LTC PROPERTIES INC
Form 10-K
February 26, 2015
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10 K

(Mark One)

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

For the fiscal year ended December 31, 2014

OR

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

Commission file number: 1 11314

LTC PROPERTIES, INC.

(Exact name of Registrant as specified in its charter)

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

2829 Townsgate Road, Suite 350

Westlake Village, California 91361

(Address of principal executive offices)

Registrant’s telephone number, including area code: (805) 981 8655

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common stock, $.01 Par Value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by checkmark if the Registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by checkmark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10 K or any amendment to this Form 10 K.

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 the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b 2 of the Exchange Act. (Check one):

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 Act). Yes No

The aggregate market value of voting and non voting common equity held by non affiliates of the Registrant was approximately $1,336,340,000 as of June 30, 2014 (the last business day of the Registrant's most recently completed second fiscal quarter).

The number of shares of common stock outstanding as of February 19, 2015 was 35,540,762.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement relating to its 2015 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10 K where indicated.

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CAUTIONARY STATEMENT

This annual report contains forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, adopted pursuant to the Private Securities Litigation Reform Act of 1995. Statements that are not purely historical may be forward looking. You can identify some of the forward looking statements by their use of forward looking words, such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “plans,” “estimates” or “anticipates,” or the negative words or similar words. Forward looking statements involve inherent risks and uncertainties regarding events, conditions and financial trends that may affect our future plans of operation, business strategy, results of operations and financial position. A number of important factors could cause actual results to differ materially from those included within or contemplated by such forward looking statements, including, but not limited to, the status of the economy; the status of capital markets (including prevailing interest rates) and our access to capital; the income and returns available from investments in health care related real estate (including our ability to re lease properties upon expiration of a lease term); the ability of our borrowers and lessees to meet their obligations to us; our reliance on a few major operators; competition faced by our borrowers and lessees within the health care industry; regulation of the health care industry by federal, state and local governments (including as a result of the Patient Protection and Affordable Care Act of 2010 and the Health Care and Education Reconciliation Act of 2010); changes in Medicare and Medicaid reimbursement amounts (including due to federal and state budget constraints); compliance with and changes to regulations and payment policies within the health care industry; debt that we may incur and changes in financing terms; our ability to continue to qualify as a real estate investment trust; the relative illiquidity of our real estate investments; potential limitations on our remedies when mortgage loans default; and risks and liabilities in connection with properties owned through limited liability companies and partnerships. For a discussion of these and other factors that could cause actual results to differ from those contemplated in the forward looking statements, please see the discussion under “Risk Factors” contained in this annual report and in other information contained in this annual report and our publicly available filings with the Securities and Exchange Commission. We do not undertake any responsibility to update or revise any of these factors or to announce publicly any revisions to forward looking statements, whether as a result of new information, future events or otherwise.

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LTC Properties, Inc

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PART I

Item 1. BUSINESS

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 healthcare 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.

Skilled nursing facilities provide restorative, rehabilitative and nursing care for people not requiring the more extensive and sophisticated treatment available at acute care hospitals. Many skilled nursing facilities provide ancillary services that include occupational, speech, physical, respiratory and IV therapies, as well as sub acute care services which are paid either by the patient, the patient's family, private health insurance, or through the federal Medicare or state Medicaid programs.

Assisted living facilities serve elderly persons who require assistance with activities of daily living, but do not require the constant supervision skilled nursing facilities provide. Services are usually available 24 hours a day and include personal supervision and assistance with eating, bathing, grooming and administering medication. The facilities provide a combination of housing, supportive services, personalized assistance and health care designed to respond to individual needs.

Independent living facilities, also known as retirement communities or senior apartments, offer a sense of community and numerous levels of service, such as laundry, housekeeping, dining options/meal plans, exercise and wellness programs, transportation, social, cultural and recreational activities, on site security and emergency response programs. Many offer on site conveniences like beauty/barber shops, fitness facilities, game rooms, libraries and activity centers.

Memory care facilities offer specialized options for seniors with Alzheimer's disease and other forms of dementia. Purpose built, free standing memory care facilities offer an attractive alternative for private pay residents affected by memory loss in comparison to other accommodations that typically have been provided within a secured unit of an assisted living or skilled nursing facility. These facilities offer dedicated care and specialized programming for various conditions relating to memory loss in a secured environment that is typically smaller in scale and more residential in nature than traditional assisted living facilities. Residents require a higher level of care and more assistance with activities of daily living than in assisted living facilities. Therefore, these facilities have staff available 24 hours a day to respond to the unique needs of their residents.

We were organized to qualify, and intend to continue to qualify, as a REIT. So long as we qualify, with limited exceptions, we may deduct distributions, both preferred dividends and common dividends, to our stockholders from our taxable income. We have made distributions, and intend to continue to make distributions to our stockholders, in order to eliminate any federal tax liability.

Portfolio

Our real estate investment in senior housing and long term care properties is managed and conducted as a single operating segment for internal reporting and for internal decision making purposes. ALF, ILF, MC, and combinations thereof are included in the ALF 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. Other properties (or Other) property type consists of a school and land held for use. In addition to the information below, see Item 2. Properties for more information about our portfolio.

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The following table summarizes our real estate investment portfolio as of December 31, 2014 (dollar amounts in thousands):

e of Property	Gross Investments	Percentage of Investments		Twelve Months Ended December 31, 2014 Rental Income(1)	Interest Income(2)	Percentage of Revenues		Number of Properties(3)	Number of SNF Beds(4)	ALF Units(4
led Nursing	$ 633,052	56.7	%	$ 52,259	$ 14,595	59.4	%	97	12,057	—
isted Living	415,520	37.2	%	37,847	985	34.5	%	92	—	4,446
ge of Care	46,217	4.1	%	5,332	282	5.0	%	8	733	348
er elopment(5)	11,495	1.0	%	—	—	—	%	—	—	—
er(6)	10,883	1.0	%	1,294	—	1.1	%	1	—	—
als	$ 1,117,167	100.0	%	$ 96,732	$ 15,862	100.0	%	198	12,790	4,794

(1) Excludes rental income from properties sold during 2014.
(2) Excludes interest income from mortgage loans paid off during 2014.
(3) We have investments in 29 states leased or mortgaged to 37 different operators.
(4) See Item 2. Properties for discussion of bed/unit count.
(5) Includes two MC developments with a total of 126 units.
(6) Includes a school and five parcels of land held for use.

As of December 31, 2014 we had $892.2 million in carrying value of net real estate investment, consisting of $726.5 million or 81.4% invested in owned and leased properties and $165.7 million or 18.6% invested in mortgage loans secured by first mortgages.

Owned Properties. The following table summarizes our investment in owned properties at December 31, 2014 (dollar amounts in thousands):

Type of Property	Gross Investments	Percentage of Investments		Number of Properties(1)	Number of SNF Beds(2)	ALF Units(2)	Investment per Bed/Unit
Skilled Nursing	$ 482,036	50.8	%	68	8,407	—	$ 57.34
Assisted Living	401,517	42.3	%	84	—	4,176	$ 96.15
Range of Care	43,907	4.6	%	7	634	274	$ 48.36
Under Development(3)	11,495	1.2	%	—	—	—	—
Other(4)	10,883	1.1	%	1	—	—	—
Totals	$ 949,838	100.0	%	160	9,041	4,450	

(1) We have investments in 26 states leased to 30 different operators.
(2) See Item 2. Properties for discussion of bed/unit count.
(3) Includes two MC developments with a total of 126 units.

(4) Includes a school and five 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. 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 and that increase is 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 revenues in excess of base amounts or
(iv) specific dollar increases.

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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. Generally our leases provide for one or more of the following: security deposits, property tax impounds, and credit enhancements such as corporate or personal guarantees or letters of credit. In addition, our leases are typically structured as master leases and multiple master leases with one operator are generally cross defaulted. The following table summarizes our top ten operators for 2014 and percentage of rental revenue for those operators for 2014 and 2013:

	Percent of Rental Revenue			
Lessee	2014		2013	
Brookdale Senior Living Communities, Inc.	14.9	%	11.2	%
Senior Care Centers, LLC	12.7	%	12.0	%
Preferred Care, Inc.	10.3	%	10.1	%
Traditions Senior Management, Inc.	7.0	%	5.6	%
Juniper Communities, LLC	6.9	%	6.8	%
Extendicare, Inc. and Enlivant	6.5	%	11.2	%
Carespring Healthcare Management, LLC	6.0	%	5.5	%
Sunrise Senior Living	4.8	%	4.7	%
Skilled Healthcare Group, Inc.	4.7	%	4.6	%
Fundamental Long Term Care Company	4.0	%	3.4	%

Mortgage Loans. As part of our strategy of making long term investments in properties used in the provision of long term health care services, we provide mortgage financing on such properties based on our established investment underwriting criteria. We have also provided construction loans that by their terms converted into purchase/lease transactions or permanent financing mortgage loans upon completion of construction. The following table summarizes our investments in mortgage loans secured by first mortgages at December 31, 2014 (dollar amounts in thousands):

Type of Property	Gross Investments	Percentage of Investments		Number of Loans	Number of Properties(1)	Number of SNF Beds(2)	ALF Units(2)	Average Investment per Bed/Unit
Skilled Nursing	$ 151,016	90.3	%	15	29	3,650	—	$ 41.37
Assisted Living	14,003	8.3	%	3	8	—	270	$ 51.86
Range of Care	2,310	1.4	%	1	1	99	74	$ 13.35
Totals	$ 167,329	100.0	%	19	38	3,749	344	

(1) We have investments in 9 states that include mortgages to 12 different operators.
(2) See Item 2. Properties for discussion of bed/unit count.

In general, the mortgage loans may not be prepaid except in the event of the sale of the collateral property to a third party that is not affiliated with the borrower, although partial prepayments (including the prepayment premium) are often permitted where a mortgage loan is secured by more than one property upon a sale of one or more, but not all, of the collateral properties to a third party which is not an affiliate of the borrower. The terms of the mortgage loans generally impose a premium upon prepayment of the loans depending upon the period in which the prepayment occurs, whether such prepayment was permitted or required, and certain other conditions such as upon the sale of the property under a pre existing purchase option, destruction or condemnation, or other circumstances as approved by us. On certain loans, such prepayment amount is based upon a percentage of the then outstanding balance of the loan, usually declining ratably each year. For other loans, the prepayment premium is based on a yield maintenance formula. A mortgage loan secured by 15 skilled nursing properties in Michigan had a one time option between November 2015 and October 2025 to prepay up to 50% of the then outstanding loan balance without penalty. However, subsequent to December 31, 2014, the borrower forfeited the prepayment option in conjunction with a modification of the loan in exchange for our commitment of $20.0 million to fund the redevelopment of two of the properties securing the loan. In addition to a lien on the mortgaged property, the loans are generally secured by certain non real estate assets of the properties and contain

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certain other security provisions in the form of letters of credit, pledged collateral accounts, security deposits, cross default and cross collateralization features and certain guarantees. See Item 8. FINANCIAL STATEMENTS—Note 6. Real Estate Investments for further description.

Investment and Other Policies

Objectives and Policies. Our investment policy is to invest primarily in income producing senior housing and long term care properties. Over the past three years (2012 through 2014), we acquired skilled nursing, assisted living, independent living, memory care properties and combinations thereof, plus 13 parcels of land for a total of approximately $197.4 million. Also over the past three years, we completed the development, re-development and expansion of eight assisted living properties and three skilled nursing properties for an aggregate investment of $87.3 million, excluding acquisition of parcels of land. Additionally, we invested approximately $146.5 million in mortgage loans over the past three years. We believe our liquidity and various sources of available capital are sufficient to fund operations and development commitments, meet debt service obligations (both principal and interest), make dividend distributions and finance future investments should we determine such future investments are financially feasible. The timing, source and amount of cash flows provided by financing activities and used in investing activities are sensitive to the capital markets environment, especially to changes in interest rates. We continuously evaluate the availability of cost effective capital and believe we have sufficient liquidity for additional capital investments in 2015.

Our primary marketing and business development strategy is to increase the awareness of our presence and build relationships in the seniors housing and care industry by supporting targeted industry trade organizations, attending industry specific conferences and events patronized by senior living providers, and seeking out speaking engagements at industry related events. We believe this targeted marketing effort has increased deal flow and continues to provide opportunities for new investments in 2015. Since competition from investors as well as other capital providers for large transactions consisting of fully-marketed, multi-property portfolios generally result in valuations above our targeted investment criteria, our marketing and business development efforts focus on sourcing relationships with regionally based operating companies to execute on single property transactions (for acquisition, mortgage financing or development), or smaller multi-property portfolios that are not broadly marketed by third-party intermediaries which complement our historic investment execution and are priced at yields that are accretive to our stockholders.

Historically our investments have consisted of:

- fee ownership of senior housing and long term care properties that are leased to providers;
- mortgage loans secured by senior housing and long term care properties; or
- participation in such investments indirectly through investments in real estate partnerships or other entities that themselves make direct investments in such loans or properties.

In evaluating potential investments, we consider factors such as:

- type of property;
- the location;
- construction quality, condition and design of the property;
- the property's current and anticipated cash flow and its adequacy to meet operational needs and lease obligations or debt service obligations;
- the experience, reputation and solvency of the licensee providing services;
- the payor mix of private, Medicare and Medicaid patients;
- the growth, tax and regulatory environments of the communities in which the properties are located;
- the occupancy and demand for similar properties in the area surrounding the property; and
- the Medicaid reimbursement policies and plans of the state in which the property is located.

