LTC PROPERTIES INC
Form 10-Q
November 02, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015

OR

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 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 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	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

The number of shares of common stock outstanding on October 26, 2015 was 35,570,495.

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FORM 10-Q

September 30, 2015

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LTC PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

(amounts in thousands, except per share)

	September 30, 2015 (unaudited)	December 31, 2014 (audited)
ASSETS		
Investments:		
Land	$ 98,486	$ 80,024
Buildings and improvements	1,056,163	869,814
Accumulated depreciation and amortization	(244,361)	(223,315)
Real property investments, net	910,288	726,523
Mortgage loans receivable, net of loan loss reserve: 2015—$2,065; 2014—$1,673	204,476	165,656
Real estate investments, net	1,114,764	892,179
Investment in unconsolidated joint ventures	21,143	—
Investments, net	1,135,907	892,179
Other assets:		
Cash and cash equivalents	11,729	25,237
Debt issue costs, net	3,289	3,782
Interest receivable	3,384	597
Straight-line rent receivable, net of allowance for doubtful accounts: 2015—$802; 2014—$731	39,641	32,651
Prepaid expenses and other assets	20,775	9,931
Notes receivable	2,190	1,442
Total assets	$ 1,216,915	$ 965,819
LIABILITIES		
Bank borrowings	$ 165,500	$ —
Senior unsecured notes	352,467	281,633
Accrued interest	2,554	3,556
Accrued incentives and earn-outs	13,323	3,258
Accrued expenses and other liabilities	21,865	17,251
Total liabilities	555,709	305,698
EQUITY		
Stockholders' equity:		
Preferred stock $0.01 par value; 15,000 shares authorized; shares issued and outstanding: 2015—2,000; 2014—2,000	38,500	38,500
Common stock: $.01 par value; 60,000 shares authorized; shares issued and outstanding: 2015—35,570; 2014—35,480	356	355
Capital in excess of par value	720,221	717,396
Cumulative net income	910,374	855,247
Accumulated other comprehensive income	56	82
Cumulative distributions	(1,008,301)	(951,459)

Total equity	661,206	660,121
Total liabilities and equity	$ 1,216,915	$ 965,819

See accompanying notes.

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LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(amounts in thousands, except per share, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Rental income	$ 28,531	$ 25,098	$ 82,325	$ 75,375
Interest income from mortgage loans	6,117	4,213	15,777	12,445
Interest and other income	295	230	708	386
Total revenues	34,943	29,541	98,810	88,206
Expenses:				
Interest expense	4,296	3,170	11,916	9,445
Depreciation and amortization	7,365	6,335	21,121	18,935
Provision for doubtful accounts	31	40	463	77
Acquisition costs	539	2	564	22
General and administrative expenses	3,739	2,872	11,162	8,468
Total expenses	15,970	12,419	45,226	36,947
Operating income	18,973	17,122	53,584	51,259
Income from unconsolidated joint ventures	674	—	1,543	—
Gain on sale of real estate, net	—	—	—	1,140
Net income	19,647	17,122	55,127	52,399
Income allocated to participating securities	(121)	(123)	(370)	(343)
Income allocated to preferred stockholders	(818)	(818)	(2,454)	(2,454)
Net income available to common stockholders	$ 18,708	$ 16,181	$ 52,303	$ 49,602
Earnings per common share:				
Basic	$ 0.53	$ 0.47	$ 1.48	$ 1.43
Diluted	$ 0.52	$ 0.46	$ 1.47	$ 1.42
Weighted average shares used to calculate earnings per common share:				
Basic	35,341	34,605	35,306	34,596
Diluted	37,352	36,629	37,319	36,620
Dividends declared and paid per common share	$ 0.51	$ 0.51	$ 1.53	$ 1.53

See accompanying notes.

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LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in thousands, unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income	$ 19,647	$ 17,122	$ 55,127	$ 52,399
Reclassification adjustment (Note 6)	(9)	(9)	(26)	(27)
Comprehensive income	$ 19,638	$ 17,113	$ 55,101	$ 52,372

See accompanying notes.

