying value of

$6,963,000 and $6,744,000, respectively.

At June 30, 2013, we made outstanding commitments totaling $70,352,000 to develop, re-develop, renovate or expand six skilled nursing properties with a total of 640 beds, a memory care property with 60 units, two assisted living and memory care combination properties with a total of 158 units, and three assisted living properties with a total of 136 units. As of June 30, 2013, we have funded $23,869,000 under these commitments and have a remaining commitment of $46,483,000. We also have a commitment to provide, under certain conditions, up to $5,000,000 per year through December 2014 to an existing operator for expansion of the 37 properties they lease from us. See *Note 2. Real Estate*

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Investments for further discussion of these commitments. Additionally at June 30, 2013, we had a $10,600,000 mortgage and construction commitment. As of June 30, 2013, we funded $3,533,000 under this commitment and have a remaining commitment of $7,067,000. See *Note 2. Real Estate Investments* for further discussion of this mortgage and construction loan. We also committed to provide $1,850,000 in loan and line of credit agreements to certain operators. As of June 30, 2013, we had funded $655,000 under these commitments and have a remaining commitment of $1,195,000. See *Note 3. Notes Receivables* for further discussion of these commitments.

8. Major Operators

We have three operators from each of which we derive over 10% of our rental revenue and interest income from mortgage loans.

In 2006, Extendicare Services, Inc. (or EHSI), one of our major operators, effected a reorganization whereby it completed a spin-off of Assisted Living Concepts, Inc. (or ALC). The remaining EHSI assets and operations were converted into a Canadian REIT (Extendicare REIT) listed on the Toronto Stock Exchange (or TSX). During 2012, Extendicare REIT converted from an income trust structure to a corporate structure under a corporation named Extendicare, Inc. (or Extendicare). Both Extendicare and ALC continue to be parties to the leases with us.

On July 11, 2013, ALC merged with Aid Holdings, LLC, a Delaware limited liability company (or Aid Holdings), and Aid Merger Sub, LLC, a Delaware limited liability company and a wholly owned subsidiary of Aid Holdings (or Aid Merger Sub). Aid Holdings and Aid Merger Sub are affiliates of TPG Capital, L.P.

Extendicare and ALC collectively lease 37 assisted living properties with a total of 1,430 units owned by us representing approximately 6.2%, or $52,351,000, of our total assets at June 30, 2013 and 10.7% of rental revenue and interest income from mortgage loans recognized as of June 30, 2013.

Brookdale Senior Living Communities, Inc. (or Brookdale Communities) is a wholly owned subsidiary of a publicly traded company, Brookdale Senior Living, Inc. (or Brookdale). Brookdale Communities leases 35 assisted living properties with a total of 1,414 units owned by us representing approximately 6.2%, or $52,551,000, of our total assets at June 30, 2013 and 10.7% of rental revenue and interest income from mortgage loans recognized as of June 30, 2013.

Preferred Care, Inc. (or Preferred Care), through various wholly owned subsidiaries, operates 27 skilled nursing properties and two range of care properties that we own or on which we hold mortgages secured by first trust deeds. These properties consist of a total of 3,354 skilled nursing beds and 49 assisted living units. This represents approximately 6.1%, or $51,339,000, of our total assets at June 30, 2013 and 10.5% of rental revenue and interest income from mortgage loans recognized as of June 30, 2013. They also operate one skilled nursing property under a sub-lease with another lessee we have which is not included in the Preferred Care rental revenue and interest income from mortgage loans.

Our financial position and ability to make distributions may be adversely affected by financial difficulties experienced by Brookdale Communities, Extendicare, ALC, Preferred Care, or any of our lessees and borrowers, including any bankruptcies, inability to emerge from bankruptcy, insolvency or general downturn in business of any such operator, or in the event any such operator does not renew and/or extend its relationship with us or our borrowers when it expires.

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