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Prior to every investment, we conduct a property site review to assess the general physical condition of the property and the potential of additional services. In addition, we review the environmental reports, site surveys and financial statements of the property before the investment is made.

We believe skilled nursing facilities are the lowest cost provider for certain levels of acuity; therefore, such facilities play a vital role in our nation's health care delivery system. Our investments include direct ownership, development and mortgages secured by skilled nursing properties. We prefer to invest in a property that has a significant market presence in its community and where state certificate of need and/or licensing procedures limit the entry of competing properties.

We believe that assisted living, independent living and memory care facilities are an important sector in the long term care market and our investments include direct ownership, development and mortgages secured by assisted living, independent living and/or memory care properties. We have attempted to diversify our portfolio both geographically and across product levels.

Borrowing Policies. We may incur additional indebtedness when, in the opinion of our Board of Directors, it is advisable. We may incur such indebtedness to make investments in additional senior housing and long term care properties or to meet the distribution requirements imposed upon REITs under the Internal Revenue Code of 1986, as amended. For other short term purposes, we may, from time to time, negotiate lines of credit, or arrange for other short term borrowings from banks or otherwise. We may also arrange for long term borrowings through public or private offerings or from institutional investors.

In addition, we may incur mortgage indebtedness on real estate which we have acquired through purchase, foreclosure or otherwise. We may also obtain mortgage financing for unleveraged or underleveraged properties in which we have invested or may refinance properties acquired on a leveraged basis.

Competition

In the health care industry, we compete for real property investments with health care providers, other health care related REITs, real estate partnerships, banks, private equity funds, venture capital funds and other investors. Many of our competitors are significantly larger and have greater financial resources and lower cost of capital than we have available to us. Our ability to compete successfully for real property investments will be determined by numerous factors, including our ability to identify suitable acquisition targets, our ability to negotiate acceptable terms for any such acquisition and the availability and our cost of capital.

The lessees and borrowers of our properties compete on a local, regional and, in some instances, national basis with other health care providers. The ability of the lessee or borrower to compete successfully for patients or residents at our properties depends upon several factors, including the levels of care and services provided by the lessees or borrowers, the reputation of the providers, physician referral patterns, physical appearances of the properties, family preferences, financial condition of the operator and other competitive systems of health care delivery within the community, population and demographics.

Government Regulation

The health care industry is heavily regulated by the government. Our borrowers and lessees who operate health care facilities are subject to extensive regulation by federal, state and local governments. These laws and regulations are subject to frequent and substantial changes resulting from legislation, adoption of rules and regulations, and administrative and judicial interpretations of existing law. These changes may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business and the amount of reimbursement by both government and other third-party payors. These changes may be applied retroactively. The ultimate timing or effect of these changes cannot be predicted. The failure of any borrower of funds from us or lessee of any of our properties to comply with such laws, requirements and regulations could result in sanctions or remedies such as denials of payment for new Medicare and Medicaid admissions, civil monetary penalties, state oversight and loss of Medicare and Medicaid participation or licensure. Such action could affect our borrower's or lessee's ability to operate

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its facility or facilities and could adversely affect such borrower's or lessee's ability to make debt or lease payments to us.

The properties owned by us and the manner in which they are operated are affected by changes in the reimbursement, licensing and certification policies of federal, state and local governments. Properties may also be affected by changes in accreditation standards or procedures of accrediting agencies. In addition, expansion (including the addition of new beds or services or acquisition of medical equipment) and occasionally the discontinuation of services of health care facilities are, in some states, subjected to state and regulatory approval through "certificate of need" laws and regulations.

The ability of our borrowers and lessees to generate revenue and profit determines the underlying value of that property to us. Revenues of our borrowers and lessees of skilled nursing properties are generally derived from payments for patient care. Sources of such payments for skilled nursing facilities include the federal Medicare program, state Medicaid programs, private insurance carriers, managed care organizations, preferred provider arrangements, and self-insured employers, as well as the patients themselves.

A significant portion of the revenue of our skilled nursing property borrowers and lessees is derived from governmentally-funded reimbursement programs, such as Medicare and Medicaid. Because of significant health care costs paid by such government programs, both federal and state governments have adopted and continue to consider various health care reform proposals to control health care costs. In many instances, revenues from Medicaid programs are insufficient to cover the actual costs incurred in providing care to Medicaid patients. Moreover, the Kaiser Commission on Medicaid and the Uninsured stated in October 2014 that 34 states reported enacting new Medicaid rate restrictions for at least one provider type in fiscal year 2014, while 33 states plan rate restrictions for fiscal year 2015. In fiscal year 2014, 34 states reported one or more rate restrictions across provider types and 46 states reported one or more rate increases. For fiscal year 2015, 33 states have planned at least one provider rate restriction while 45 states are planning at least one rate increase. On the other hand, the Kaiser Commission notes that due to improving state finances, more states are enhancing rates than restricting rates overall in 2014 and 2015. With regard to nursing home rates in particular, 39 states increased rates in fiscal year 2014 and 40 plan rate increases for fiscal year 2015, compared to nursing home rate restrictions being adopted in 12 states in fiscal year 2014 and 10 states in fiscal year 2015. In addition, many states have been making changes to their long term care delivery systems that emphasize home and community-based long term care services, in some cases coupled with cost controls for institutional providers. According to the Kaiser Commission, 42 states in fiscal year 2014 and 47 states in fiscal year 2015 took action to expand the number of individuals serviced in home and community-based service programs. The federal government also has adopted various policies to promote community-based alternatives to institutional services. As states and the federal government continue to respond to budget pressures, future reduction in Medicaid payments for skilled nursing facility services could have an adverse effect on the financial condition of our borrowers and lessees which could, in turn, adversely impact the timing or level of their payments to us.

Over the years there also have been fundamental changes in the Medicare program that resulted in reduced levels of payment for a substantial portion of health care services, including skilled nursing facility services. CMS annually updates Medicare skilled nursing facility prospective payment system rates and other policies. On August 5, 2014, CMS published its final Medicare skilled nursing facility payment rate update for fiscal year 2015, which began on October 1, 2014. CMS estimates that the final rule will increase aggregate Medicare skilled nursing facility payments by $750 million, or 2%, compared to fiscal year 2014 levels. Specifically, under the final rule, Medicare rates are updated to reflect a 2.5% market basket increase that is reduced by a 0.5 percentage point "multifactor productivity adjustment" mandated by the Affordable Care Act. There can be no assurance that any future reductions in Medicare skilled nursing facility payment rates or other policy changes would not have an adverse effect on the financial condition of our borrowers and lessees which could, in turn, adversely impact the timing or level of their payments to us.

Moreover, health care facilities continue to experience pressures from private payors attempting to control health care costs, and reimbursement from private payors has in many cases effectively been reduced to levels approaching those of government payors. Governmental and public concern regarding health care costs may result in significant reductions in payment to health care facilities, and there can be no assurance that future payment rates for either governmental or private payors will be sufficient to cover cost increases in providing services to patients. Any changes in reimbursement policies which reduce reimbursement to levels that are insufficient to cover the cost of

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providing patient care could adversely affect revenues of our skilled nursing property borrowers and lessees and to a much lesser extent our assisted living property borrowers and lessees and thereby adversely affect those borrowers' and lessees' abilities to make their debt or lease payments to us. Failure of the borrowers or lessees to make their debt or lease payments would have a direct and material adverse impact on us.

Various federal and state laws govern financial and other arrangements between health care providers that participate in, receive payments from, or make or receive referrals for work in connection with government funded health care programs, including Medicare and Medicaid. These laws, known as the fraud and abuse laws, include the federal anti-kickback statute, which prohibits, among other things, knowingly and willfully soliciting, receiving, offering or paying any remuneration directly or indirectly in return for, or to induce, the referral, or arrange for the referral, of an individual to a person for the furnishing of an item or service for which payment may be made under federal health care programs. In addition, the federal physician self-referral law, commonly known as the Stark Law, prohibits physicians and certain other types of practitioners from making referrals for certain designated health services paid in whole or in part by Medicare and Medicaid to entities with which the practitioner or a member of the practitioner's immediate family has a financial relationship, unless the financial relationship fits within an applicable exception to the Stark Law. The Stark Law also prohibits the entity receiving the referral from seeking payment under the Medicare program for services rendered pursuant to a prohibited referral. If an entity is paid for services rendered pursuant to a prohibited referral, it may incur civil penalties of up to $15,000 per prohibited claim and may be excluded from participating in the Medicare and Medicaid programs. Many states have enacted similar fraud and abuse laws which are not necessarily limited to items and services for which payment is made by federal health care programs. Violations of these laws may result in fines, imprisonment, denial of payment for services, and exclusion from federal and/or other state-funded programs. Other federal and state laws authorize the imposition of penalties, including criminal and civil fines and exclusion from participation in federal health care programs for submitting false claims, improper billing and other offenses. Federal and state government agencies have continued rigorous enforcement of criminal and civil fraud and abuse laws in the health care arena. Our borrowers and lessees are subject to many of these laws, and some of them could in the future become the subject of a governmental enforcement action.

Health Care Reform and Other Legislative Developments

Congress and the state legislatures regularly consider, and in some cases adopt, legislation impacting health care providers, including long term care providers. For instance, the Balanced Budget Act of 1997 enacted significant changes to the Medicare and Medicaid programs designed to modernize payment and health care delivery systems while achieving substantial budgetary savings. Among other things, the law established the Medicare prospective payment system for skilled nursing facility services to replace the cost-based reimbursement system, which resulted in significant reductions in Medicare payments to skilled nursing facilities. Over the years, Congress adopted legislation to somewhat mitigate the impact of the new payment system, including a temporary payment add-on for high-acuity patients, which subsequently expired, and a temporary payment add-on for residents with AIDS that still is in effect through fiscal year 2015. Other legislation enacted by Congress in recent years has reduced certain Medicare skilled nursing facility bad debt payments, strengthened Medicaid asset transfer restrictions for persons seeking to qualify for Medicaid long term care coverage, reduced Medicaid provider taxes that are used by many states to finance state health programs, and given states greater flexibility to expand access to home and community-based services.

In March 2010, the President signed into law the Patient Protection and Affordable Care Act, which subsequently was amended by the Health Care and Education and Reconciliation Act of 2010 (collectively referred to as the "Affordable Care Act"). The Affordable Care Act is designed to expand access to affordable health insurance, contain health care costs, and institute a variety of health policy reforms. The provisions of the sweeping law may affect us directly, as well as impact our lessees and borrowers. While certain provisions, such as expanding the insured population, may positively impact the revenues of our lessees and borrowers, other provisions, particularly those intended to reduce federal health care spending, could have a negative impact on our lessees and borrowers. Among other things, the Affordable Care Act: reduces Medicare skilled nursing facility reimbursement by a so-called “productivity adjustment” based on economy-wide productivity gains; requires the development of a value-based purchasing program for Medicare skilled nursing facility services; establishes a national voluntary pilot program to bundle Medicare payments for hospital and post-acute services that could lead to changes in the delivery of post-acute services; and provides incentives to state Medicaid programs to promote community-based care as an alternative to

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institutional long term care services. The Affordable Care Act also includes provisions intended to expand public disclosure about nursing home ownership and operations, institute mandatory compliance and quality assurance programs, increase penalties for noncompliance, and expand fraud and abuse enforcement and penalty provisions that could impact our operators. In addition, the Affordable Care Act impacts both us and our lessees and borrowers as employers, including new requirements related to the health insurance we offer to our respective employees. Many aspects of the Affordable Care Act are being implemented through new regulations and subregulatory guidance. We cannot predict at this time what effect, if any, the various provisions of the Affordable Care Act will have on our lessees and borrowers or our business when fully implemented. There can be no assurances, however, that the Affordable Care Act will not adversely impact the operations, cash flows or financial condition of our lessees and borrowers, which subsequently could materially adversely impact our revenue and operations.

Under the terms of the Budget Control Act of 2011, as modified by the American Taxpayer Relief Act, President Obama issued a sequestration order on March 1, 2013 that mandates a 2% cut to Medicare payments to providers and health plans. The cuts generally apply to Medicare fee-for-service claims with dates-of-service or dates-of-discharge on or after April 1, 2013. As amended by subsequent legislation, the Medicare sequestration cuts are currently scheduled to be applied through fiscal year 2024, although Congress and the Administration could enact legislation to end or modify sequestration at any time, including through alternative budget legislation that includes alternative Medicare or Medicaid savings. There can be no assurances that enacted or future budget control mechanisms will not have an adverse impact on the financial condition of our borrowers and lessees, which subsequently could materially adversely impact our company.

On April 1, 2014, President Obama signed into law the Protecting Access to Medicare Act of 2014. Among other things, the law requires the Secretary of the Department of Health and Human Services to develop a skilled nursing facility "value-based purchasing program," which will tie Medicare payments to skilled nursing facilities to their performance on certain new readmissions measures, applicable to services furnished beginning October 1, 2018. Furthermore, on October 6, 2014, President Obama signed the Improving Medicare Post-Acute Care Transformation Act of 2014, which requires the collection of standardized post-acute care assessment data, which eventually could be used as the basis for developing changes to Medicare post-acute care reimbursement policy. Additional reforms affecting the payment for and availability of health care services have been proposed at the state level and adopted by certain states. Increasingly state Medicaid programs are providing coverage through managed care programs under contracts with private health plans, which is intended to decrease state Medicaid costs. Congress and state legislatures can be expected to continue to review and assess alternative health care delivery systems and payment methodologies, including potential changes in Medicare and Medicaid payment policy for skilled nursing facility services and other types of post-acute care. Changes in the law, new interpretations of existing laws, or changes in payment methodologies may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business and the amount of reimbursement by the government and other third party payors.