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LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands, unaudited)

	Nine Months Ended September 30, 2015	2014
OPERATING ACTIVITIES:		
Net income	$ 55,127	$ 52,399
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	21,121	18,935
Stock-based compensation expense	3,093	2,326
Gain on sale of assets, net	—	(1,140)
Income from unconsolidated joint ventures	(1,543)	—
Distribution from unconsolidated joint ventures	289	—
Straight-line rental income	(7,060)	(1,921)
Amortization of lease inducement	1,163	—
Provision for doubtful accounts	463	77
Non-cash interest related to earn-out liabilities	205	—
Other non-cash items, net	670	1,151
(Increase) decrease in interest receivable	(2,787)	3
Decrease in accrued interest payable	(1,002)	(1,000)
Net change in other assets and liabilities	795	(1,545)
Net cash provided by operating activities	70,534	69,285
INVESTING ACTIVITIES:		
Investment in real estate properties	(171,185)	(450)
Investment in real estate developments	(14,460)	(23,922)
Investment in real estate capital improvements	(6,192)	(12,178)
Capitalized interest	(481)	(1,216)
Proceeds from sale of real estate investments, net	—	7,707
Advances under mortgage loans receivable	(3,927)	(7,549)
Origination of real estate mortgages	(49,500)	—
Principal payments received on mortgage loans receivable	4,281	1,609
Investment in unconsolidated joint ventures	(20,143)	—
Advances under notes receivable	(1,464)	(664)
Principal payments received on notes receivable	—	112
Net cash used in investing activities	(263,071)	(36,551)
FINANCING ACTIVITIES:		
Bank borrowings	267,000	28,500
Repayment of bank borrowings	(101,500)	(30,000)
Proceeds from issuance of senior unsecured notes	100,000	30,000
Principal payments on senior unsecured notes	(29,167)	(4,167)
Principal payments on bonds payable	—	(635)
Stock option exercises	79	277

Distributions paid to stockholders	(56,842)	(55,729)
Financing costs paid	(195)	(162)
Other	(346)	(7)
Net cash provided by (used in) financing activities	179,029	(31,923)
(Decrease) increase in cash and cash equivalents	(13,508)	811
Cash and cash equivalents, beginning of period	25,237	6,778
Cash and cash equivalents, end of period	$ 11,729	$ 7,589
Supplemental disclosure of cash flow information:		
Interest paid	$ 12,230	$ 11,077
Non-cash investing and financing transactions:		
Mortgage loan receivable applied against purchase price to acquire real estate (Note 2)	$ 10,600	$ —
Reclassification of pre-development loans (Note 4)	$ 716	$ —
Land conveyance applied to a mortgage and construction loan receivable (Note 2)	$ 670	$ —

See accompanying notes.

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(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 health 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 health care properties managed by experienced operators. Our primary senior housing and long-term health 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 consolidated financial statements 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 nine months ended September 30, 2015 and 2014 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 in presentation of Provision for doubtful accounts as a result of the application of accounting guidance for presentation of each major income statement caption prescribed by Regulation S-X. These adjustments are normal and recurring in nature.

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.

Investments in unconsolidated joint ventures

From time to time, the Company may make investments in unconsolidated entities, which may be in the form of common equity, preferred equity, or debt (in the form of an acquisition, development or construction or “ADC” loan, or similar arrangement). The Company evaluates each investment pursuant to ASC 805, Consolidation, to determine whether it meets the definition of a variable interest entity (or VIE) and whether the Company is the primary beneficiary. If the entity is deemed to be a VIE but the Company is not the primary beneficiary, or if the entity is deemed to be a voting interest entity but the Company does not have a controlling financial interest, it accounts for its investment using the equity method. Under the equity method, the Company initially records its investment at cost and subsequently recognizes the Company’s share of net earnings or losses and other comprehensive income or loss, cash

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

contributions made and distributions received, and other adjustments, as appropriate. Allocations of net income or loss may be subject to preferred returns or allocation formulas defined in operating agreements and may not be according to percentage interests of the members. In certain circumstances where the Company has a substantive profit-sharing arrangement which provides a priority return on its investment, a portion of its equity in earnings may consist of a change in its claim on the net assets of the underlying joint venture. Distributions of operating profit from the joint ventures are reported as part of operating cash flows, while distributions related to a capital transaction, such as a refinancing transaction or sale, are reported as investing activities.

The Company performs a quarterly evaluation of its investments in unconsolidated joint ventures to determine whether the fair value of each investment is less than the carrying value, and, if such decrease in value is deemed to be other-than-temporary, writes the investment down to its estimated fair value as of the measurement date.