Environmental Matters

Under various federal, state and local environmental laws, ordinances and regulations, an owner of real property or a secured lender (such as us) may be liable for the costs of removal or remediation of hazardous or toxic substances at, under or disposed of in connection with such property, as well as other potential costs relating to hazardous or toxic substances (including government fines and damages for injuries to persons and adjacent property). Such laws often impose such liability without regard to whether the owner or secured lender knew of, or was responsible for, the presence or disposal of such substances and may be imposed on the owner or secured lender in connection with the activities of an operator of the property. The cost of any required remediation, removal, fines or personal or property damages and the owner's or secured lender's liability therefore could exceed the value of the property, and/or the assets of the owner or secured lender. In addition, the presence of such substances, or the failure to properly dispose of or remediate such substances, may adversely affect the owner’s ability to sell or rent such property or to borrow using such property as collateral which, in turn, would reduce our revenues.

Although the mortgage loans that we provide and leases covering our properties require the borrower and the lessee to indemnify us for certain environmental liabilities, the scope of such obligations may be limited and we cannot assure that any such borrower or lessee would be able to fulfill its indemnification obligations.

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Insurance

It is our current policy, and we intend to continue this policy, that all borrowers of funds from us and lessees of any of our properties secure adequate comprehensive property and general and professional liability insurance that covers us as well as the borrower and/or lessee. Even though that is our policy, certain borrowers and lessees have been unable to obtain general and professional liability insurance in the specific amounts required by our leases or mortgages because the cost of such insurance and some insurers have stopped offering such insurance for long term care facilities. Additionally, in the past, insurance companies have filed for bankruptcy protection leaving certain of our borrowers and/or lessees without coverage for periods that were believed to be covered prior to such bankruptcies. The unavailability and associated exposure as well as increased cost of such insurance could have a material adverse effect on the lessees and borrowers, including their ability to make lease or mortgage payments. Although we contend that as a non possessory landlord we are not generally responsible for what takes place on real estate we do not possess, claims including general and professional liability claims, may still be asserted against us which may result in costs and exposure for which insurance is not available. Certain risks may be uninsurable, not economically insurable or insurance may not be available and there can be no assurance that we, a borrower or lessee will have adequate funds to cover all contingencies. If an uninsured loss or a loss in excess of insured limits occurs with respect to one or more of our properties, we could be subject to an adverse claim including claims for general or professional liability, could lose the capital that we have invested in the properties, as well as the anticipated future revenue for the properties and, in the case of debt which is with recourse to us, we would remain obligated for any mortgage debt or other financial obligations related to the properties. Certain losses, such as losses due to floods or seismic activity if insurance is available, may be insured subject to certain limitations including large deductibles or co payments and policy limits.

Employees

At December 31, 2014, we employed 19 people. Our employees are not members of any labor union, and we consider our relations with our employees to be excellent.

Taxation of our Company

We have elected to be taxed as a REIT under Sections 856 through 860 of the Internal Revenue Code (or the Code). We believe that we have been organized and have operated in such a manner as to qualify for taxation as a REIT under the Code commencing with our taxable year ending December 31, 1992. We intend to continue to operate in such a manner, but there is no assurance that we have operated or will continue to operate in a manner so as to qualify or remain qualified.

If we continue to qualify for taxation as a REIT, we generally will not be subject to federal corporate income taxes on our net income that is currently distributed to our stockholders. This treatment substantially eliminates the “double taxation” (once at the corporate level when earned and once at stockholder level when distributed) that generally results from investment in a non REIT corporation.

However, we will be subject to federal income tax as follows:

First, we will be taxed at regular corporate rates on any undistributed taxable income, including undistributed net capital gains.

Second, under certain circumstances, we may be subject to the alternative minimum tax, if our dividend distributions are less than our alternative minimum taxable income.

Third, if we have (i) net income from the sale or other disposition of foreclosure property which is held primarily for sale to customers in the ordinary course of business or (ii) other non qualifying income from foreclosure property, we may elect to be subject to tax at the highest corporate rate on such income, if necessary to maintain our REIT status.

Fourth, if we have net income from “prohibited transactions” (as defined below), such income will be subject to a 100% tax.

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Fifth, if we fail to satisfy the 75% gross income test or the 95% gross income test (as discussed below), but nonetheless maintain our qualification as a REIT because certain other requirements have been met, we will be subject to a 100% tax on an amount equal to (a) the gross income attributable to the greater of the amount by which we fail the 75% or 95% test multiplied by (b) a fraction intended to reflect our profitability.

Sixth, if we fail to distribute during each calendar year at least the sum of (i) 85% of our ordinary income for such year, (ii) 95% of our REIT capital gain net income for such year, and (iii) any undistributed taxable income from prior periods, we will be subject to a 4% excise tax on the excess of such required distribution over the amounts actually distributed.

Seventh, if we acquire an asset which meets the definition of a built in gain asset from a corporation which is or has been a C corporation (i.e., generally a corporation subject to full corporate level tax) in certain transactions in which the basis of the built in gain asset in our hands is determined by reference to the basis of the asset in the hands of the C corporation, and if we subsequently recognize gain on the disposition of such asset during the ten year period, called the recognition period, beginning on the date on which we acquired the asset, then, to the extent of the built in gain (i.e., the excess of (a) the fair market value of such asset over (b) our adjusted basis in such asset, both determined as of the beginning of the recognition period), such gain will be subject to tax at the highest regular corporate tax rate, pursuant to IRS regulations.

Eighth, if we have taxable REIT subsidiaries and they are required to be reported on a consolidated basis, we would be subject to corporate tax on the taxable income of the taxable REIT subsidiaries. In addition, we will also be subject to a tax of 100% on the amount of any rents from real property, deductions or excess interest paid to us by any of our taxable REIT subsidiaries that would be reduced through reapportionment under certain federal income tax principles in order to more clearly reflect income for the taxable REIT subsidiary.

Ninth, if we fail to satisfy any of the REIT asset tests, as described below, by more than a de minimus amount, due to reasonable cause and we nonetheless maintain our REIT qualification because of specified cure provisions, we will be required to pay a tax equal to the greater of $50,000 or the highest corporate tax rate multiplied by the net income generated by the non qualifying assets that caused us to fail such test.

Tenth, if we fail to satisfy any provision of the Code that would result in our failure to qualify as a REIT (other than a violation of the REIT gross income tests or certain violations of the asset tests described below) and the violation is due to reasonable cause, we may retain our REIT qualification but we will be required to pay a penalty of $50,000 for each such failure.

Finally, if we own a residual interest in a real estate mortgage investment conduit (or REMIC), we will be taxed at the highest corporate rate on the portion of any excess inclusion income that we derive from the REMIC residual interests equal to the percentage of our shares that is held in record name by “disqualified organization.” A “disqualified organization” includes the United States, any state or political subdivision thereof, any foreign government or international organization, any agency or instrumentality of any of the foregoing, any rural electrical or telephone cooperative and any tax exempt organization (other than a farmer’s cooperative described in Section 521 of the Code) that is exempt from income taxation and from the unrelated business taxable income provisions of the Code. However, to the extent that we own a REMIC residual interest through a taxable REIT subsidiary, we will not be subject to this tax.

Requirements for Qualification. The Code defines a REIT as a corporation, trust or association:

(1) which is managed by one or more trustees or directors;
(2)

the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest;

(3) which would be taxable, but for Sections 856 through 860 of the Code, as a domestic corporation;
(4) which is neither a financial institution nor an insurance company subject to certain provisions of the Code;
(5) the beneficial ownership of which is held by 100 or more persons;
(6) during the last half of each taxable year not more than 50% in value of the outstanding stock of which is owned, actually or constructively, by five or fewer individuals (including specified entities);

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(7) which meets certain other tests, described below, regarding the amount of its distributions and the nature of its income and assets;
(8) that elects to be a REIT, or has made such election for a previous year, and satisfies the applicable filing and administrative requirements to maintain qualifications as a REIT; and
(9) that adopts a calendar year accounting period.

The Code provides that conditions (1) to (4), inclusive, must be met during the entire taxable year and that condition (5) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. Conditions (5) and (6) do not apply until after the first taxable year for which an election is made to be taxed as a REIT. For purposes of condition (6), pension funds and certain other entities are treated as individuals, subject to a "look through" exception.

Pursuant to the Code and applicable Treasury Regulations, in order to be able to elect to be taxed as a REIT, we must maintain certain records and request certain information from our stockholders designed to disclose the actual ownership of our stock. Based on publicly available information, we believe we have satisfied the share ownership requirements set forth in conditions (5) and (6). In addition, Sections 9.2 and 9.3 of our Charter provide for restrictions regarding the transfer and ownership of shares. These restrictions are intended to assist us in continuing to satisfy the share ownership requirements described in conditions (5) and (6). These restrictions, however, may not ensure that we will, in all cases, be able to satisfy the share ownership requirements described in conditions (5) and (6).

We have complied with, and will continue to comply with, regulatory rules to send annual letters to certain of our stockholders requesting information regarding the actual ownership of our stock. If despite sending the annual letters, we do not know, or after exercising reasonable diligence would not have known, whether we failed to satisfy the ownership requirement set forth in condition (6) above, we will be treated as having satisfied such condition. If we fail to comply with these regulatory rules, we will be subject to a monetary penalty. If our failure to comply was due to intentional disregard of the requirement, the penalty would be increased. However, if our failure to comply was due to reasonable cause and not willful neglect, no penalty would be imposed.

Income Tests. There presently are two gross income requirements that we must satisfy to qualify as a REIT:

· First, at least 75% of our gross income (excluding gross income from "prohibited transactions," as defined below) for each taxable year must be derived directly or indirectly from investments relating to real property or mortgages on real property, including rents from real property, or from certain types of temporary investment income.
· Second, at least 95% of our gross income for each taxable year must be directly or indirectly derived from income that qualifies under the 75% test, and from dividends (including dividends from taxable REIT subsidiaries), interest and gain from the sale or other disposition of stock or securities.

Cancellation of indebtedness income generated by us is not taken into account in applying the 75% and 95% income tests discussed above. A "prohibited transaction" is a sale or other disposition of property (other than foreclosure property) held for sale to customers in the ordinary course of business. Any gain realized from a prohibited transaction is subject to a 100% penalty tax.

Rents received by us will qualify as "rents from real property" for purposes of satisfying the gross income tests for a REIT only if several conditions are met:

· The amount of rent must not be based in whole or in part on the income or profits of any person, although rents generally will not be excluded merely because they are based on a fixed percentage or percentages of receipts or sales.
· Rents received from a tenant will not qualify as rents from real property if the REIT, or an owner of 10% or more of the REIT, also directly or constructively owns 10% or more of the tenant, unless the tenant is our

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taxable REIT subsidiary and certain other requirements are met with respect to the real property being rented.

· If rent attributable to personal property leased in connection with a lease of real property is greater than 15% of the total rent received under the lease, then the portion of rent attributable to the personal property will not qualify as rents from real property.
· We generally must not furnish or render services to tenants, other than through a taxable REIT subsidiary or an "independent contractor" from whom we derive no income, except that we may directly provide services that are "usually or customarily rendered" in the geographic area in which the property is located in connection with the rental of real property for occupancy only, or are not otherwise "rendered to the occupant for his convenience."

For taxable years beginning after August 5, 1997, a REIT has been permitted to render a de minimus amount of impermissible services to tenants and still treat amounts received with respect to that property as rents from real property. The amount received or accrued by the REIT during the taxable year for the impermissible services with respect to a property may not exceed 1% of all amounts received or accrued by the REIT directly or indirectly from the property. If the amount received or accrued by the REIT during the taxable year for impermissible services with respect to a property exceeds 1% of the total amounts received or accrued with respect to such property, then none of the rents received or accrued from such property shall be treated as rents from real property. The amount received for any service or management operation for this purpose shall be deemed to be not less than 150% of the direct cost of the REIT in furnishing or rendering the service or providing the management or operation. Furthermore, impermissible services may be furnished to tenants by a taxable REIT subsidiary subject to certain conditions, and we may still treat rents received with respect to the property as rent from real property.

The term "interest" generally does not include any amount if the determination of the amount depends in whole or in part on the income or profits of any person, although an amount generally will not be excluded from the term "interest" solely by reason of being based on a fixed percentage of receipts or sales.

If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we may nevertheless qualify as a REIT for the year if we are eligible for relief. These relief provisions will be generally available if our failure to meet the tests was due to reasonable cause and not due to willful neglect and following the identification of the failure to satisfy one or both income tests, a description of each item of gross income is filed in accordance with IRS regulations.

It is not now possible to determine the circumstances under which we may be entitled to the benefit of these relief provisions. If these relief provisions apply, a 100% tax is imposed on an amount equal to (a) the gross income attributable to the greater of the amount by which we failed the 75% or 95% test, multiplied by (b) a fraction intended to reflect our profitability.

Asset Tests. At the close of each quarter of our taxable year, we must also satisfy several tests relating to the nature and diversification of our assets. At least 75% of the value of our total assets must be represented by real estate assets, cash, cash items (including receivables arising in the ordinary course of our operations), and government securities and qualified temporary investments. Although the remaining 25% of our assets generally may be invested without restriction, we are prohibited from owning securities representing more than 10% of either the vote or value of the outstanding securities of any issuer other than a qualified REIT subsidiary, another REIT or a taxable REIT subsidiary (the "10% vote and value test"). Further, no more than 25% of our total assets may be represented by securities of one or more taxable REIT subsidiaries (for tax years beginning prior to July 30, 2008, 20% of the total value of our assets) and no more than 5% of the value of our total assets may be represented by securities of any non governmental issuer other than a qualified REIT subsidiary, another REIT or a taxable REIT subsidiary (or TRS). Each of the 10% vote and value test and the 25% and 5% asset tests must be satisfied at the end of any quarter. There are special rules which provide relief if the value related tests are not satisfied due to changes in the value of the assets of a REIT.

Investments in Taxable REIT Subsidiaries. For taxable years beginning after December 1, 2000, REITs may own more than 10% of the voting and value of securities in a TRS. A TRS is a corporation other than a REIT in which a REIT directly or indirectly holds stock, and that has made a joint election with the REIT to be treated as a TRS. A TRS

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also includes any corporation other than a REIT with respect to which a TRS owns securities possessing more that 35% of the total voting power or value of the outstanding securities of such corporation. Other than some activities relating to lodging and health care facilities, a TRS may generally engage in any business, including the provision of customary or non customary services to tenants of its parent REIT. A TRS is subject to income tax as a regular C corporation. In addition, a TRS may be prevented from deducting interest on debt funded directly or indirectly by its parent REIT if certain tests regarding the TRS's debt to equity ratio and interest expense are not satisfied. A REIT's ownership of a TRS will not be subject to the 10% or 5% asset tests described above, and its operations will be subject to the provisions described above. At this time, we do not have any taxable REIT subsidiaries.

REMIC. A regular or residual interest in a REMIC will be treated as a real estate asset for purposes of the REIT asset tests, and income derived with respect to such interest will be treated as interest on an obligation secured by a mortgage on real property, assuming that at least 95% of the assets of the REMIC are real estate assets. If less than 95% of the assets of the REMIC are real estate assets, only a proportionate share of the assets of and income derived from the REMIC will be treated as qualifying under the REIT asset and income tests. All of our historical REMIC certificates were secured by real estate assets, therefore we believe that our historic REMIC interests fully qualified for purposes of the REIT income and asset tests.

Ownership of Interests in Partnerships, Limited Liability Companies and Qualified REIT Subsidiaries. We own interests in various partnerships and limited liabilities companies. In the case of a REIT which is a partner in a partnership, or a member in a limited liability company treated as a partnership for federal income tax purposes, Treasury Regulations provide that the REIT will be deemed to own its proportionate share of the assets of the partnership or limited liability company, based on its interest in partnership capital, subject to special rules relating to the 10% REIT asset test described above. Also, the REIT will be deemed to be entitled to its proportionate share of income of that entity. The assets and items of gross income of the partnership or limited liability company retain the same character in the hands of the REIT for purposes of Section 856 of the Code, including satisfying the gross income tests and the asset tests. Thus, our proportionate share of the assets and items of income of partnerships and limited liability companies taxed as partnerships, in which we are, directly or indirectly through other partnerships or limited liability companies taxed as partnerships, a partner or member, are treated as our assets and items of income for purposes of applying the REIT qualification requirements described in this Annual Report on Form 10 K (including the income and asset tests previously described).

We also own interests in a number of subsidiaries which are intended to be treated as qualified REIT subsidiaries. The Code provides that such subsidiaries will be ignored for federal income tax purposes and that all assets, liabilities and items of income, deduction and credit of such subsidiaries will be treated as assets, liabilities and such items of our company. If any partnership or qualified real estate investment trust subsidiary in which we own an interest were treated as a regular corporation (and not as a partnership or qualified real estate investment trust subsidiary) for federal income tax purposes, we would likely fail to satisfy the REIT asset test prohibiting a REIT from owning greater than 10% of the voting power of the stock or value of securities of any issuer, as described above, and would therefore fail to qualify as a REIT. We believe that each of the partnerships and subsidiaries in which we own an interest will be treated for tax purposes as a partnership or qualified REIT subsidiary, respectively, although no assurance can be given that the IRS will not successfully challenge the status of any such entity.

Annual Distribution Requirements. In order to qualify as a REIT, we are required to distribute dividends (other than capital gain dividends) to our stockholders annually in an amount at least equal to:

(1) the sum of:

(a) 90% of our "real estate investment trust taxable income" (computed without regard to the dividends paid deduction and our net capital gain); and

(b)

90% of the net income, if any (after tax), from foreclosure property;
minus

(2) the excess of certain items of non cash income over 5% of our real estate investment trust taxable income.

In addition, if we dispose of any asset we acquired from a corporation which is or has been a C corporation in a transaction in which our basis in the asset is determined by reference to the basis of the asset in the hands of that C corporation, within the ten year period following our acquisition of such asset, we would be required to distribute at least

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90% of the after tax gain, if any, we recognized on the disposition of the asset, to the extent that gain does not exceed the excess of (a) the fair market value of the asset on the date we acquired the asset over (b) our adjusted basis in the asset on the date we acquired the asset.

We must pay these annual distributions (1) in the taxable year to which they relate or (2) in the following year if (i) we pay these distributions during January to stockholders of record in either October, November, or December of the prior year or (ii) we elect to declare the dividend before the due date of the tax return (including extensions) and pay on or before the first regular dividend payment date after such declaration.

Amounts distributed must not be preferential; that is, every stockholder of the class of stock with respect to which a distribution is made must be treated the same as every other stockholder of that class, and no class of stock may be treated otherwise than in accordance with its dividend rights as a class.

To the extent that we do not distribute all of our net long term capital gain or distribute at least 90% but less than 100%, of our "real estate investment trust taxable income," as adjusted, we will be subject to tax on such amounts at regular corporate tax rates. Furthermore, if we should fail to distribute during each calendar year (or, in the case of distributions with declaration and record dates in the last three months of the calendar year, by the end of the following January) at least the sum of:

(1) 85% of our real estate investment trust ordinary income for such year,
(2) 95% of our real estate investment trust capital gain net income for such year, and
(3) 100% of taxable income from prior periods less 100% of distributions from prior periods

We would be subject to a 4% excise tax on the excess of such required distributions over the amounts actually distributed. Any real estate investment trust taxable income and net capital gain on which this excise tax is imposed for any year is treated as an amount distributed during that year for purposes of calculating such tax.

We intend to make timely distributions sufficient to satisfy these annual distribution requirements and to avoid the imposition of the 4% excise tax.

Failure to Qualify. If we fail to qualify for taxation as a REIT in any taxable year, and certain relief provisions do not apply, we will be subject to tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Distributions to stockholders in any year in which we fail to qualify as a REIT will not be deductible by us, nor will any distributions be required to be made. Unless entitled to relief under specific statutory provisions, we will also be disqualified from re electing our REIT status for the four taxable years following the year during which qualification was lost. It is not possible to state whether we would be entitled to the statutory relief in all circumstances. Failure to qualify as a REIT for even one year could substantially reduce distributions to stockholders and could result in our incurring substantial indebtedness (to the extent borrowings are feasible) or liquidating substantial investments in order to pay the resulting taxes.

State and local taxation. We may be subject to state or local taxation in various state or local jurisdictions, including those in which we transact business or reside. The state and local tax treatment of our Company may not conform to the federal income tax consequences discussed above.

Investor Information

We make available to the public free of charge through our internet website our Annual Report on Form 10 K, Quarterly Reports on Form 10 Q, Current Reports on Form 8 K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such reports with, or furnish such reports to, the Securities and Exchange

Commission (or SEC). Our internet website address is www.LTCreit.com. We are not including the information contained on our website as part of, or incorporating it by reference into, this Annual Report on Form 10 K.

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Posted on our website www.LTCreit.com under the “Corporate Governance” section under the “Investors” heading are our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee Charters, our Corporate Governance Policies, and Code of Business Conduct and Ethics governing our directors, officers and employees. Within the time period required by the SEC and the New York Stock Exchange (or NYSE), we will post on our website any amendment to the Code of Business Conduct and Ethics and any waiver applicable to our Principal Executive Officer, Principal Financial Officer, Principal Accounting Officer or Directors. In addition, our website under the heading “SEC Filings” includes information concerning purchases and sales of our equity securities by our executive officers and directors.

You may read and copy materials that we file with the SEC at the SEC’s Public Reference Room at 100 F Street, N.E., Washington D.C. 20549. Information on the operation of the Public Reference Room is available by calling the SEC at 1 800 SEC 0330. The SEC maintains an Internet site that contains reports, proxy statements and other information we file. The address of the SEC website is www.sec.gov.

You also may contact our Investor Relations Department at:

LTC Properties, Inc.

2829 Townsgate Road, Suite 350

Westlake Village, California 91361

Attn: Investor Relations

(805) 981 8655

Item 1A. RISK FACTORS

This section discusses risk factors that may affect our business, operations, and financial condition. If any of these risks, as well as other risks and uncertainties that we have not yet identified or that we currently think are not material, actually occur, we could be materially adversely affected and the value of our securities could decline. In addition, these risk factors contain “forward looking statements” as discussed above under the heading “Cautionary Statement.” The following information should be read in conjunction with Management’s Discussion and Analysis, and the consolidated financial statements and related notes in this Annual Report on Form 10 K.

A Failure to Maintain or Increase our Dividend Could Reduce the Market Price of Our Stock. The ability to maintain or raise our common dividend is dependent, to a large part, on growth of funds available for distribution. This growth in turn depends upon increased revenues from additional investments and loans, rental increases and mortgage rate increases.

At Times, We May Have Limited Access to Capital Which Will Slow Our Growth. A REIT is required to make dividend distributions and retains little cash flow for growth. As a result, growth for a REIT is generally through the steady investment of new capital in real estate assets. There may be times when we will have limited access to capital from the equity and/or debt markets. During such periods, virtually all of our available capital would be required to meet existing commitments and to reduce existing debt. We may not be able, during such periods, to obtain additional equity and/or debt capital or dispose of assets on favorable terms, if at all, at the time we require additional capital to acquire health care properties on a competitive basis or meet our obligations. At December 31, 2014, we had

$25.2 million of cash on hand and $400.0 million available under our unsecured revolving line of credit. Subsequent to December 31, 2014, we borrowed $18.0 million under our unsecured revolving line of credit. Accordingly, we have $18.0 million outstanding with $382.0 million available for borrowing. Also, we have $775.1 million available under our effective shelf registration to access the capital markets through the issuance of debt and/or equity securities. As a result, we believe our liquidity and various sources of available capital are sufficient to fund operations and development commitments, meet debt service obligations (both principal and interest), make dividend distributions and finance some future investments should we determine such future investments are financially feasible.

Income and Returns from Health Care Facilities Can be Volatile. The possibility that the health care properties in which we invest will not generate income sufficient to meet operating expenses, will generate income and capital appreciation, if any, at rates lower than those anticipated or will yield returns lower than those available through investments in comparable real estate or other investments are additional risks of investing in health care related real estate. Income from properties and yields from investments in such properties may be affected by many factors, including changes in governmental regulation (such as zoning laws and government payment), general or local economic conditions (such as fluctuations in interest rates and employment conditions), the available local supply of and demand for improved real estate, a reduction in rental income as the result of an inability to maintain occupancy levels, natural disasters (such as hurricanes, earthquakes and floods) or similar factors.

We Depend on Lease Income and Mortgage Payments from Real Property. Approximately 99.5% of our revenue for the year ended December 31, 2014, was derived from lease income and mortgage payments from real property. Our revenue would be adversely affected if a significant number of our borrowers or lessees were unable to meet their obligations to us or if we were unable to lease our properties or make mortgage loans on economically favorable terms. There can be no assurance that any lessee will exercise its option to renew its lease upon the expiration of the initial term. There can be no assurance that if such failure to renew were to occur, or if we did not re lease a property to a current lessee, we could lease the property to others on favorable terms, at the same rent as the current rent, or on a timely basis.

We Rely on our Operators. Substantially all of our revenues and sources of cash flows from operations are derived from operating lease rentals and interest earned on outstanding loans receivable. Our investments in mortgage loans and owned properties represent our primary source of liquidity to fund distributions and are dependent upon the performance of the operators on their lease and loan obligations and the rates earned thereon. Our financial position and ability to make distributions may be adversely affected by financial difficulties experienced by any of our lessees or borrowers, including 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.

Our Borrowers and Lessees Face Competition in the Health Care Industry. The long term care industry is highly competitive and we expect that it may become more competitive in the future. Our borrowers and lessees are competing with numerous other companies providing similar long term care services or alternatives such as home health agencies, hospices, life care at home, community-based service programs, retirement communities and convalescent centers. There can be no assurance that our borrowers and lessees will not encounter increased competition in the future which could limit their ability to attract residents or expand their businesses and therefore affect their ability to make their debt or lease payments to us.

The Health Care Industry is Heavily Regulated by the Government. Our borrowers and lessees who operate health care facilities are subject to extensive regulation by federal, state and local governments. These laws and regulations are subject to frequent and substantial changes resulting from legislation, adoption of rules and regulations, and administrative and judicial interpretations of existing law. These changes may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business and the amount of reimbursement by both government and other third-party payors. These changes may be applied retroactively. The ultimate timing or effect of these changes cannot be predicted. The failure of any borrower of funds from us or lessee of any of our properties to comply with such laws, requirements and regulations could affect its ability to operate its facility or facilities and could adversely affect such borrower’s or lessee’s ability to make debt or lease payments to us.