Impact of New Accounting Pronouncements.

In May 2014, the FASB issued Accounting Standards Update (or ASU) No. 2014-09 (or ASU 2014-09), Revenue from Contracts with Customers: Topic 606. ASU 2014-09 provides for a single comprehensive principles based standard for the recognition of revenue across all industries. ASU 2014-09 requires expanded disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for annual reporting periods (including interim reporting periods within those periods) beginning after December 15, 2016. In July 2015, FASB approved a one-year deferral of the effective date to December 2017. However, the FASB will permit public companies to adopt the amendment as of the original effective date. Early adoption prior to the original effective date is not permitted. We are currently evaluating the effects of this adoption on our consolidated financial statements.

In January 2015, FASB issued ASU No. 2015-01 (or ASU 2015-01), Income Statement – Extraordinary and Unusual Items (Subtopic 225-20): Simplifying Income Statement Presentation by Eliminating the Concept of Extraordinary Items. ASU 2015-01 eliminates the separate classification, presentation and disclosure of extraordinary events and transactions. ASU 2015-01 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015. Early adoption is permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. We elected early adoption of ASU 2015-01 as of January 1, 2015. The adoption did not have a material impact on our consolidated financial statements.

In February 2015, FASB issued ASU No. 2015-02 (or ASU 2015-02), Consolidation (Topic 810): Amendments to the Consolidation Analysis. ASU 2015-02 amends the consolidation guidance for variable interest entities and voting interest entities, among other items, by eliminating the consolidation model previously applied to limited partnerships, emphasizing the risk of loss when determining a controlling financial interest and reducing the frequency of the application of related-party guidance when determining a controlling financial interest. ASU 2015-02 is effective for periods beginning after December 15, 2015, for public companies. Early adoption is permitted, including adoption in an interim period. We are currently evaluating the effects of this ASU on our consolidated financial statements.

In April 2015, FASB issued ASU No. 2015-03 (ASU 2015-03), Interest – Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs. ASU 2015-03 requires debt

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LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

issuance costs related to a recognized debt liability be presented in the balance sheet as a direct reduction from the carrying amount of the debt liability, consistent with debt discounts. ASU 2015-03 is effective for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. Early adoption is permitted. We are currently evaluating the effects of this ASU on our consolidated financial statements.

2.Real Estate Investments

Assisted living properties, independent living properties, memory care properties and combinations thereof are included in the assisted living property type (or collectively ALF). 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 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 September 30, 2015 (dollar amounts in thousands):

Type of Property	Gross Investments	Percentage of Investments		Number of Properties(1)	Number of SNF Beds	Number of ALF Units	Average Investment per Bed/Unit
Assisted Living	$ 573,693	49.7	%	96	—	5,187	$ 110.60
Skilled Nursing	500,161	43.3	%	69	8,513	—	$ 58.75
Range of Care	43,907	3.8	%	7	634	274	$ 48.36
Under Development(2)	26,675	2.3	%	—	—	—	—
Other(3)	10,213	0.9	%	1	—	—	—
Totals	$ 1,154,649	100.0	%	173	9,147	5,461	

(1) We own properties in 27 states that are leased to 30 different operators.

(2) Represents six development projects consisting of four MC properties with a total of 254 units, a 108-unit independent living property and an 89-unit combination ALF and MC property.

(3) Represents one school property and three parcels of land held-for-use.

Owned properties are leased pursuant to non-cancelable operating leases generally with an initial term of 10 to 15 years. Each lease is a triple net lease which requires the lessee to pay all taxes, insurance, maintenance and repairs, capital and non-capital expenditures and other costs necessary in the operations of the facilities. Many of the leases contain renewal options. 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.

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(Unaudited)

Acquisitions and Development. During the three months ended September 30, 2015, we completed the acquisition of a portfolio of 10 independent, assisted living and memory care properties totaling 891 units. Nine of the properties are located in Wisconsin and one is located in Illinois. The aggregate purchase price paid at closing was $142,000,000. Simultaneously upon closing, we entered into a 15-year triple net master lease agreement with an existing operator at an initial cash yield of 6.5% escalating by 25 basis points upon each of the first and second anniversaries and annually thereafter by 2.75%. The master lease agreement includes a commitment up to $10,000,000 to the lessee, upon the portfolio achieving a sustainable stipulated rent coverage ratio, and when funded, cash rent will increase by the amount funded multiplied by the lease rate in effect at the time.