In March 2010, the President signed into law the Patient Protection and Affordable Care Act, which subsequently was amended by the Health Care and Education and Reconciliation Act of 2010 (collectively referred to as the “Affordable Care Act”). The Affordable Care Act is designed to expand access to affordable health insurance, contain health care costs, and institute a variety of health policy reforms. The provisions of the sweeping law may affect us directly, as well as impact our lessees and borrowers. While certain provisions, such as expanding the insured population, may positively impact the revenues of our lessees and borrowers, other provisions, particularly those intended to reduce federal health care spending, could have a negative impact on our lessees and borrowers. Among other things, the Affordable Care Act: reduces Medicare skilled nursing facility reimbursement by a so-called “productivity adjustment” based on economy-wide productivity gains beginning in fiscal year 2012; requires the development of a value-based purchasing program for Medicare skilled nursing facility services; establishes a national voluntary pilot program to bundle Medicare payments for hospital and post-acute services that could lead to changes in the delivery of post-acute services; and provides incentives to state Medicaid programs to promote community-based care as an alternative to institutional long term care services. The Affordable Care Act also includes provisions intended to expand public disclosure about nursing home ownership and operations, institute mandatory compliance and quality assurance programs, increase penalties for noncompliance, and expand fraud and abuse enforcement and penalty provisions that could impact our operators. In addition, the Affordable

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Care Act impacts both us and our lessees and borrowers as employers, including new requirements related to the health insurance we offer to our respective employees. Many aspects of the Affordable Care Act are being implemented through new regulations and subregulatory guidance. We cannot predict at this time what effect, if any, the various provisions of the Affordable Care Act will have on our lessees and borrowers or our business. There can be no assurances, however, that the Affordable Care Act will not adversely impact the operations, cash flows or financial condition of our lessees and borrowers, which subsequently could materially adversely impact our revenue and operations.

Additional reforms affecting the payment for and availability of health care services have been proposed at the state level and adopted by certain states. Congress and state legislatures can be expected to continue to review and assess alternative health care delivery systems and payment methodologies along with other cost-control measures. For instance, under the terms of the Budget Control Act of 2011, as modified by the American Taxpayer Relief Act, President Obama issued a sequestration order on March 1, 2013 that mandates a 2% cut to Medicare payments to providers and health plans. The cuts generally apply to Medicare fee-for-service claims with dates-of-service or dates-of-discharge on or after April 1, 2013. As amended by subsequent legislation, the Medicare sequestration cuts are currently scheduled to be applied through fiscal year 2024, although Congress and the Administration could enact alternative budget legislation at any time that would end or modify sequestration. These and other changes in the law, new interpretations of existing laws, or changes in payment methodologies may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business and the amount of reimbursement by the government and other third party payors.

Federal and State Health Care Cost Containment Measures Including Reductions in Reimbursement From Third Party Payors Such as Medicare and Medicaid Could Adversely Affect Us and The Ability of Our Tenants to Make Payments to Us. The ability of our borrowers and lessees to generate revenue and profit determines the underlying value of that property to us. Revenues of our borrowers and skilled nursing property lessees are generally derived from payments for patient care. Sources of such payments include the federal Medicare program, state Medicaid programs, private insurance carriers, health care service plans, health maintenance organizations, preferred provider arrangements, self-insured employers, as well as the patients themselves.

The health care industry continues to face increased government and private payor pressure on health care providers to control costs. Certain of these initiatives have had the result of limiting Medicare and Medicaid reimbursement for nursing facility services. In particular, the establishment of a Medicare prospective payment system for skilled nursing facility services to replace the cost-based reimbursement system significantly reduced Medicare reimbursement to skilled nursing facility providers. While Congress subsequently took steps to mitigate the impact of the prospective payment system on skilled nursing facilities, other federal legislative and regulatory policies have been adopted and may continue to be proposed that would reduce Medicare and/or Medicaid payments to nursing facilities. Moreover, state budget pressures continue to result in adoption of Medicaid provider payment reductions in some states. No assurances can be given that any additional Medicare or Medicaid legislation or regulatory policies adopted by the federal government or the states would not reduce Medicare or Medicaid reimbursement to nursing facilities or result in additional costs for operators of nursing facilities.

Congress also has given states greater flexibility to expand access to home and community based services as an alternative to nursing facility services. These provisions could further increase state funding for home and community based services, while prompting states to cut funding for nursing facilities and homes for persons with disabilities. In light of continuing state Medicaid program reforms, budget cuts, and regulatory initiatives, no assurance can be given that the implementation of such regulations and reforms will not have a material adverse effect on the financial condition or results of operations of our lessees and/or borrowers which, in turn, could affect their ability to meet their contractual obligations to us.

We Could Incur More Debt. We operate with a policy of incurring debt when, in the opinion of our Board of Directors, it is advisable. We may incur additional debt by borrowing under our unsecured revolving line of credit or the uncommitted private shelf agreement, mortgaging properties we own and/or issuing debt securities in a public offering or in a private transaction. Accordingly, we could become more highly leveraged. The degree of leverage could have important consequences to stockholders, including affecting our ability to obtain, in the future, additional financing for working capital, capital expenditures, acquisitions, development or other general corporate purposes and making us more vulnerable to a downturn in business or the economy generally.

We Could Fail to Collect Amounts Due Under Our Straight line Rent Receivable Asset. Straight line accounting requires us to calculate the total rent we will receive as a fixed amount over the life of the lease and recognize that revenue evenly over that life. In a situation where a lease calls for fixed rental increases during the life of the lease, rental income recorded in the early years of a lease is higher than the actual cash rent received which creates an asset on the consolidated balance sheet called straight line rent receivable. At some point during the lease, depending on the rent levels and terms, this reverses and the cash rent payments received during the later years of the lease are higher than the rental income recognized which reduces the straight line rent receivable balance to zero by the end of the lease. We periodically assess the collectability of the straight line rent receivable. If during our assessment we determined that we were unlikely to collect a portion or the entire straight line rent receivable asset, we may provide a reserve against the previously recognized straight line rent receivable asset for a portion or up to its full value that we estimate may not be recoverable.

Our Assets May be Subject to Impairment Charges. We periodically but not less than quarterly evaluate our real estate investments and other assets for impairment indicators. The judgment regarding the existence of impairment indicators is based on factors such as market conditions, operator performance and legal structure. If we determine that a significant impairment has occurred, we would be required to make an adjustment to the net carrying value of the asset which could have a material adverse affect on our results of operations and a non cash impact on funds from operations in the period in which the write off occurs.

A Failure to Reinvest Cash Available to Us Could Adversely Affect Our Future Revenues and Our Ability to Increase Dividends to Stockholders; There is Considerable Competition in Our Market for Attractive Investments. From time to time, we will have cash available from (1) proceeds of sales of shares of securities, (2) proceeds from new debt issuances, (3) principal payments on our mortgages and other investments, (4) sale of properties, and (5) funds from operations. We may reinvest this cash in health care investments and in accordance with our investment policies, repay outstanding debt or invest in qualified short term or long term investments. We compete for real estate investments with a broad variety of potential investors. The competition for attractive investments negatively affects our ability to make timely investments on acceptable terms. Delays in acquiring properties or making loans will negatively impact revenues and perhaps our ability to increase distributions to our stockholders.

Our Failure to Qualify as a REIT Would Have Serious Adverse Consequences to Our Stockholders. We intend to operate so as to qualify as a REIT under the Code. We believe that we have been organized and have operated in a manner which would allow us to qualify as a REIT under the Code beginning with our taxable year ended December 31, 1992. However, it is possible that we have been organized or have operated in a manner which would not allow us to qualify as a REIT, or that our future operations could cause us to fail to qualify. Qualification as a REIT requires us to satisfy numerous requirements (some on an annual and quarterly basis) established under highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations, and involves the determination of various factual matters and circumstances not entirely within our control. For example, in order to qualify as a REIT, at least 95% of our gross income in any year must be derived from qualifying sources, and we must pay dividends to stockholders aggregating annually at least 90% (95% for taxable years ending prior to January 1, 2001) of our REIT taxable income (determined without regard to the dividends paid deduction and by excluding capital gains). Legislation, new regulations, administrative interpretations or court decisions could significantly change the tax laws with respect to qualification as a REIT or the federal income tax consequences of such qualification.

If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Unless we are entitled to relief under statutory provisions, we would be disqualified from treatment as a REIT for the four taxable years following the year during which we lost qualification. If we lose our REIT status, our net earnings available for investment or distribution to stockholders would be significantly reduced for each of the years involved. In addition, we would no longer be required to make distributions to stockholders.

Provisions in Our Articles of Incorporation May Limit Ownership of Shares of Our Capital Stock. In order for us to qualify as a REIT, no more than 50% in value of the outstanding shares of our stock may be beneficially owned, directly or indirectly, by five or fewer individuals at any time during the last half of each taxable year. To ensure qualification under this test, our Articles of Incorporation provide that, subject to exceptions, no person may beneficially own more than 9.8% of outstanding shares of any class or series of our stock, including our common stock. Our Board of Directors may exempt a person from the 9.8% ownership limit upon such conditions as the Board of Directors may

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direct. However, our Board of Directors may not grant an exemption from the 9.8% ownership limit if it would result in the termination of our status as a REIT. Shares of capital stock in excess of the 9.8% ownership limitation that lack an applicable exemption may lose rights to dividends and voting, and may be subject to redemption. As a result of the limitations on ownership set forth in our Articles of Incorporation, acquisition of any shares of capital stock that would result in our disqualification as a REIT may be limited or void. The 9.8% ownership limitation also may have the effect of delaying, deferring, or preventing a change in control of us, including an extraordinary transaction (such as a merger, tender offer or sale of all or substantially all of our assets) that might provide a premium price for holders of our capital stock.

Our Real Estate Investments are Relatively Illiquid. Real estate investments are relatively illiquid and, therefore, tend to limit our ability to vary our portfolio promptly in response to changes in economic or other conditions. All of our properties are "special purpose" properties that cannot be readily converted to general residential, retail or office use. Health care facilities that participate in Medicare or Medicaid must meet extensive program requirements, including physical plant and operational requirements, which are revised from time to time. Such requirements may include a duty to admit Medicare and Medicaid patients, limiting the ability of the facility to increase its private pay census beyond certain limits. Medicare and Medicaid facilities are regularly inspected to determine compliance, and may be excluded from the programs—in some cases without a prior hearing—for failure to meet program requirements. Transfers of operations of nursing homes and other health care related facilities are subject to regulatory approvals not required for transfers of other types of commercial operations and other types of real estate. Thus, if the operation of any of our properties becomes unprofitable due to competition, age of improvements or other factors such that our lessee or borrower becomes unable to meet its obligations on the lease or mortgage loan, the liquidation value of the property may be substantially less than the net book value or the amount owing on any related mortgage loan, than would be the case if the property were readily adaptable to other uses. The receipt of liquidation proceeds or the replacement of an operator that has defaulted on its lease or loan could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the property or the replacement of the operator with a new operator licensed to manage the facility. In addition, certain significant expenditures associated with real estate investment, such as real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investment. Should such events occur, our income and cash flows from operations would be adversely affected.

Our Remedies May Be Limited When Mortgage Loans Default. To the extent we invest in mortgage loans, such mortgage loans may or may not be recourse obligations of the borrower and generally will not be insured or guaranteed by governmental agencies or otherwise. In the event of a default under such obligations, we may have to foreclose on the property underlying the mortgage or protect our interest by acquiring title to a property and thereafter make substantial improvements or repairs in order to maximize the property's investment potential. Borrowers may contest enforcement of foreclosure or other remedies, seek bankruptcy protection against such enforcement and/or bring claims for lender liability in response to actions to enforce mortgage obligations. If a borrower seeks bankruptcy protection, the Bankruptcy Court may impose an automatic stay that would preclude us from enforcing foreclosure or other remedies against the borrower. Declines in the value of the property may prevent us from realizing an amount equal to our mortgage loan upon foreclosure.

We are Subject to Risks and Liabilities in Connection with Properties Owned Through Limited Liability Companies and Partnerships. In prior years, we had ownership interests in limited liability companies and partnerships. We may make additional investments through these ventures in the future. Partnership or limited liability company investments may involve risks such as the following:

- our partners or co members might become bankrupt (in which event we and any other remaining general partners or members would generally remain liable for the liabilities of the partnership or limited liability company);
- our partners or co members might at any time have economic or other business interests or goals which are inconsistent with our business interests or goals;

- our partners or co members may be in a position to take action contrary to our instructions, requests, policies or objectives, including our policy with respect to maintaining our qualification as a REIT; and

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- agreements governing limited liability companies and partnerships often contain restrictions on the transfer of a member's or partner's interest or "buy sell" or other provisions which may result in a purchase or sale of the interest at a disadvantageous time or on disadvantageous terms.

We will, however, generally seek to maintain sufficient control of our partnerships and limited liability companies to permit us to achieve our business objectives. Our organizational documents do not limit the amount of available funds that we may invest in partnerships or limited liability companies. The occurrence of one or more of the events described above could have a direct and adverse impact on us.

Risks Associated with Property Development that Can Render a Project Less Profitable or Not Profitable, and, Under Certain Circumstances, Prevent Completion of Development Activities Undertaken. Our business includes development of senior housing and long term care properties. We currently have six parcels of land under development. Ground up development presents additional risk, including but not limited to the following:

- a development opportunity may be abandoned after expending significant resources resulting in the loss of deposits or failure to recover expenses already incurred;
- the development and construction costs of a project may exceed original estimates due to increased interest rates and higher materials, transportation, labor, leasing or other costs, which could make completion of the development project less profitable;
- construction and/or permanent financing may not be available on favorable terms or at all;
- the project may not be completed on schedule, which can result in increases in construction costs and debt service expenses as a result of a variety of factors that are beyond our control, including natural disasters, labor conditions, material shortages, regulatory hurdles, civil unrest and acts of war; and
- occupancy rates and rents at a newly completed property may not meet expected levels and could be insufficient to make the property profitable.

These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have a material adverse effect on our business, results of operations and financial condition.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

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Item 2. PROPERTIES

Here and throughout this Form 10 K wherever we provide details of our properties' bed/unit count, the number of beds/units applies to skilled nursing, assisted living, independent living and memory care properties only. This number is based upon unit/bed counts shown on operating licenses provided to us by lessees/borrowers or units/beds as stipulated by lease/mortgage documents. We have found during the years that these numbers often differ, usually not materially, from units/beds in operation at any point in time. The differences are caused by such things as operators converting a patient/resident room for alternative uses, such as offices or storage, or converting a multi patient room/unit into a single patient room/unit. We monitor our properties on a routine basis through site visits and reviews of current licenses. In an instance where such change would cause a de licensing of beds or in our opinion impact the value of the property, we would take action against the lessee/borrower to preserve the value of the property/collateral.

Owned Properties. The following table sets forth certain information regarding our owned properties as of December 31, 2014 (dollars amounts in thousands):

Location	No. of SNFs	No. of ALFs	No. of ROCs	No. of UDPs	No. of Others	No. of Beds/Units	Encumbrances	Remaining Lease Term(1)	Gross Investment
Alabama	2	—	1	—	—	459	$ —	82	$ 18,622
Arizona	5	—	—	—	—	907	—	56	36,091
California	2	2	—	—	—	508	—	71	48,719
Colorado	2	12	1	—	(2) —	920	—	98	109,859
Florida	5	8	—	—	—	961	—	77	71,011
Georgia	2	—	—	—	—	257	—	112	4,860
Illinois	—	—	—	—	(3) —	—	—	—	2,076
Indiana	—	3	—	—	—	140	—	40	9,856
Iowa	6	1	1	—	—	579	—	71	17,422
Kansas	3	5	—	—	—	461	—	92	31,256
Kentucky	1	—	—	—	—	143	—	151	21,716
Michigan	—	—	—	—	— (4)	—	—	—	1,613
Mississippi	—	1	—	—	—	62	—	20	9,430
Nebraska	—	4	—	—	—	157	—	—	9,332
New Jersey	—	4	—	—	1	205	—	133	70,667
New Mexico	7	—	—	—	—	843	—	66	50,622
N. Carolina	—	5	—	—	—	210	—	72	13,096
Ohio	2	11	—	—	—	772	—	96	98,647
Oklahoma	—	6	—	—	—	219	—	72	12,315
Oregon	1	1	—	—	—	135	—	12	6,828
Pennsylvania	—	3	—	—	—	199	—	63	18,040
S. Carolina	—	3	2	—	—	339	—	73	19,800
Tennessee	2	—	—	—	—	141	—	108	5,236
Texas	24	15	1	—	—	4,251	—	105	225,647
Virginia	3	—	1	—	—	500	—	101	29,052
Washington	1	—	—	—	—	123	—	19	8,025
TOTAL	68	84	7	—	1	13,491	$ —	90	$ 949,838

(1) Weighted average remaining months in lease term as of December 31, 2014.
(2) Includes a MC developments with 60 units.
(3) Includes a MC development with 66 units.
(4) Includes five parcels of land held for use.

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The following table sets forth certain information regarding our lease expirations for our owned properties as of December 31, 2014 (dollars amounts in thousands):

Year	No. of SNFs	No. of ALFs	No. of ROCs	No. of Others	No. of Beds/Units	No. of Operators	Annualized Rental Income(1)	% of Annualized Rental Income Expiring	
2015	—	—	—	—	—	—	—	—	%
2016	4	4	—	—	675	4	3,097	3.0	%
2017	1	—	—	1	60	2	1,653	1.6	%
2018	4	9	1	—	1,296	5	10,665	10.4	%
2019	3	—	—	—	613	1	1,596	1.5	%
2020	1	35	—	—	1,639	2	13,631	13.2	%
2021	30	4	4	—	4,232	4	18,365	17.8	%
2022	1	—	—	—	121	1	626	0.6	%
2023	8	1	1	—	1,163	3	9,345	9.1	%
2024	2	12	1	—	1,034	5	7,996	7.8	%
Thereafter	14	18	—	—	2,622	5	36,028	35.0	%
TOTAL	68	83 (2)	7	1	13,455	30 (3)	$ 103,002	100.0	%

(1) Annualized rental income is the total rent, excluding amortization of lease inducement, over the life of the lease recognized evenly over that lease term as of December 31, 2014 and was adjusted for the re-leasing of 20 assisted living properties formerly co-leased by affiliates of Extendicare, Inc. and Enlivant which is effective January 1, 2015. See Item 8. FINANCIAL STATEMENTS—NOTE 3. Major Operators for further discussion of the transactions relating to the properties formerly co-leased to affiliates of Extendicare, Inc. and Enlivant.

(2) Excludes a closed assisted living property. See Item 8. FINANCIAL STATEMENTS—NOTE 3. Major Operators for further discussion of the transactions relating to this property formerly co-leased to affiliates of Extendicare, Inc. and Enlivant.

(3) We have a total of 30 operators. Two of our operators are parties to multiple leases with dissimilar expirations; therefore, the sum of the number of operators by maturity does not equal our total number of operators.

Mortgage Loans. The following table sets forth certain information regarding our mortgage loans as of December 31, 2014 (dollars amounts in thousands):

ocation	No. of SNFs	No. of ALFs	No. of ROCs	No. of Beds/ Units	Interest Rate	Average Months to Maturity	Original Face Amount of Mortgage Loans	Gross Investment	Current Annual D Service(1
rizona	—	1	—	100	7.00%	55	$ 3,027	$ 3,016	$ 242
alifornia	—	—	1	173	11.63%	3	4,700	2,311	583
ichigan	15	—	—	2,058	9.53%	346	124,387	127,725	12,079
issouri	2	—	—	190	10.88%-11.35%	37	3,000	3,051	657
ennsylvania	—	1	—	70	7.11%	24	5,100	5,100	367
exas	9	6	—	1,208	10.40%-13.70%	36	22,715	13,892	2,869

tah	1	—	—	84	10.75%	59	1,400	1,237	171
ashington	1	—	—	104	13.75%	22	1,700	397	237
isconsin	1	—	—	106	10.08%	95	10,600	10,600	1,083
OTAL	29	8	1	4,093		276	$ 176,629	$ 167,329	$ 18,288

(1) Includes principal and interest payments.

Item 3. LEGAL PROCEEDINGS

We are and may become from time to time a party to various claims and lawsuits arising in the ordinary course of our business, which in our opinion are not singularly or in the aggregate anticipated to be material to our results of operations or financial condition. Claims and lawsuits may include matters involving general or professional liability

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asserted against the lessees or borrowers of our properties, which we believe under applicable legal principles are not our responsibility as a non possessory landlord or mortgage holder. We believe that these matters are the responsibility of our lessees and borrowers pursuant to general legal principles and pursuant to insurance and indemnification provisions in the applicable leases or mortgages. We intend to continue to vigorously defend such claims and lawsuits.

Item 4. MINE SAFETY DISCLOSURES

Not applicable

PART II

Item 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed on the NYSE under the symbol "LTC". Set forth below are the high and low reported sale prices for our common stock as reported on the NYSE for each of the periods indicated.

	2014		2013	
	High	Low	High	Low
First quarter	$ 39.31	$ 34.77	$ 40.80	$ 35.58
Second quarter	$ 41.07	$ 36.46	$ 48.69	$ 36.12
Third quarter	$ 41.25	$ 36.77	$ 41.84	$ 34.30
Fourth quarter	$ 44.49	$ 36.75	$ 40.68	$ 34.88

Holders of Record

As of December 31, 2014 we had approximately 262 stockholders of record of our common stock.

Dividend Information

We declared and paid total cash distributions on common stock as set forth below:

	Declared		Paid	
	2014	2013	2014	2013
First quarter	$ 0.510	$ 0.465	$ 0.510	$ 0.465
Second quarter	$ 0.510	$ 0.465	$ 0.510	$ 0.465
Third quarter	$ 0.510	$ 0.465	$ 0.510	$ 0.465
Fourth quarter	$ 0.510	$ 0.510	$ 0.510	$ 0.510
	$ 2.040	$ 1.905	$ 2.040	$ 1.905

We intend to distribute to our stockholders an amount at least sufficient to satisfy the distribution requirements of a REIT. Cash flows from operating activities available for distribution to stockholders will be derived primarily from interest and rental payments from our real estate investments. All distributions will be made subject to approval of our

Board of Directors and will depend on our earnings, our financial condition and such other factors as our Board of Directors deem relevant. In order to qualify for the beneficial tax treatment accorded to REITs by Sections 856 through 860 of the Internal Revenue Code, we are required to make distributions to holders of our shares equal to at least 90% of our REIT taxable income. (See "Annual Distribution Requirements".)

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Issuer Purchases of Equity Securities

The number of shares of our Common Stock purchased and the average prices paid per share for each month in the quarter ended December 31, 2014 are as follows:

Period	Total Number of Shares Purchased(1)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan(2)	Maximum Number of Shares that May Yet Be Purchased Under the Plan
October 1 - October 31, 2014	—	$ —	—	—
November 1 - November 30, 2014	—	$ —	—	—
December 1 - December 31, 2014	5,124	$ 41.28	—	—
Total	5,124		—	

(1) During the three months ended December 31, 2014, we acquired shares of common stock held by employees who tendered owned shares to satisfy tax withholding obligations.
(2) No shares were purchased as part of publicly announced plans or programs.

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Stock Performance Graph

The National Association of Real Estate Investment Trusts (or NAREIT), an organization representing U.S. REITs and publicly traded real estate companies, classifies a company with 75% or more of assets directly or indirectly in the equity ownership of real estate as an equity REIT. In 2013, our equity ownership of real estate assets was more than 75%.

This graph compares the cumulative total stockholder return on our common stock from December 31, 2009 to December 31, 2014 with the cumulative stockholder total return of (1) the Standard & Poor's 500 Stock Index and (2) the NAREIT Equity REIT Index. The comparison assumes $100 was invested on December 31, 2009 in our common stock and in each of the foregoing indices and assumes the reinvestment of dividends.

	Period Ending					
Index	12/31/09	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
LTC Properties, Inc.	100.00	111.45	130.15	156.72	165.44	212.64
NAREIT Equity	100.00	127.96	138.57	163.60	167.63	218.16
S&P 500	100.00	115.06	117.49	136.30	180.44	205.14

The stock performance depicted in the above graph is not necessarily indicative of future performance.

The stock performance graph shall not be deemed incorporated by reference into any filing by us under the Securities Act of 1933 or the Securities Exchange Act of 1934 except to the extent that we specifically incorporate such information by reference, and shall not otherwise be deemed filed under such Acts.

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Item 6. SELECTED FINANCIAL DATA

The following table of selected financial information should be read in conjunction with our financial statements and related notes thereto included elsewhere in this Annual Report on Form 10 K.

	2014	2013	2012	2011	2010
	(In thousands, except per share amounts)				
Operating information:					
Total revenues	$ 118,961	$ 104,974	$ 92,482	$ 83,618	$ 72,740
Income from continuing operations	73,399	55,405	50,306	48,620	44,851
Income allocated to non-controlling interests(1)	—	—	37	191	191
Income allocated to participating securities	481	383	377	342	230
Income allocated to preferred stockholders(2)	3,273	3,273	3,273	9,078	16,045
Net income available to common stockholders	69,645	54,159	47,640	39,832	29,587
Per share information:					
Net income per common share from continuing operations available to common stockholders:					
Basic	$ 2.01	$ 1.56	$ 1.54	$ 1.34	$ 1.16
Diluted	$ 1.99	$ 1.56	$ 1.54	$ 1.33	$ 1.16
Net income per common share available to common stockholders:					
Basic	$ 2.01	$ 1.64	$ 1.58	$ 1.36	$ 1.21
Diluted	$ 1.99	$ 1.63	$ 1.57	$ 1.36	$ 1.21
Common stock distributions declared	$ 2.04	$ 1.91	$ 1.79	$ 1.68	$ 1.58
Common stock distributions paid	$ 2.04	$ 1.91	$ 1.79	$ 1.68	$ 1.58
Balance sheet information:					
Total assets	$ 965,819	$ 931,410	$ 789,592	$ 647,097	$ 561,264
Total debt(3)	281,633	278,835	303,935 (4)	159,200 (4)	91,430

(1) During 2012, our limited partners exercised their rights to convert all of their 112,588 partnership units. As a result, we subsequently terminated the limited partnership.

(2) Income allocated to preferred stockholders includes the following (dollar amounts in thousands):

	2014	2013	2012	2011	2010
Preferred stock dividends	$ 3,273	$ 3,273	$ 3,273	$ 5,512	$ 13,662
Preferred stock redemption charge	—	—	—	3,566	2,383
Total income allocated to preferred stockholders	$ 3,273	$ 3,273	$ 3,273	$ 9,078	$ 16,045

(3) Includes bank borrowings, senior unsecured notes, mortgage loans payable and bonds payable.
(4) Increase primarily due to the sale of senior unsecured term notes.