Additionally, during the three months ended September 30, 2015, we acquired a newly constructed 60-unit memory care property located in Florida for $14,250,000 including a $2,000,000 working capital reserve which is recorded similarly to an earn out and valued using a discounted cash flow analysis. The estimated fair value of the working capital reserve was $1,847,000 which will be accreted up to the settlement amount as of the estimated payment date. Concurrently with the purchase, we entered into a lease agreement at an initial cash yield of 8.0% escalating annually by 2.5%. The lease agreement includes a commitment to the lessee that we will fund a contingent earn-out payment up to $300,000, upon the property achieving a sustainable stipulated rent coverage ratio. When the working capital reserve and earn-out payments are funded, cash rent will increase by the amounts funded multiplied by the lease rate in effect at the time.

During the third quarter of 2015, we purchased a parcel of land in California for $2,022,000 and entered into a development commitment to construct and equip a 66-unit memory care property. Our total commitment for the project is $12,606,000 including the land purchase. Simultaneously with the acquisition, we added this property to a master lease agreement with an existing operator at an initial cash yield of 9.0%. Also, we acquired a parcel of land in Oregon, which we previously leased pursuant to a ground lease. The purchase price was $500,000 and the ground lease was terminated as of the closing.

During the nine months ended September 30, 2015, we purchased and equipped a 106-bed skilled nursing property for a total of $13,946,000 by exercising our purchase option under a $10,600,000 mortgage and construction loan. Additionally, we purchased five parcels of land (including the acquired parcel of land in California and excluding the purchase of parcel of land in Oregon discussed above) to build and equip assisted living facilities totaling 385 units.

The following table summarizes our investments for the nine months ended September 30, 2015 (dollar amounts in thousands):

Type of Property	Purchase Price(1)	Transaction Costs(2)	Total Acquisition Costs	Number of Properties	Number of Beds/Units
Skilled Nursing(3)	$ 13,946	$ —	$ 13,946	1	106
Assisted Living(4)	156,097	325	156,422	11	951
Land(5)	13,533	97	13,630	—	—
Totals	$ 183,576	$ 422	$ 183,998	12	1,057

(1) Represents cost associated with our acquisitions; however, depending on the accounting treatment of our acquisitions, transaction costs may be capitalized to the properties' basis and, for our land purchases with forward development commitments, transaction costs are capitalized as part of construction in progress. Additionally, transaction costs in the table above may differ from the acquisition costs line item in our consolidated statement of income as a result of transaction costs from prior year's acquisitions.

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(Unaudited)

(2) We purchased the property by exercising our purchase option under a $10,600 mortgage and construction loan and equipped the property for $3,346. The property was added to an existing master lease at a lease rate equivalent to the interest rate in effect on the loan at the time the purchase option was exercised. Additionally, we paid the lessee a $1,054 lease inducement and will amortize as a yield adjustment over the life of the lease term. See Mortgage Loans below for further discussion of the loan agreement.

(3) We acquired a newly constructed 60-unit MC property for $14,250 including a $2,000 working capital reserve which is recorded similarly to an earn-out and valued at $1,847 using a discounted cash flow analysis. As a result, our basis in the property was recorded at $14,132 which includes capitalized transaction costs. Additionally, we agreed to provide the lessee an earn-out up to $300 upon the property achieving a sustainable stipulated rent coverage ratio. When the working capital reserve and earn-out payments are funded, cash rent will increase by the amounts funded multiplied by the lease rate in effect at the time. We also acquired a portfolio comprised of 10 independent, assisted living and memory care properties for $142,000 and agreed to provide the lessee an earn-out up to $10,000, upon the portfolio achieving a sustainable stipulated rent coverage ratio, which will increase cash rent by the amount funded multiplied by the lease rate in effect at the time.

(4) We acquired parcels of land and entered into four development commitments up to a total of $55,529, including the land purchases, for the development of two MC properties totaling 132 units, a 108-unit IL property and an 89-unit combination AL and MC property. Additionally, we acquired land and existing improvements on a 56-unit MC property and entered a development commitment up to a total of $12,182, including the land purchase, to complete the development of the MC property. Also, we purchased a parcel of land we previously leased pursuant to a ground lease.