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Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Overview

Business

We are a self administered health care real estate investment trust (or REIT) that invests 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. In 2014, senior housing and long term care properties, which include skilled nursing properties (or SNF), assisted living properties (or ALF), independent living properties (or ILF), memory care properties (or MC) and combinations thereof comprised approximately 99.0% of our investment portfolio. The following table summarizes our real estate investment portfolio as of December 31, 2014 (dollar amounts in thousands):

			Twelve Months Ended December 31, 2014					
e of Property	Gross Investments	Percentage of Investments	Rental Income(1)	Interest Income(2)	Percentage of Revenues	Number of Properties(3)	Number of SNF Beds(4)	ALF Units(4
led Nursing	$ 633,052	56.7 %	$ 52,259	$ 14,595	59.4 %	97	12,057	—
isted Living	415,520	37.2 %	37,847	985	34.5 %	92	—	4,446
ge of Care	46,217	4.1 %	5,332	282	5.0 %	8	733	348
er elopment(5)	11,495	1.0 %	—	—	— %	—	—	—
er(6)	10,883	1.0 %	1,294	—	1.1 %	1	—	—
ls	$ 1,117,167	100.0 %	$ 96,732	$ 15,862	100.0 %	198	12,790	4,794

(1) Excludes rental income from properties sold during 2014.
(2) Excludes interest income from mortgage loans paid off during 2014.
(3) We have investments in 29 states leased or mortgaged to 37 different operators.
(4) See Item 2. Properties for discussion of bed/unit count.
(5) Includes two MC developments with a total of 126 units.
(6) Includes one school and five parcels of land held for use.

As of December 31, 2014 we had $892.2 million in carrying value of net real estate investment, consisting of $726.5 million or 81.4% invested in owned and leased properties and $165.7 million or 18.6% invested in mortgage loans secured by first mortgages.

For the year ended December 31, 2014, rental income and interest income from mortgage loans represented 85.6% and 13.9%, respectively, of total gross revenues. In most instances, our lease structure contains fixed or estimable annual rental escalations, which are generally recognized on a straight line basis over the minimum lease period. Certain leases have annual rental escalations that are contingent upon changes in the Consumer Price Index and/or changes in the gross operating revenues of the property. This revenue is not recognized until the appropriate contingencies have been resolved. For the years ended December 31, 2014, we recognized $3.0 million in straight line rental income and recorded $30,000 of straight line rent receivable reserve. Our lease with affiliates of Extendicare, Inc. (or Extendicare) and Enlivant covering 37 assisted living properties expired on December 31, 2014. Effective

January 1, 2015, we re-leased 20 of the 37 properties by adding 13 properties to an existing master lease and entering into a new master lease for seven of the properties. See Investing Activities below for further discussion of the transactions relating to the properties formerly co-leased to affiliates of Extendicare and Enlivant. For the remaining leases in place at December 31, 2014, including the new leases effective January 1, 2015 for the 20 properties formerly co-leased by Extendicare and Enlivant, and assuming no modification or replacement of existing leases and no new leased investments are added to our portfolio, we currently expect that straight line rental income will increase from $3.0 million in 2014 to $6.9 million for projected annual 2015 primarily due to the new leases effective January 1, 2015 for the 20 properties, as previously discussed, and completed development projects. Conversely, our cash rental income is projected to decrease from $99.7 million in 2014 to $98.1 million for projected annual 2015 primarily due to the sale of 16 properties to Enlivant partially offset by completed development projects. During the year ended December 31, 2014, we received

$99.7 million of cash rental revenue and recorded $0.8 million of lease inducement. At December 31, 2014, the straight line rent receivable balance, net of reserves, on the consolidated balance sheet was $32.7 million.

Many of our existing leases contain renewal options that, if exercised, could result in the amount of rent payable upon renewal being greater or less than that currently being paid. For the year ended December 31, 2014, we materially amended two existing master leases and entered into one new master lease. One existing master lease was amended for the sole purpose of adding a newly acquired 48-unit assisted living property and incorporating the related economics (see Key Transactions below for further information regarding the acquisition). Another existing master lease was amended and restated to facilitate its combination with an existing individual lease, extend the lease term by approximately 10 years, and re-set the rent resulting in a 29% increase in the aggregate rent payable under the previous leases. Finally, we transitioned four non-stabilized, underperforming assisted living properties to a new lessee and entered into a new master lease for a term of two years at rent representing a decrease of approximately 61% from that rent payable under the prior master lease (which decrease may be partially mitigated by percentage rent derived from increased revenues at the properties). At the expiration of the 2-year term, the rent for these properties will be adjusted to their then current market rates.

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. 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 opportunistically consider investments in health care facilities in related businesses where the business model is similar to our existing model and the opportunity provides an attractive expected return. Consistent with this strategy, we pursue, from time to time, opportunities for potential acquisitions and investments, with due diligence and negotiations often at different stages of development at any particular time.

- With respect to skilled nursing properties, we attempt to invest in properties that do not have to rely on a high percentage of private pay patients. We prefer to invest in a property that has significant market presence in its community and where state certificate of need and/or licensing procedures limit the entry of competing properties.
- For assisted living and independent living investments we have attempted to diversify our portfolio both geographically and across product levels.
- Memory care facilities offer specialized options for seniors with Alzheimer's disease and other forms of dementia. Purpose built, free standing memory care facilities offer an attractive alternative for private pay residents affected by memory loss in comparison to other accommodations that typically have been provided within a secured unit of an assisted living or skilled nursing facility. These facilities offer dedicated care and specialized programming for various conditions relating to memory loss in a secured environment that is typically smaller in scale and more residential in nature than traditional assisted living facilities. Residents require a higher level of care and more assistance with activities of daily living than in assisted living facilities. Therefore, these facilities have staff available 24 hours a day to respond to the unique needs of their residents.

Substantially all of our revenues and sources of cash flows from operations are derived from operating lease rentals and interest earned on outstanding loans receivable. Our investments in owned properties and mortgage loans represent our primary source of liquidity to fund distributions and are dependent upon the performance of the operators on their lease and loan obligations and the rates earned thereon. To the extent that the operators experience operating difficulties and are unable to generate sufficient cash to make payments to us, there could be a material adverse impact on our consolidated results of operations, liquidity and/or financial condition. To mitigate this risk, we monitor our investments through a variety of methods determined by the type of health care facility and operator. Our monitoring process includes periodic review of financial statements for each facility, periodic review of operator credit, scheduled property inspections and review of covenant compliance.

In addition to our monitoring and research efforts, we also structure our investments to help mitigate payment risk. Some operating leases and loans are credit enhanced by guaranties and/or letters of credit. In addition, operating

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leases are typically structured as master leases and loans are generally cross defaulted and cross collateralized with other loans, operating leases or agreements between us and the operator and its affiliates.

Depending upon the availability and cost of external capital, we anticipate making additional investments in health care related properties. New investments are generally funded from cash on hand, temporary borrowings under our unsecured revolving line of credit and internally generated cash flows. Our investments generate internal cash from rent and interest receipts and principal payments on mortgage loans receivable. Permanent financing for future investments, which replaces funds drawn under our unsecured revolving line of credit, is expected to be provided through a combination of public and private offerings of debt and equity securities and secured and unsecured debt financing. The timing, source and amount of cash flows provided by financing activities and used in investing activities are sensitive to the capital markets environment, especially to changes in interest rates. Changes in the capital markets' environment may impact the availability of cost effective capital.

We believe our business model has enabled and will continue to enable us to maintain the integrity of our property investments, including in response to financial difficulties that may be experienced by operators. Traditionally, we have taken a conservative approach to managing our business, choosing to maintain liquidity and exercise patience until favorable investment opportunities arise.

At December 31, 2014, we had $25.2 million of cash on hand and $400.0 million available under our unsecured revolving line of credit. Subsequent to December 31, 2014, we borrowed $18.0 million under our unsecured revolving line of credit. Accordingly, we have $18.0 million outstanding with $382.0 million available for borrowing. Also, we have $775.1 million available under our effective shelf registration to access the capital markets through the issuance of debt and/or equity securities. As a result, we believe our liquidity and various sources of available capital are sufficient to fund operations and development commitments, meet debt service obligations (both principal and interest), make dividend distributions and finance some future investments should we determine such future investments are financially feasible.

Key Transactions

Extendicare, Inc. and Enlivant. Our master lease with affiliates of Extendicare, Inc. (or Extendicare) and Enlivant (formerly known as Assisted Living Concepts, Inc.) covering 37 assisted living properties with a total of 1,429 units expired on December 31, 2014. For the year ended December 31, 2014, this portfolio generated approximately $11.0 million or 9.3% of our combined rental revenue and interest income from mortgage loans. During the fourth quarter of 2014, we entered into three agreements relating to the 37 assisted living properties as follows:

- We sold 16 properties, consisting of 615 units located in Washington, Oregon, Idaho and Arizona to an affiliate of Enlivant for a sales price of $26.5 million. Accordingly, we recognized a gain on sale of $3.8 million. We also gave Enlivant consent to close a property located in Oregon. We are currently exploring sale and lease options for this property which has a net book value of $0.9 million.
- We added 13 properties with 500 units in Indiana, Iowa, Ohio, Nebraska and New Jersey to an existing master lease with an affiliate of Senior Lifestyle Management (or Senior Lifestyle). Beginning January 1, 2015, the initial term of the amended and restated master lease will be 15 years and rent will increase by $5.1 million over the current annual rent, increasing by 2.6% annually thereafter.
- We re-leased seven properties with 278 units in Texas to Veritas InCare (or Veritas) under a new 10-year master lease. Beginning January 1, 2015, the initial rent will be $1.5 million increasing 2.5% annually.

Extendicare and Enlivant paid rent in accordance with the terms of the current master leases through December 31, 2014. The initial cash yield on the 20 properties re-leased to Senior Lifestyle and Veritas is comparable to the cash yield in 2014 under the expiring master leases with Extendicare and Enlivant. Additionally, the new and amended master leases will provide us with the potential for additional rent attributable to participation in revenue growth at the properties over a predetermined base amount.

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Owned Properties. During 2014, we acquired a 48-unit assisted living property located in Colorado for $9.8 million and recorded $0.1 million in transaction costs. The property was added to an existing master lease at an incremental initial cash yield of 6.5% and we provided the lessee with contingent earn-out payments as a lease inducement. The contingent earn-out payments require us to pay two earn-out payments totaling up to $4.0 million upon the property achieving a sustainable stipulated rent coverage ratio. We estimated the fair value of the contingent earn-out payments using a discounted cash flow analysis and recorded the estimated fair value of $3.2 million as a lease inducement which is amortized as a yield adjustment over the life of the lease and a contingent earn-out liability which is accreted to the settlement amount as of the estimated payment date. See Investing Activities below for further discussion on the accounting treatment of the contingent earn-out liability.

During 2014, we purchased a vacant parcel of land in Illinois for $1.4 million under a development pipeline agreement whereby we have the opportunity to finance any senior housing development project or acquisition originated by an operator. The land was added to an existing master lease and we entered into development commitments in an amount not to exceed $12.2 million, including the land purchase, to fund the construction of a 66-unit memory care property.

Also, in 2014, we completed the development of three assisted living properties with a total of 188 units and a 143-bed skilled nursing property for a total cost of $45.0 million. Additionally, we completed the expansion and renovation of three existing assisted living properties with a total of 195 units for an aggregate cost of $11.5 million.

During 2014, we sold two assisted living properties located in Florida and Georgia with a total of 133 units, a school located in Minnesota, and a closed skilled nursing property for a combined sales price of $8.1 million, resulting in net sales proceeds of $7.9 million and net gain on sale of $1.1 million.

Mortgage Loans. During 2014, we originated a $3.0 million mortgage loan secured by a 100-unit independent living property in Arizona. The loan is for a term of five years and bears interest at 7.0%, escalating 0.25% annually. Additionally, we funded $3.0 million which represents the final funding on a $10.6 million mortgage and construction loan secured by an existing skilled nursing property and a newly constructed 106-bed replacement skilled nursing property. Upon completion of construction, the residents were relocated from the old skilled nursing property to the new replacement skilled nursing property and the old skilled nursing property was closed. The old skilled nursing property was sold by the borrower and released as collateral. Subsequent to December 31, 2014, we purchased and equipped the replacement property for a total of $13.9 million by exercising our right under the agreement. 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 of purchase. Additionally, we paid the lessee a $1.1 million lease inducement which will be amortized as a yield adjustment over the life of the lease term.

Bank Borrowings. During 2014, we amended our unsecured revolving line of credit increasing the commitment to $400.0 million with the opportunity to increase the credit amount up to a total of $600.0 million. The amended unsecured revolving line of credit decreased our drawn pricing by 25 basis points and the maturity was extended to October 14, 2018. Additionally, the amendment provides for a one-year extension.

Senior Unsecured Notes. During 2014, we sold $30.0 million aggregate principal amount of 4.5% senior unsecured notes due July 31, 2026 to affiliates and managed accounts of Prudential Investment Management, Inc. The notes mature in 12 years with interest only payments in the first eight years and annual principal amortization thereafter. We used a portion of the proceeds to pay down our unsecured revolving line of credit.

Equity. During 2014, we sold 600,000 shares of common stock at a price of $41.50 per share in a direct placement to certain institutional investors. The net proceeds of $24.6 million were used to pay down amounts outstanding under our unsecured revolving line of credit, to fund our current development commitments and for general corporate purposes.