Subsequent to September 30, 2015, we purchased a parcel of land in Illinois for $2,800,000 and entered into a development commitment up to $14,769,000 (including the land purchase) to construct a 66-unit memory care facility. Also, subsequent to September 30, 2015, we purchased a behavioral health care hospital in Nevada for $9,250,000.

During the nine months ended September 30, 2015, we funded $20,652,000 on our completed and on-going development and improvement projects, including the final funding on a 60-unit memory care property in Colorado for an aggregate cost of $10,703,000, including the land purchase. The following table summarizes our on-going investment commitments as of September 30, 2015, and amounts funded exclusively under these projects (excludes capitalized interest, dollar amounts in thousands):

Type of Property	Investment Commitment	Total Commitment Funded	Remaining Commitment	Number of Properties	Number of Beds/Units
Skilled Nursing(1)	$ 6,000	$ 17	$ 5,983	2	314
Assisted Living(2)	84,758	26,465	58,293	36	2,097
Totals	$ 90,758	$ 26,482	$ 64,276	38	2,411

(1) Includes two commitments for renovation and expansion projects.

(2) Includes the development of an IL property for $14,500, four MC properties for a total of $48,923 and one ALF/MC property for $16,535. Also, includes three commitments for renovation projects on 30 ALFs totaling $4,800.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

Our construction in progress (or CIP) activity during the nine months ended September 30, 2015 for our development, redevelopment, renovation, and expansion projects is as follows (dollar amounts in thousands):

Type of Property	CIP Balance at 12/31/2014	Funded(1)	Capitalized Interest	Conversions out of CIP	CIP Balance at 9/30/2015
Skilled nursing	$ —	$ 414	$ —	$ (397)	$ 17
Assisted living	8,671	19,297	481	(9,871)	18,578
Total	$ 8,671	$ 19,711	$ 481	$ (10,268)	$ 18,595

(1) Excludes $7,972 of funding directly capitalized into building and includes the previously discussed acquisition of the existing improvements of a 56-unit MC property for $6,315 and pre-development loan reclass totaling $716.

During the nine months ended September 30, 2014, we sold two assisted living properties located in Florida and Georgia with a total of 133 units and one school property located in Minnesota for a combined sales price of $7,850,000, resulting in net sales proceeds of $7,707,000, and a net gain on sale of $1,140,000.

Mortgage Loans. The following table summarizes our investments in mortgage loans secured by first mortgages at September 30, 2015 (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	$ 192,810	93.4	%	14	28	3,621	—	$ 53.25
Assisted Living	13,731	6.6	%	3	8	—	270	$ 50.86
Totals	$ 206,541	100.0	%	17	36	3,621	270	

(1) We have investments in properties located in 7 states that include mortgages to 10 different operators.

At September 30, 2015, the mortgage loans had interest rates ranging from 7.3% to 13.8% and maturities ranging from 2016 to 2045. In addition, some loans contain certain guarantees, provide for certain facility fees and generally have 20-year to 30-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 nine months ended September 30, 2015, we received $2,487,000 plus accrued interest related to the payoff of two mortgage loans secured by a range of care property located in California and a skilled nursing property located in Texas. During the nine months ended September 30, 2015 and 2014, we received $1,794,000 and $1,609,000, respectively, in regularly scheduled principal payments.

During the nine months ended September 30, 2015, we amended an existing mortgage loan secured by a 100-unit independent living property in Arizona to provide up to $490,000 of additional proceeds for capital improvements. Also, during the nine months ended September 30, 2015, we funded $230,000 under this amended mortgage loan and have a remaining commitment of $260,000.

During 2013, we funded the initial amount of $124,387,000 under a mortgage loan with a third party borrower secured by 15 skilled nursing properties with a total of 2,058 beds in Michigan. The loan agreement provided for additional commitments of $12,000,000 for capital improvements and up to $40,000,000 of additional proceeds, for a total loan commitment of up to $176,387,000. During the nine

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

months ended September 30, 2015, we funded the $40,000,000 of additional proceeds. During the nine months ended September 30, 2015 and 2014, we funded $3,697,000 and $1,512,000, respectively, under the $12,000,000 capital improvement commitment with $4,965,000 remaining as of September 30, 2015.