Key Performance Indicators, Trends and Uncertainties

We utilize several key performance indicators to evaluate the various aspects of our business. These indicators are discussed below and relate to concentration risk and credit strength. Management uses these key performance

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indicators to facilitate internal and external comparisons to our historical operating results in making operating decisions and for budget planning purposes.

Concentration Risk. We evaluate by gross investment our concentration risk in terms of asset mix, investment mix, operator mix and geographic mix. Concentration risk is valuable to understand what portion of our investments could be at risk if certain sectors were to experience downturns. Asset mix measures the portion of our investments that are real property or mortgage loans. In order to qualify as an equity REIT, at least 75 percent of our total assets must be represented by real estate assets, cash, cash items and government securities. Investment mix measures the portion of our investments that relate to our various property types. Operator mix measures the portion of our investments that relate to our top five operators. Geographic mix measures the portion of our investment that relate to our top five states.

The following table reflects our recent historical trends of concentration risk (gross investment, in thousands):

	Period Ended				
	12/31/2014	9/30/2014	6/30/2014	3/31/2014	12/31/2013
Asset mix:					
Real property	$ 949,838	$ 966,012	$ 956,516	$ 951,491	$ 937,617
Loans receivable	167,329	173,051	169,766	169,163	167,115
Investment mix:					
Skilled nursing properties(1)	$ 633,052	$ 632,547	$ 629,228	$ 625,831	$ 621,791
Assisted living properties(1)	415,520	442,538	435,406	431,567	420,385
Range of care properties	46,217	46,293	46,367	46,439	46,509
Under development(1)	11,495	6,802	4,848	3,210	2,440
Other(2)	10,883	10,883	10,433	13,607	13,607
Operator mix:					
Prestige Healthcare	$ 141,527	$ 139,702	$ 138,437	$ 137,739	$ 137,739
Brookdale Communities(3)	123,984	123,229	123,172	119,160	112,290
Senior Care Centers, LLC	115,039	114,539	114,539	114,539	114,539
Juniper Communities, LLC	87,088	87,088	87,088	87,088	87,088
Extendicare, Inc. & Enlivant(4)	48,977	88,034	88,034	88,034	88,034
Remaining operators	600,552	586,471	575,012	574,094	565,042
Geographic mix:					
Texas	$ 239,539	$ 239,926	$ 239,809	$ 239,158	$ 238,750
Michigan	129,338	127,513	126,247	125,550	125,550
Colorado	109,859	94,598	89,019	78,258	67,416
Ohio	98,647	98,647	98,647	98,647	98,647
Florida	71,011	77,665	77,555	82,046	82,079
Remaining states(4)	468,773	500,714	495,005	496,995	492,290

(1) During 2014, we completed the construction of a 60 unit memory care property, a 48-unit memory care property, a 143 bed skilled nursing property and a combination assisted living and memory care property with 80 units. Accordingly, these properties were reclassified from “Under development” to either “Skilled nursing property” or “Assisted living property,” depending on the property type, for all periods presented.

(2) Includes a school and five parcels of land held for use.

(3)

In July 2014, Brookdale Senior Living, Inc., parent company of Brookdale Senior Living Communities, Inc. (or Brookdale Communities) merged with Emeritus Corporation (or Emeritus). Prior to the merger, Emeritus operated two assisted living properties under a master lease. These properties were reclassified into Brookdale Communities for all periods presented.

(4) In December 2014, we sold 16 assisted living properties with a gross investment of $39,056 to an affiliate of Enlivant. These properties were located in Arizona, Idaho, Oregon and Washington. During 2014, we re-leased 20 assisted living properties, effective January 1, 2015, and closed an assisted living property formerly co-leased to affiliates of Extendicare, Inc. and Enlivant. See Investing Activities below for further discussion of the transactions relating to the properties formerly co-leased to affiliates of Extendicare, Inc. and Enlivant.

Credit Strength. We measure our credit strength both in terms of leverage ratios and coverage ratios. Our leverage ratios include debt to gross asset value and debt to market capitalization. The leverage ratios indicate how much

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of our consolidated balance sheet capitalization is related to long term obligations. Our coverage ratios include interest coverage ratio and fixed charge coverage ratio. The coverage ratios indicate our ability to service interest and fixed charges (interest plus preferred dividends). The coverage ratios are based on adjusted earnings before gain on sale of real estate, interest, taxes, depreciation and amortization (or Adjusted EBITDA). Leverage ratios and coverage ratios are widely used by investors, analysts and rating agencies in the valuation, comparison, rating and investment recommendations of companies. The following table reflects the recent historical trends for our credit strength measures:

Balance Sheet Metrics

	Year Ended	Quarter Ended				
	12/31/14	12/31/14	9/30/14	6/30/14	3/31/14	12/31/13
Debt to gross asset value	23.7 %	23.7 % (1)	25.5 %	25.1 %	25.2 % (5)	24.2 %
Debt & preferred stock to gross asset value	26.9 %	26.9 % (1)	28.7 %	28.4 %	28.5 % (5)	27.6 %
Debt to market capitalization ratio	15.2 %	15.2 % (2)	18.6 % (4)	17.4 %	17.9 %	18.0 %
Debt & preferred stock to market capitalization ratio	17.3 %	17.3 % (2)	21.0 % (4)	19.7 %	20.2 %	20.5 %
Interest coverage ratio(6)	7.3 x	6.9 x (3)	7.3 x	7.5 x	7.6 x	7.7 x
Fixed charge coverage ratio(6)	6.0 x	5.7 x (3)	6.0 x	6.1 x	6.1 x	6.1 x

	Year Ended	Quarter Ended				
	12/31/14	12/31/14	9/30/14	6/30/14	3/31/14	12/31/13
Net income	$ 73,399	$ 21,000	$ 17,122	$ 18,273	$ 17,004	$ 14,650
Less: Gain on sale	(4,959)	(3,819)	—	(1,140)	—	—
Add: Interest expense	13,128	3,683	3,170	3,088	3,187	2,852
Add: Depreciation and amortization—continuing & discontinued operations	25,529	6,594	6,335	6,302	6,298	6,237
Total adjusted EBITDA	$ 107,097	$ 27,458	$ 26,627	$ 26,523	$ 26,489	$ 23,739
Interest expense	$ 13,128	$ 3,683	$ 3,170	$ 3,088	$ 3,187	$ 2,852
Add: Capitalized interest	1,506	290	474	435	307	214
Interest incurred	$ 14,634	$ 3,973	$ 3,644	$ 3,523	$ 3,494	$ 3,066
Interest coverage ratio	7.3 x	6.9 x	7.3 x	7.5 x	7.6 x	7.7 x
Interest incurred	$ 14,634	$ 3,973	$ 3,644	$ 3,523	$ 3,494	$ 3,066
Preferred stock dividends (excludes preferred stock redemption charge)	3,273	819	818	818	818	819
Total fixed charges	$ 17,907	$ 4,792	$ 4,462	$ 4,341	$ 4,312	$ 3,885
Fixed charge coverage ratio	6.0 x	5.7 x	6.0 x	6.1 x	6.1 x	6.1 x

(1) Decrease primarily due to debt pay down from proceeds from the sale of 16 properties to Enlivant and proceeds from the sale of 600,000 shares of common stock in a registered direct placement partially offset by a decrease in gross asset value related to the sale of properties.

(2) Decrease primarily due to the decrease in outstanding debt and the increase in market capitalization resulting from the sale of 600,000 shares of common stock in a registered direct placement and increase in stock price.

(3) Decrease primarily due to increase in interest expense resulting from the sale of senior unsecured notes and increased availability under our expanded unsecured revolving line of credit.

(4) Increase primarily due to sale of senior unsecured notes and decrease in market capitalization due to decrease in stock price.

(5) Increase primarily due to increased borrowings under our unsecured revolving line of credit partially offset by the increase in gross asset value from additional development and capital improvement funding.

In calculating our interest coverage and fixed charge coverage ratios above, we use Adjusted EBITDA, which is a financial measure not derived in accordance with U.S. generally accepted accounting principles (non GAAP financial measure). Adjusted EBITDA is not an alternative to net income, operating income, income from continuing operations or cash flows from operating activities as calculated and presented in accordance with U.S. GAAP. You should not rely on Adjusted EBITDA as a substitute or any such U.S. GAAP financial measures or consider it in isolation, for the purpose of analyzing our financial performance, financial position or cash flows. Net income is the most directly comparable GAAP measure to Adjusted EBITDA.

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We evaluate our key performance indicators in conjunction with current expectations to determine if historical trends are indicative of future results. Our expected results may not be achieved and actual results may differ materially from our expectations. This may be a result of various factors, including, but not limited to

- The status of the economy;
- The status of capital markets, including prevailing interest rates;
- Compliance with and changes to regulations and payment policies within the health care industry;
- Changes in financing terms;
- Competition within the health care and senior housing industries; and
- Changes in federal, state and local legislation.

Management regularly monitors the economic and other factors listed above. We develop strategic and tactical plans designed to improve performance and maximize our competitive position. Our ability to achieve our financial objectives is dependent upon our ability to effectively execute these plans and to appropriately respond to emerging economic and company specific trends.

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Operating Results

Year ended December 31, 2014 compared to year ended December 31, 2013 (in thousands)

	Years ended December 31,			
	2014	2013	Difference	
Revenues:				
Rental income	$ 101,849	$ 98,166	$ 3,683	(1)
Interest income from mortgage loans	16,553	6,298	10,255	(2)
Interest and other income	559	510	49	
Total revenues	118,961	104,974	13,987	
Expenses:				
Interest expense	13,128	11,364	1,764	(3)
Depreciation and amortization	25,529	24,389	1,140	(1)
Provision for doubtful accounts	32	2,180	(2,148)	(4)
General and administrative expenses	11,832	11,636	196	
Total expenses	50,521	49,569	952	
Operating income	68,440	55,405	13,035	
Gain on sale of real estate, net	4,959	—	4,959	(5)
Income from continuing operations	73,399	55,405	17,994	
Discontinued operations:				
Income from discontinued operations	—	805	(805)	(6)
Gain on sale of real estate, net	—	1,605	(1,605)	(6)
Net income from discontinued operations	—	2,410	(2,410)	
Net income	73,399	57,815	15,584	
Income allocated to participating securities	(481)	(383)	(98)	
Income allocated to preferred stockholders	(3,273)	(3,273)	—	
Net income available to common stockholders	$ 69,645	$ 54,159	$ 15,486	

(1) Increased due to acquisitions, developments and capital improvement investments.

(2) Increased primarily due to mortgage loan originations and capital improvement funding under certain mortgage loans partially offset by payoffs and normal amortization of mortgage loans.

(3) Increased primarily due to the sale of senior unsecured notes.

(4) During 2013, we recorded a one-time mortgage loan loss reserve related to a mortgage loan origination and wrote off $869 of straight-line rent receivable related to the transition of four assisted living properties to a new lessee.

(5) Represents the gain on sale of two assisted living properties and the gain on sale of 16 assisted living properties sold to an affiliate of Enlivant partially offset by the loss on sale of a school. See Investing Activities below for further discussion of the transactions relating to the properties formerly co-leased to affiliates of Extendicare, Inc. and Enlivant. During 2014, we adopted a new accounting principle which only requires the presentation of discontinued operations if a disposal represents a strategic shift in operations. The new accounting principle is applied prospectively to all disposals subsequent to the adoption. The 2014 disposals did not represent strategic shifts in our operations. As a result, we did not reclassify results of operations for these disposed properties.

(6) Represents the net gain on sale of seven skilled nursing properties and the corresponding net results of operations from those sold properties.

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Year ended December 31, 2013 compared to year ended December 31, 2012 (in thousands)

	Years ended December 31, 2013	2012	Difference	
Revenues:				
Rental income	$ 98,166	$ 86,022	$ 12,144	(1)
Interest income from mortgage loans	6,298	5,496	802	(2)
Interest and other income	510	964	(454)	(3)
Total revenues	104,974	92,482	12,492	
Expenses:				
Interest expense	11,364	9,932	1,432	(4)
Depreciation and amortization	24,389	21,613	2,776	(5)
Provision (recovery) for doubtful accounts	2,180	(101)	2,281	(6)
General and administrative expenses	11,636	10,732	904	(7)
Total expenses	49,569	42,176	7,393	
Income from continuing operations	55,405	50,306	5,099	
Discontinued operations:				
Income from discontinued operations	805	1,005	(200)	(8)
Gain on sale of real estate, net	1,605	16	1,589	(9)
Net income from discontinued operations	2,410	1,021	1,389	
Net income	57,815	51,327	6,488	
Income allocated to non-controlling interests	—	(37)	37	(10)
Net income attributable to LTC Properties, Inc.	57,815	51,290	6,525	
Income allocated to participating securities	(383)	(377)	(6)	
Income allocated to preferred stockholders	(3,273)	(3,273)	—	
Net income available to common stockholders	$ 54,159	$ 47,640	$ 6,519	

(1) Increased due to acquisitions, developments and capital improvement investments.

(2) Increased primarily due to mortgage loan originations and capital improvement funding under certain mortgage loans partially offset by normal amortization of existing mortgage loans.

(3) Decreased primarily due to the redemption of the Skilled Healthcare Group Senior Subordinated Notes and a lower bankruptcy settlement distribution from Sunwest in 2013 than in 2012.

(4) Increased primarily due to the sale of senior unsecured notes.

(5)