In addition, this mortgage loan provided the borrower a one time option to prepay up to 50% of the then outstanding loan balance without penalty. During the nine months ended September 30, 2015, we amended this mortgage loan to provide up to an additional $20,000,000 in loan proceeds for the expansion of two properties securing the loan (increasing the total capital improvement commitment to $32,000,000 and the total loan commitment to $196,387,000). As a result, our remaining commitment under the aggregate $32,000,000 capital improvement commitment was $24,965,000 at September 30, 2015. Also, we conveyed, to the borrower, two parcels of land held-for-use adjacent to these properties to facilitate the projects. The estimated fair value of these parcels of $670,000, based upon third-party appraisals, was added to the outstanding mortgage loan receivable. As partial consideration for the increased commitment and associated conveyance, the borrower forfeited their prepayment option.

Additionally, during the nine months ended September 30, 2015, we originated an $11,000,000 mortgage loan with the same borrower, funding $9,500,000 with a commitment to fund the balance for approved capital improvement projects. The loan is secured by a 157-bed skilled nursing property in Michigan and bears interest at 9.41% for five years, escalating annually thereafter by 2.25%. The term is 30 years with interest-only payments for the initial three years. Additionally, we have the option to purchase the property under certain circumstances, including a change in regulatory provisions.

Subsequent to September 30, 2015, we originated a $20,000,000, 30-year term mortgage loan, funding $9,500,000 at closing, with a commitment to fund $10,500,000.

The following table summarizes our additional loan commitments as of September 30, 2015, and amounts funded under these mortgage loans (dollar amounts in thousands):

Additional Loan	2015	Commitment	Remaining	Number of	Number of

Type of Property	Commitment	Funding	Funded	Commitment	Properties	Beds/Units
Skilled Nursing	$ 33,500	$ 3,697	$ 7,035	$ 26,465	16	2,215
Assisted Living	490	230	230	260	1	100
Totals	$ 33,990	$ 3,927	$ 7,265	$ 26,725	17	2,315

During the nine months ended September 30, 2014, we funded the remaining $3,010,000 balance on a $10,600,000 mortgage and construction loan to develop a new 106-bed skilled nursing property in Wisconsin to replace an old existing skilled nursing property. Upon completion of construction and relocation of the residents from the old property to the replacement property in 2014, the old property was sold and released as collateral. During the nine months ended September 30, 2015, we purchased and equipped the replacement property for a total of $13,946,000 by exercising our right under the agreement including applying amounts otherwise due to us under the underlying loan as a closing adjustment. See Owned Properties above for further discussion of the property purchase.

3.Investment in Unconsolidated Joint Ventures

During the nine months ended September 30, 2015, we made a preferred equity investment in an entity (the JV) that owns four properties providing independent, assisted living and memory care services. These properties are located in Arizona. At closing, we provided an initial preferred capital contribution of $20,143,000 and have committed to provide an additional preferred capital contribution of $5,507,000 for a total preferred capital contribution of $25,650,000. As the preferred member of the JV, we are not entitled to share in the JV's earnings or losses. Rather, we are entitled to receive a 15% preferred return, a portion of which is paid in cash and a portion of which is deferred if the cash flow of the JV is insufficient to pay all of the accrued preferred return. The unpaid accrued preferred return will be added to the balance of the preferred equity investment up to the estimated economic outcome assuming liquidation of the JV. As of September 30, 2015, we have accrued up to the estimated economic outcome assuming liquidation of the JV and will continue to evaluate the estimated economic outcome quarterly. Any unpaid accrued preferred return, whether recorded or unrecorded by us, will be repaid upon redemption.

In addition, we have the option to purchase either the properties owned by the JV or 100% of the common membership interest in the JV, which is exercisable between April 2018 and September 2019. If we elect not to exercise our purchase option, we have the right to put our preferred equity interest to the common member after September 2019 for an amount equal to the unpaid preferred equity investment balance and accrued preferred return thereon. The common equity member has the right to call our preferred interest at any time for an amount equal to the preferred equity investment balance and accrued preferred return thereon that would be due for the first 36 months, less amounts paid to us prior to the redemption date.

The JV is intended to be self-financing, other than our preferred capital contributions, no direct support will be provided by us. As a result, we believe our maximum exposure to loss due to our investment in the JV would be limited to our preferred capital contributions plus any unpaid accrued preferred return. We have concluded that the JV meets the accounting criteria to be considered as a variable interest entity (or VIE). However, because we do not control the entity, nor do we have any role in the day-to-day management, we are not the primary beneficiary of the JV. Therefore, we account for our JV investment using the equity method. During the three and nine months ended September 30, 2015, we recognized $674,000 and $1,544,000, respectively, in income from our preferred equity investment in the JV. Additionally, during the nine months ended September 30, 2015, we received $289,000 from our preferred equity investment in the JV.

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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4.Notes Receivable

Notes receivable consists of various loans and line of credit agreements. The following table summarizes our notes receivable activities for the nine months ended September 30, 2015 and 2014 as follows (dollar amounts in thousands):

	Nine months ended September 30,	
	2015	2014
Advances under notes receivable	$ 1,464	$ 664
Principal payments received under notes receivable	—	(112)
Reclassed to real estate under development	(716) (1)	—
Net increase in notes receivable	$ 748	$ 552

(1) Represents two pre-development loans which matured due to land acquisitions and commencement of two development projects.

At September 30, 2015, we had 8 loans and line of credit agreements with on-going commitments totaling $2,650,000 and weighted average interest rate of 9.8%. As of September 30, 2015, we have a remaining commitment of $2,013,000.

5.Debt Obligations

The following table sets forth information regarding debt obligations by component as of September 30, 2015 and December 31, 2014 (dollar amounts in thousands):

		At September 30, 2015		At December 31, 2014	
Debt Obligations	Applicable Interest Rate(1)	Outstanding Balance	Available for Borrowing	Outstanding Balance	Available for Borrowing
Bank Borrowings(2)	1.51%	$ 165,500	$ 234,500	$ —	$ 400,000
Senior Unsecured Notes(3)	4.67%	352,467	n.a.	281,633	n.a.
Total	3.66%	$ 517,967		$ 281,633	

(1) Represents weighted average of interest rate as of September 30, 2015.

(2) Subsequent to September 30, 2015, we exercised the $200,000 accordion feature of our $400,000 unsecured revolving line of credit increasing commitments under the credit facility to $600,000 and we borrowed $22,000 under our unsecured revolving line of credit. Accordingly, we have $187,500 outstanding under our unsecured revolving line of credit with $412,500 remaining for borrowing.

(3) Subsequent to September 30, 2015, we locked rate on our AIG shelf agreement on $100,000 senior unsecured notes with a coupon of 4.26% and anticipates selling notes to AIG on or around November 20, 2015.

Bank Borrowings. We have an Unsecured Credit Agreement that provides for a revolving line of credit up to $400,000,000 with the opportunity to increase the credit amount up to a total of $600,000,000. The Unsecured Credit Agreement matures on October 14, 2018 and provides for a one-year extension option at our discretion, subject to customary conditions. Based on our leverage at September 30, 2015, the facility provides for interest annually at LIBOR plus 125 basis points and an unused commitment fee of 30 basis points. During the nine months ended September 30, 2015 and 2014 we borrowed $267,000,000 and $28,500,000, respectively, under our Unsecured Credit Agreement. Additionally, during the nine months ended September 30, 2015 and 2014, we repaid $101,500,000 and

$30,000,000, respectively, under our Unsecured Credit Agreement. At September 30, 2015, we were in compliance with all covenants.

Subsequent to September 30, 2015, we exercised the $200,000,000 accordion feature of our $400,000,000 unsecured revolving line of credit. The exercise of this feature increases the commitments under our credit facility to $600,000,000 and does not impact any other terms or conditions within the credit facility including the term or covenant requirements of the agreement. Also, subsequent to September 30, 2015, we borrowed $22,000,000 under our unsecured revolving line of credit. Accordingly, we have $187,500,000 outstanding under our unsecured revolving line of credit with $412,500,000 remaining for borrowing.

Senior Unsecured Notes. During the nine months ended September 30, 2015 and 2014, we paid $29,167,000 and $4,167,000 in regular scheduled principal payments. In April 2015, we entered into a third amended and restated $200,000,000 private shelf agreement with Prudential for a three-year term. The agreement provides for the possible issuance of up to an additional $102,000,000 of senior unsecured fixed interest rate term notes. After July 14, 2015 and for the balance of the term, the agreement provides for the possible issuance of additional senior unsecured fixed interest rate term notes up to the maximum availability upon us making our scheduled principal payments on existing notes then outstanding. Interest rates on any issuance under the shelf agreement will be set at a spread over applicable Treasury rates. Maturities of each issuance are at our election for up to 15 years from the date of issuance with a maximum average life of 12 years from the date of original issuance. During the three months ended September 30, 2015, we sold $100,000,000 senior unsecured notes with an annual fixed rate of 4.5% under our Prudential shelf agreement. These notes have periodic scheduled principal repayments with a 15-year final maturity.

Also, during the three months ended September 30, 2015, we entered into a $100,000,000 note purchase and private shelf agreement with AIG Asset Management (U.S.) LLC (or AIG) for a three-year term. Subsequent to September 30, 2015, we locked rate under our AIG shelf agreement on $100,000,000 senior unsecured notes with a coupon of 4.26% and anticipate selling notes to AIG on or around November 20, 2015. These notes have periodic scheduled principal repayments with a 13-year final maturity.

Bonds Payable. We had a multifamily tax-exempt revenue bond that was secured by five assisted living properties in Washington which was paid off during 2014. During the nine months ended September 30, 2014, we paid $635,000 in regularly scheduled principal payments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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6.Equity

Equity activity was as follows (in thousands):

	Total Equity
Balance at December 31, 2014	$ 660,121
Net income	55,127
Vesting of stock option and restricted common stock	3,093
Stock option exercise	79
Reclassification adjustment	(26)
Preferred stock dividends	(2,454)
Common stock dividends	(54,388)
Other	(346)
Balance at September 30, 2015	$ 661,206

Preferred Stock. At September 30, 2015, 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 September 30, 2015.

Common Stock. During the three months ended September 30, 2015, we entered into equity distribution agreements to issue and sell, from time to time, up to $200,000,000 in aggregate offering price of our common shares. Sales of common shares are made by means of ordinary brokers' transactions, which may include block trades, or transactions that are deemed to be "at the market" offerings. During the three month ended September 30, 2015, we did not sell shares of common stock under our equity distribution agreement. At September 30, 2015, we had $200,000,000 available under this agreement. Also, during the nine months ended September 30, 2015 and 2014, we acquired 4,609 shares and 200 shares respectively, of common stock held by employees who tendered owned shares to satisfy tax withholding obligations.

Available Shelf Registrations. Our 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, will be described in detail in a prospectus supplement, or other offering materials, at the time of the offering. At September 30, 2015, we had availability of $575,100,000 under our effective shelf registration which expires on July 19, 2016.

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

	Nine Months Ended			
	September 30, 2015		September 30, 2014	
	Declared	Paid	Declared	Paid
Preferred Stock Series C	$ 2,454	$ 2,454	$ 2,454	$ 2,454
Common Stock(1)	54,388	54,388	53,275	53,275
Total	$ 56,842	$ 56,842	$ 55,729	$ 55,729

(1) Represents $0.17 per share per month for each of the nine months ended September 30, 2015 and 2014, respectively.

In October 2015, we increased our common stock monthly cash dividend approximately 5.9% from $0.17 per share to $0.18 per share and declared monthly cash dividends on our common stock for the months of October, November and December, payable on October 30, November 30, and December 31, 2015, respectively, to stockholders of record on October 22, November 20, and December 23, 2015, respectively.

Accumulated Other Comprehensive Income. At September 30, 2015 and December 31, 2014, accumulated comprehensive income of $56,000 and $82,000, respectively, 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 nine months ended September 30, 2015, we adopted and our shareholders approved the 2015 Equity Participation Plan (or the 2015 Plan) which replaces the 2008 Equity Participation Plan (or the 2008 Plan). Under the 2015 Plan, 1,400,000 shares of common stock have been reserved for awards, including nonqualified stock option grants and restricted stock grants to officers, employees, non-employee directors and consultants. The terms of the awards granted under the 2015 Plan are set by our compensation committee at its discretion. During the nine months ended September 30, 2015, no stock options or restricted stock were granted under this plan.

During the nine months ended September 30, 2015, no stock options were granted under the 2008 Plan. In the comparable 2014 period, we granted 15,000 options under the 2008 Plan to purchase common stock at an exercise price of $38.43 per share. These stock options vest ratably over a three-year period from the grant date. The options exercised during the nine months ended September 30, 2015 and 2014 were as follows: