LTC PROPERTIES INC
Form 10-K
February 22, 2017
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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, 2016

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 $1,991,870,000 as of June 30, 2016 (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 15, 2017 was 39,585,320.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement relating to its 2017 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 health care properties primarily through sale-leaseback transactions, mortgage financing and structured finance solutions including mezzanine lending. 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 health 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 invest in the following type of properties:

- Skilled nursing facilities (or SNF) 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 (or ALF) serve people 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 (or ILF), 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 (or MC) offer specialized options for people 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.
- Range of care facilities (or ROC) provide skilled nursing and any combination of assisted living, independent living and/or memory care services.

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.

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Portfolio

Our real estate investment in senior housing and health 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. Other properties (or Other) property type consists of land held-for-use and a behavioral health care hospital. In addition to the information below, see Item 2. Properties for more information about our portfolio.

The following table summarizes our real estate investment portfolio as of December 31, 2016 (dollar amounts in thousands):

			Twelve Months Ended December 31, 2016				
Type of Property	Gross Investments	Percentage of Investments	Rental Income(1)	Interest Income(2)	Percentage of Revenues	Number of Properties(3)	Number SNF Beds(4)
Skilled Nursing	$ 753,328	49.2 %	$ 61,429	$ 25,430	54.6 %	92	11,644
Assisted Living	711,645	46.4 %	64,380	1,171	41.2 %	112	—
Range of Care	43,140	2.8 %	5,774	—	3.6 %	7	634
Under Development(5)	14,142	0.9 %	—	—	— %	—	—
Other(6)	11,424	0.7 %	865	111	0.6 %	1	118
Totals	$ 1,533,679	100.0 %	$ 132,448	$ 26,712	100.0 %	212	12,396

(1) Excludes rental income from properties sold during 2016.

(2) Excludes interest income from mortgage loans paid off during 2016.

(3) We have investments in 30 states leased or mortgaged to 31 different operators.

(4) See Item 2. Properties for discussion of bed/unit count.

(5) Includes three development projects, consisting of two memory care communities with a total of 132 units, and a 143-bed skilled nursing center.

(6) Includes four parcels of land held-for-use and one behavioral health care hospital. The behavioral health care hospital has 2 skilled nursing beds and 116 medical hospital beds which represents a $78.39 investment per bed.

As of December 31, 2016 we had $1.3 billion in carrying value of net real estate investment, consisting of $1.0 billion or 81.7% invested in owned and leased properties and $0.3 billion or 18.3% invested in mortgage loans secured by first mortgages.

Owned Properties. The following table summarizes our investment in owned properties at December 31, 2016 (dollar amounts in thousands):

Type of Property	Gross Investments	Percentage of Investments		Number of Properties(1)	Number of SNF Beds (2)	ALF Units (2)	Average Investment per Bed/Unit
Assisted Living	$ 698,279	53.6	%	104	—	5,715	$ 122.18
Skilled Nursing	535,786	41.2	%	69	8,611	—	$ 62.22
Range of Care	43,140	3.3	%	7	634	274	$ 47.51
Under Development(3)	14,142	1.1	%	—	—	—	—
Other(4)	10,216	0.8	%	1	118	—	—
Totals	$ 1,301,563	100.0	%	181	9,363	5,989	

(1) We have investments in 28 states leased to 27 different operators.

(2) See Item 2. Properties for discussion of bed/unit count.

(3) Includes three development projects, consisting of two MC communities with a total of 132 units, and one SNF center.

(4) Includes three parcels of land held for use and one behavioral health care hospital. The behavioral health care hospital has 2 skilled nursing beds and 116 medical hospital beds which represents a $78.39 investment per bed.

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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.

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 of owned properties for 2016 and percentage of rental revenue for those operators for 2016 and 2015:

		Percent of Rental Revenue			
Lessee	Property Type	2016		2015	
Senior Lifestyle	ALF/ILF/MC/SNF	14.7	%	11.1	%
Brookdale Senior Living Communities, Inc.	ALF/ILF/MC	11.8	%	13.8	%
Senior Care Centers, LLC	ALF/ILF/MC/SNF	11.8	%	11.2	%
Preferred Care, Inc.	SNF/ALF/ILF	8.3	%	9.3	%
Anthem Memory Care	MC	6.3	%	3.7	%
Fundamental Long Term Care Company	SNF/MC	6.2	%	5.3	%
Genesis	SNF/ALF	5.8	%	6.7	%
Carespring Healthcare Management, LLC	SNF/ALF/ILF	5.7	%	6.8	%
Traditions Senior Management, Inc.	SNF/ALF/ILF	5.3	%	6.3	%
Juniper Communities, LLC	ALF/MC	5.0	%	5.9	%

During the years ended December 31, 2016 and 2015, we received $517,000 and $134,000, respectively, of contingent rental income. We received no contingent rental income for the year ended December 31, 2014.

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, 2016 (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)	Investment per Bed/Unit
Skilled Nursing	$ 217,542	93.7	%	7	23	3,033	—	$ 71.73
Assisted Living	13,366	5.8	%	3	8	—	270	$ 49.50
Other(3)	1,208	0.5	%	1	—	—	—	—

Totals	$	232,116	100.0	%	11	31	3,033	270

(1) We have investments in 7 states that include mortgages to 8 different operators.

(2) See Item 2. Properties for discussion of bed/unit count.

(3) Includes a parcel of land secured under a short-term mortgage loan.

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

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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. 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 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.

Investment and Other Policies

Objectives and Policies. Our investment policy is to invest primarily in income producing senior housing and health care properties. Over the past three years 2014 through 2016, we acquired SNF, ALF, IL, MC and combinations thereof, plus a behavioral health care hospital and 9 parcels of land for a total of approximately $306.7 million.

Our primary marketing and business development strategy is to increase awareness of our presence and build long term relationships in the seniors housing and care industry by supporting targeted industry trade organizations, attending industry specific conferences and events attended by seniors housing and care providers, and seeking out speaking engagements at industry related events as well as interviews in industry publications. We believe this targeted marketing and business development effort has increased deal flow and continues to provide opportunities for new investments in 2017. 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 seniors housing and skilled nursing properties that are leased to operators;
- mortgage loans secured by seniors housing and skilled nursing properties; or
- participation in such investments indirectly through investments in mezzanine loans and 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;
- competition within the local market and evaluation of the impact resulting from any potential new development projects in construction or anticipated to be approved by local authorities;
- 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 operating companies providing services;
- the payor mix of private, Managed Care, Medicare and Medicaid patients;
- the growth, tax and regulatory environments of the communities in which the properties are located;

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- 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.

Typically, prior to an 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 third-party environmental reports, land surveys, and markets studies (if applicable) as well as conduct a financial due diligence review 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, first and second mortgages secured by skilled nursing centers and mezzanine loans. 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, joint ventures, mezzanine loans and mortgages secured by assisted living, independent living and/or memory care communities. We have attempted to diversify our portfolio both geographically and across care 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 health 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.

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Governmental Regulation

Health Care Regulation

Overview

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 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 we own 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.

Health Care Reform and Other Legislative Developments

In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act, as amended (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. This sweeping law expanded the insured population, but also reduced federal health care spending and imposed additional requirements on our lessees and borrowers. Among other things, the Affordable Care Act: reduced Medicare skilled nursing facility reimbursement by a so-called "productivity adjustment" based on economy-wide productivity gains; required the development of a value-based purchasing program for Medicare skilled nursing facility services; established a national 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 provided incentives to state Medicaid programs to promote community-based care as an alternative to institutional long term care services. The Affordable Care Act also required expanded public disclosure about nursing home ownership and operations, mandatory compliance and quality assurance programs, increased penalties for noncompliance, and expanded fraud and abuse enforcement and penalty provisions. In addition, the Affordable Care Act impacts both us and our lessees and borrowers as employers, including requirements related to the health insurance we offer to our respective employees. Many aspects of the Affordable Care Act have been implemented through regulations and subregulatory guidance, as discussed further below. Moreover, President Trump and some members of Congress have called for repeal of the Affordable Care Act and replacement with alternative reforms. The details and timing of any such actions are unknown at this time. There can be no assurance that the Affordable Care Act or any subsequent repeal and/or reform legislation 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 2025, although Congress and the Administration could enact legislation to extend or modify sequestration at any time, including through alternative budget legislation that includes alternative

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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.

The Protecting Access to Medicare Act of 2014 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, the Improving Medicare Post-Acute Care Transformation Act of 2014 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. The Medicare Access and CHIP Reauthorization Act of 2015 sets the annual skilled nursing facility prospective payment system update for fiscal year 2018 at 1%. 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. For instance, on November 24, 2015, the Centers for Medicare & Medicaid Services ("CMS") published a final rule that requires hospitals in selected geographic areas to participate in a new Medicare Comprehensive Care for Joint Replacement model beginning April 1, 2016, under which CMS provides a "bundled" payment to participant hospitals for an "episode of care" for lower extremity joint replacement surgery, covering all services provided during the inpatient admission through 90 days post-discharge, including skilled nursing facility care. In addition, on January 3, 2017, CMS published a final rule to establish an episode payment model program targeting care for Medicare beneficiaries receiving acute myocardial infarction, coronary artery bypass graft, and surgical hip/femur fracture treatment in designated geographic areas. Under this program, which is scheduled to begin July 1, 2017, all related care within 90 days of hospital discharge, including post-acute care, will be included in the episode payment. Additional changes in laws, new interpretations of existing laws, or other 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.

Reimbursement

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 centers 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 center 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 2016 that 38 states reported implementing new Medicaid rate restrictions for at least one provider type in fiscal year 2016, compared to 45 states that implemented at least one provider increase. For fiscal year 2017, 41 states adopted provider rate restrictions while 40 plan rate increases. With regard to nursing facility rates in particular, 32 states increased rates in fiscal years 2016 and 2017, while 19 have adopted rate restrictions. In addition, most 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, 46 states took action to expand home and community-based service programs in fiscal year 2016, and 47 took such action in 2017. The federal government also has adopted various policies to promote community-based alternatives to institutional services. The Trump Administration and Congress are also considering revising federal payments to state Medicaid programs to be in the form of block grants or per capita limits on

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federal Medicaid payments to states. 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 July 30, 2015, CMS released its final skilled nursing facility prospective payment system update for fiscal year 2016, which began October 1, 2015. CMS projected that aggregate Medicare payments to skilled nursing facilities will increase by $430 million, or 1.2%, under the final rule. This increase reflects a 2.3% market basket increase, reduced by both a 0.6 percentage point forecast error adjustment and a 0.5 percentage point multifactor productivity adjustment mandated by the Affordable Care Act. On July 29, 2016, CMS issued a final rule updating fiscal year 2017 Medicare payment rates for skilled nursing facilities. The final rule provides for a net market basket increase of 2.4 %, beginning October 1, 2016. This reflects a 2.7% market basket increase, reduced by a 0.3 percentage point multifactor productivity adjustment. CMS estimates that aggregate payments to skilled nursing facilities under the final rule will increase by approximately $920 million. CMS also adopted new measures and policies for the Skilled Nursing Facility Quality Reporting Program and the Value-Based Purchasing Program. In addition, on October 4, 2016, CMS published a final rule that revises the requirements that long term care facilities must meet to participate in the Medicare and Medicaid programs. This major rule addresses requirements for improving quality of care and patient safety, nursing facility staffing, care planning, binding arbitration agreements (currently not in effect due to litigation challenging the requirement), infection control, residents’ rights, compliance and ethics programs, and several other areas. CMS estimates that the total cost of the final rule will be $831 million in the first year and $736 million annually thereafter, with per-facility costs of $62,900 in the first year and $55,000 annually thereafter. CMS also published a final rule on September 16, 2016 establishing emergency preparedness requirements for Medicare- and Medicaid-participating providers and suppliers, including long-term care facilities, to ensure that they can meet the needs of patients and residents during natural and man-made emergency situations. In addition, CMS published a final rule on May 4, 2016 amending fire safety standards applicable to long-term care facilities and certain other types of Medicare- and Medicaid-participating health care facilities. There can be no assurance that any future reductions in Medicare skilled nursing facility payment rates or other policy changes impacting long term care facilities 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 providing patient care could adversely affect revenues of our skilled nursing center borrowers and lessees and to a much lesser extent our assisted living community 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.

Fraud and Abuse Enforcement

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

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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. Sanctions for violating the Stark Law include civil monetary penalties of up to $24,253 per prohibited service provided, assessments equal to three times the dollar value of each such service provided and exclusion from 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.

Environmental Regulation

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.

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.

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Employees

At December 31, 2016, we employed 24 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.

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 five 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 combined 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, redetermined TRS service income, 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);
(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,

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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 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.

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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 and after December 31, 2017, 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 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

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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 five year period following our acquisition of such asset, we would be required to distribute at least 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 prior to January 1, 2015, 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, we would be subject to an excise tax, as described below, 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

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(3) 100% of taxable income from prior periods less 100% of distributions from prior periods
The excise tax to which we would be subject is 4% of 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.

Taxation of our Stockholders

Taxation of Taxable U.S. Stockholders. The following summary applies to you only if you are a “U.S. stockholder.” A U.S. stockholder is a stockholder of our shares of stock who, for United State federal income tax purposes, is:

a citizen or resident alien of the United States;

a corporation or partnership or other entity classified as a corporation or partnership for these purposes, created or organized in or under laws of the United States or of any state or in the District of Columbia, unless, in the case of a partnership, Treasury Regulations provide otherwise;

an estate the income of which is subject to United States federal income taxation regardless of its source; or

a trust whose administration is subject to the primary supervision of a United States court and which has one or more United States persons, within the meaning of the Code who have the authority to control all substantial decisions of the trust.

If a partnership or an entity treated as a partnership for federal income tax purposes holds our stock, the federal income tax treatment of a partner in the partnership will generally depend on the status of the partner and the activities of the partnership. If you are a partner in a partnership holding our stock, you should consult your tax advisor regarding the consequences of the ownership and disposition of shares of our stock by the partnership.

As long as we qualify as a REIT, distributions made to our taxable U.S. stockholders out of current or accumulated earnings and profits (and not designated as capital gain dividends) will be taken into account by such U.S. stockholders as ordinary income and will not be eligible for the dividends received deduction for corporations. Distributions that are designated as capital gain dividends will be taxed as long-term capital gains (to the extent they do not exceed our actual net capital gain for the taxable year or are designated as unrecaptured §1250 gain distributions, which are taxable at a 25% rate) without regard to the period for which the stockholder has held its stock. However, corporate stockholders may be required to treat up to 20% of certain capital gain dividends as ordinary income.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 generally reduced the maximum tax rate applicable on long term capital gains recognized on the sale or other disposition of shares of our stock from 20% to 15%. The Jobs

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and Growth Tax Relief Reconciliation Act of 2003 also generally reduced the maximum marginal rate of tax payable by individuals on dividends received from corporations that are subject to a corporate level of tax. As a result of the American Taxpayer Relief Act of 2012, qualified dividends and long term capital gains realized by noncorporate taxpayers are now subject to a 20% maximum tax rate (instead of the prior 15% maximum rate). Except in limited circumstances, this reduced tax rate does not apply to dividends paid to you by us on shares of our stock, because generally we are not subject to federal income tax on the portion of our REIT taxable income or capital gains distributed to our stockholders. The reduced maximum federal income tax rate will apply to that portion, if any, of dividends received by you with respect to shares of our stock held by you that are attributable to (1) dividends received by us from non-REIT corporations or taxable REIT subsidiaries, (2) income from the prior year with respect to which we were required to pay federal corporate income tax during the prior year (if, for example, we did not distribute 100% of our REIT taxable income for the prior year) and (3) distributions by us that we designate as long-term capital gains dividends (except for some distributions taxable to you at a maximum rate of 25%).

Distributions in excess of our current and accumulated earnings and profits will not be currently taxable to you to the extent that they do not exceed the adjusted basis of your stock, but rather will reduce the adjusted basis of such stock. To the extent that distributions in excess of current and accumulated earnings and profits exceed the adjusted basis of your stock, such distributions will be included in income as long-term capital gain (or short-term capital gain if the stock has been held for one year or less) assuming you hold the stock as a capital asset. In addition, any distribution declared in October, November or December of any year and payable to you as a stockholder of record on a specified date in any such month, will be treated as both paid by us and received by you on December 31 of the applicable year, provided that we actually pay the distribution during January of the following calendar year. Stockholders may not include in their individual income tax returns any of our net operating losses or capital losses.

If we elect to retain and pay income tax on any net long-term capital gain, you would include in income, as long-term capital gain, your proportionate share of this net long-term capital gain. You would also receive a refundable tax credit for your proportionate share of the tax paid by us on these retained capital gains and you would have an increase in the basis of your shares of our stock in an amount equal to your includable capital gains less your share of the tax deemed paid.

We will be treated as having sufficient earnings and profits to treat as a dividend any distribution up to the amount required to be distributed in order to avoid imposition of the 4% excise tax discussed under "Taxation of Our Company—General" and "Taxation of Our Company —Annual Distribution Requirements" above. As a result, you may be required to treat as taxable dividends certain distributions that would otherwise result in a tax-free return of capital. Moreover, any "deficiency dividend" will be treated as a dividend (an ordinary dividend or a capital gain dividend, as the case may be), regardless of our earnings and profits. Any other distributions in excess of current or accumulated earnings and profits will not be taxable to you to the extent these distributions do not exceed the adjusted tax basis of your shares of our stock. You will be required to reduce the tax basis of your shares of our stock by the amount of these distributions until the basis has been reduced to zero, after which these distributions will be taxable as capital gain, if the shares of our stock are held as a capital asset. The tax basis as so reduced will be used in computing the capital gain or loss realized upon sale of the shares of our stock. Any loss upon a sale or exchange of shares of our stock which were held for six months or less (after application of certain holding period rules) will generally be treated as a long-term capital loss to the extent you previously received capital gain distributions with respect to these shares of our stock.

Upon the sale or exchange of any shares of our stock to or with a person other than us or a sale or exchange of all shares of our stock (whether actually or constructively owned) with us, you will generally recognize capital gain or loss equal to the difference between the amount realized on the sale or exchange and your adjusted tax basis in these shares of our stock. This gain or loss will be capital if you held these shares of our stock as a capital asset.

If we redeem any of your shares in us, the treatment can only be determined on the basis of particular facts at the time of redemption. In general, you will recognize gain or loss (as opposed to dividend income) equal to the difference between the amount received by you in the redemption and your adjusted tax basis in your shares redeemed if such redemption results in a "complete termination" of your interest in all classes of our equity securities, is a "substantially disproportionate redemption" or is "not essentially equivalent to a dividend" with respect to you. In applying these tests, there must be taken into account your ownership of all classes of our equity securities (e.g.,

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Common Stock or Preferred Stock). You also must take into account any equity securities that are considered to be constructively owned by you.

If, as a result of a redemption by us of your shares, you no longer own (either actually or constructively) any of our equity securities or only own (actually and constructively) an insubstantial percentage of our equity securities, then it is probable that the redemption of your shares would be considered "not essentially equivalent to a dividend" and, thus, would result in gain or loss to you. However, whether a distribution is "not essentially equivalent to a dividend" depends on all of the facts and circumstances, and if you rely on any of these tests at the time of redemption, you should consult your tax advisor to determine their application to the particular situation.

Generally, if the redemption does not meet the tests described above, then the proceeds received by you from the redemption of your shares will be treated as a distribution taxable as a dividend to the extent of the allocable portion of current or accumulated earnings and profits. If the redemption is taxed as a dividend, your adjusted tax basis in the redeemed shares will be transferred to any other shareholdings in us that you own. If you own no other shareholdings in us, under certain circumstances, such basis may be transferred to a related person, or it may be lost entirely.

Gain from the sale or exchange of our shares held for more than one year is taxed at a maximum long-term capital gain rate, which is currently 20% for noncorporate taxpayers (prior to the effective date of the American Taxpayer Relief Act of 2012, described above, the maximum long-term capital gain rate was 15%). Pursuant to Internal Revenue Service guidance, we may classify portions of our capital gain dividends as gains eligible for the long-term capital gains rate or as gain taxable to individual stockholders at a maximum rate of 25%.

Taxation of Tax-Exempt Stockholders. In general, a stockholder that is a tax-exempt entity not subject to tax on its investment income will not be subject to tax on our distributions. In Revenue Ruling 66-106, 1966-1 C.B. 151, the IRS ruled that amounts distributed as dividends by a REIT do not constitute unrelated business taxable income as defined in the Code when received by a qualified plan. Based on that ruling, regardless of whether we incur indebtedness in connection with the acquisition of properties, our distributions paid to a stockholder that is a tax-exempt entity will not be treated as unrelated business taxable income, provided that (i) the tax-exempt entity has not financed the acquisition of its stock with acquisition indebtedness within the meaning of the Code and the stock otherwise is not used in an unrelated trade or business of the tax-exempt entity and (ii) we are not a pension-held REIT. This ruling applies to a stockholder that is an organization that qualifies under Code Section 401(a), an IRA or any other tax-exempt organization that would compute unrelated business taxable income, if any, in accordance with Code Section 512(a)(1). However, if we are a pension-held REIT and a qualified plan owns more than 10% of the value of all of our stock, such stockholder will be required to recognize as unrelated business taxable income that percentage of the dividends that it receives from us as is equal to the percentage of our gross income that would be unrelated business taxable income to us if we were a tax-exempt entity required to recognize unrelated business taxable income. A REIT is a pension-held REIT if at least one qualified trust holds more than 25% of the value of all of our stock or one or more qualified trusts, each of whom own more than 10% of the value of all of our stock, hold more than 50% of the value of all of our stock.

For social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts and qualified group legal services plans exempt from federal income taxation under Code Sections 501(c)(7), (c)(9), (c)(17) and (c)(20), respectively, income from an investment in us will constitute unrelated business taxable income unless the organization is able to deduct amounts set aside or placed in reserve for certain purposes so as to offset the unrelated business taxable income generated by its investment in us. Such prospective stockholders should consult their own tax advisors concerning these "set aside" and reserve requirements.

Taxation of Foreign Stockholders. The rules governing U.S. federal income taxation of nonresident alien individuals, foreign corporations, foreign partnerships and other foreign stockholders are complex. We have not attempted to provide more than a summary of these rules. Prospective non-U.S. stockholders should consult with their own tax advisors to determine the impact of federal, state and local income tax laws with regard to an investment in stock, including any reporting requirements.

Distributions that are not attributable to gain from our sales or exchanges of U.S. real property interests and not designated by us as capital gains dividends will be treated as dividends of ordinary income to the extent that they are

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made out of our current or accumulated earnings and profits. Such distributions will ordinarily be subject to a withholding tax equal to 30% of the gross amount of the distribution unless an applicable tax treaty reduces or eliminates that tax. However, if income from the investment in the stock is treated as effectively connected with the non-U.S. stockholder’s conduct of a U.S. trade or business, the non-U.S. stockholder generally will be subject to a tax at graduated rates, in the same manner as U.S. stockholders are taxed with respect to such distributions and may also be subject to the 30% branch profits tax in the case of a stockholder that is a foreign corporation. We expect to withhold U.S. income tax at the rate of 30% on the gross amount of any such distributions made to a non-U.S. stockholder unless (i) a lower treaty rate applies and the holder provides us with a properly executed IRS Form W-8BEN (or successor form) or (ii) the non-U.S. stockholder provides us with a properly executed IRS Form W-8ECI (or successor form) claiming that the distribution is effectively connected income.

Distributions in excess of our current and accumulated earnings and profits will not be taxable to a stockholder to the extent that such distributions do not exceed the adjusted basis of the stockholder’s stock, but rather will reduce the adjusted basis of such stock. To the extent that distributions in excess of current accumulated earnings and profits exceed the adjusted basis of a non-U.S. stockholder’s stock, such distributions will give rise to tax liability if the non-U.S. stockholder would otherwise be subject to tax on any gain from the sale or disposition of our stock, as described below. If it cannot be determined at the time a distribution is made whether or not distributions will be in excess of current and accumulated earnings and profit, the distributions will be subject to withholding at the same rate as dividends. However, amounts thus withheld are refundable if it is subsequently determined that such distribution was, in fact, in excess of our current and accumulated earnings and profits.

We are required to withhold 15% (10% for distributions prior to February 16, 2016) of any distribution that exceeds our current and accumulated earnings and profits, subject to certain exceptions provided in the applicable Treasury Regulations. Thus, to the extent we do not withhold 30% on the entire amount of any distribution, we will withhold at a rate of 15% on any portion of a distribution not subject to withholding at a rate of 30%.

For any year in which we qualify as a REIT, distributions that are attributable to gain from our sales or exchanges of U.S. real property interests will be taxed to a non-U.S. stockholder under the provisions of the Foreign Investment in Real Property Tax Act of 1980 or FIRPTA. Under FIRPTA, distributions attributable to gain from sales of U.S. real property interests are taxed to a non-U.S. stockholder as if such gain were effectively connected with a U.S. business. Non-U.S. stockholders would thus be taxed at the normal capital gain rates applicable to U.S. stockholders (subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals) for distributions that are designated as capital gain dividends and at the normal graduated rates for US shareholders on distributions that are not so designated. Also, distributions subject to FIRPTA may be subject to a 30% branch profits tax if a foreign corporate stockholder is not entitled to treaty exemption. We are required by applicable Treasury Regulations to withhold 35% for foreign individuals and 35% for foreign corporations of any distribution that we could designate as a capital gains dividend. This amount is creditable against the non-U.S. stockholder FIRPTA tax liability. If we designate prior distributions as capital gains dividends, then subsequent distributions up to the amount of such prior distributions will be treated as capital gains dividends for purposes of withholding.

Gain recognized by a non-U.S. stockholder upon a sale of our equity securities generally will not be taxed under FIRPTA if we are a “domestically controlled real estate investment trust,” defined generally as a real estate investment trust in which at all times during a specified testing period less than 50% in value of the stock were held directly or indirectly by foreign persons. We currently anticipate that we will be a “domestically controlled real estate investment trust,” and therefore the sale of equity securities will not be subject to taxation under FIRPTA. Additionally, the sale of our equity securities will not be taxed under FIRPTA if the class of stock is regularly traded on an established securities market and the selling non-U.S. stockholder has not held more than 10% (5% prior to December 18, 2015) of the class of stock at any time during the preceding five-year period. However, gain not subject to FIRPTA will be taxable to a non-U.S. stockholder if the investment in the stock is effectively connected with the non-U.S.

stockholder’s U.S. trade or business, in which case the non-U.S. stockholder will be subject to the same treatment as U.S. stockholders with respect to such gain. Also, if the non-U.S. stockholder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and has a “tax home” in the United States, the nonresident alien individual will be subject to a 30% tax (unless reduced or exempted by treaty) on the individual’s capital gains. A non-resident alien individual could, however, elect to treat such gain as effectively connected income and pay tax as a U.S. stockholder

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would. If the gain on the sale of stock were to be subject to taxation under FIRPTA, the non-U.S. stockholder will be subject to the same treatment as U.S. stockholders with respect to such gain.

If the proceeds of a disposition of our equity securities are paid by or through a U.S. office of a broker, the payment is subject to information reporting and to backup withholding unless the disposing non-U.S. stockholder certifies as to his name, address and non-U.S. status or otherwise establishes an exemption. Generally, U.S. information reporting and backup withholding will not apply to a payment of disposition proceeds if the payment is made outside the United States through a non-U.S. office of a non-U.S. broker. U.S. information reporting requirements (but not backup withholding) will apply, however, to a payment of disposition proceeds outside the United States if (i) the payment is made through an office outside the United States of a broker that is either (a) a U.S. person, (b) a foreign person that derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States, (c) a controlled foreign corporation for U.S. federal income tax purposes, or (d) a foreign partnership more than 50% of the capital or profits of which is owned by one or more U.S. persons or which engages in a U.S. trade or business and (ii) the broker fails to initiate documentary evidence that the stockholder is a non-U.S. stockholder and that certain conditions are met or that the non-U.S. stockholder otherwise is entitled to an exemption.

Recently enacted legislation will generally impose a 30% withholding tax on dividends paid on our stock, interest paid on our notes, and the gross proceeds of a disposition of our stock or notes paid to a foreign financial institution, unless such institution enters into an agreement with the U.S. government to collect and provide to the U.S. tax authorities substantial information regarding U.S. account holders of such institution (which includes certain equity and debt holders of such institution, as well as certain account holders that are foreign entities with U.S. owners). This legislation will also generally impose a 30% withholding tax on dividends paid on our stock, interest paid on our notes, and the gross proceeds of a disposition of our stock or notes paid to a non-financial foreign entity unless such entity provides the withholding agent with a certification identifying the direct and indirect U.S. owners of the entity. Under certain circumstances, a non-U.S. holder of our common stock might be eligible for refunds or credits of such taxes and may be required to file a U.S. federal income tax return to claim such refunds or credits. Under recently promulgated Treasury Regulations, these rules will be phased in over the next several years. Investors are encouraged to consult with their own tax advisors regarding the possible implications of this legislation on their investment in our stock and notes.

Other Tax Consequences. You should recognize that the present federal income tax treatment of an investment in us may be modified by legislative, judicial or administrative action at any time and that any action may affect investments and commitments previously made. The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the Internal Revenue Service and the Treasury Department, resulting in revisions of regulations and revised interpretations of established concepts as well as statutory changes. Revisions in federal tax laws and interpretations of these laws could adversely affect the tax consequences of an investment in us.

Although the timing and nature of legislative changes is uncertain, based on recent comments made by the Administration and Congress, the possibility exists that there will be significant tax reform legislation considered by the current Congress. Among other things, measures impacting investments in real property could include tax rate reductions with base broadening including changes to the interest deduction, expensing of property improvements, and provisions related to infrastructure spending. Overseas property investment may also be impacted by international tax reform. Investments in pass-through entities may be impacted by tax reform. Any material alterations with respect to nonrecognition treatment for partnership contributions and distributions may affect the performance of our investment. Congress may enact all or none of these or adopt additional measures not mentioned. Consult a tax advisor with respect to legislative developments and their effect on an investment in us.

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

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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.

Posted on our website www.LTCreit.com under “Corporate Governance” in the “Investors” section are our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee Charters, our Corporate Governance Guidelines, 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 “SEC Filings” in Investors section 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, 2016, we had $8.0 million of cash on hand, $492.9 million available under our unsecured revolving line of credit and $22.5 million available under our shelf agreement with Prudential Investment Management, Inc. (or Prudential). Subsequent to December 31, 2016, we paid $4.2 million in regular scheduled principal payments and amended our shelf agreement with Prudential to increase our shelf commitment to $337.5 million. Additionally, subsequent to December 31, 2016, we sold 15-year senior unsecured notes in the aggregate amount of $100.0 million to a group of institutional investors, which included Prudential, in a private placement transaction. We used the proceeds to repay our outstanding balance under our unsecured revolving line of credit. Subsequent to these transactions, we have $36.7 million available under our amended shelf agreement with Prudential and $600.0 million available under our unsecured line of credit.

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Also, we also have the potential ability to access the capital markets through the issuance of $200.0 million of common stock under our equity distribution agreement and an indeterminate amount through the issuance of debt and/or equity securities under an effective shelf registration statement. Subsequent to December 31, 2016, we sold 312,881 shares of common stock for $14.6 million under our equity distribution agreement. Accordingly, we have $185.2 million available under this agreement.

As a result, we currently 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, 2016, 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 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. 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 lessee’s or borrower’s ability to make lease or debt payments to us.

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In March 2010, President Obama signed into law the Patient Protection and Affordable Care Act, as amended (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 this 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: reduced Medicare skilled nursing facility reimbursement by a so-called “productivity adjustment” based on economy-wide productivity gains beginning in fiscal year 2012; required the development of a value-based purchasing program for Medicare skilled nursing facility services; established 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 provided incentives to state Medicaid programs to promote community-based care as an alternative to institutional long term care services. The Affordable Care Act also expanded public disclosure about nursing home ownership and operations, instituted mandatory compliance and quality assurance programs, increased penalties for noncompliance, and expanded 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 requirements related to the health insurance we offer to our respective employees. Many aspects of the Affordable Care Act have been implemented through regulations and subregulatory guidance. Moreover, President Trump and some members of Congress have called for repeal of the Affordable Care Act and replacement with alternative reforms. The details and timing of any such actions are unknown at this time. There can be no assurance that the Affordable Care Act or any subsequent repeal and/or reform legislation 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.

The Protecting Access to Medicare Act of 2014 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, the Improving Medicare Post-Acute Care Transformation Act of 2014 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. The Medicare Access and CHIP Reauthorization Act of 2015 sets the annual skilled nursing facility prospective payment system update for fiscal year 2018 at 1%.

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 2025, although Congress and the Administration could enact legislation at any time that modifies sequestration.

CMS has also adopted regulations that impose new standards that long-term care facilities must meet to participate in the Medicare and Medicaid programs, including an October 4, 2016 final rule that addresses requirements for improving quality of care and patient safety, nursing facility staffing, care planning, binding arbitration agreements, infection control, residents’ rights, compliance and ethics programs, and several other areas. Separately, CMS published a final rule on September 16, 2016 establishing emergency preparedness requirements for Medicare- and Medicaid-participating providers and suppliers, including long-term care facilities, to ensure that they can meet the needs of patients and residents during natural and man-made emergency situations. In addition, CMS published a final rule on May 4, 2016 amending fire safety standards applicable to long-term care facilities and certain other types of Medicare- and Medicaid-participating health care facilities. These and other changes in the law or regulations, such as the adoption of new requirements for participation in the Medicare and Medicaid programs, 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.

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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 Operators 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 center 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. 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. The Trump Administration and Congress are also considering revising federal payments to state Medicaid programs to be in the form of block grants or per capita limits on federal Medicaid payments to states. In light of continuing federal and 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. GAAP 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 effect 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% 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 and state 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 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

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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. We currently have an investment in a limited liability company and 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
- 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 health care properties. 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;

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- 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, memory care and behavioral health 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. These numbers often differ, usually not materially by property, 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 may 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, 2016 (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 Investments
Alabama	2	—	1	—	—	459	$ —	70	$ 18,622
Arizona	5	—	—	—	—	967	—	40	40,764
California	2	3	—	—	—	574	—	81	62,889
Colorado	2	13	1	—	—	980	—	122	114,923
Florida	5	7	—	—	—	852	—	103	74,609
Georgia	2	1	—	—	—	327	—	158	19,242
Illinois	—	3	—	— (2)	—	286	—	153	63,233
Indiana	—	3	—	—	—	140	—	177	10,104
Iowa	6	1	1	—	—	579	—	80	17,630
Kansas	3	8	—	—	—	689	—	115	70,569
Kentucky	1	1	—	— (3)	—	203	—	124	43,628
Michigan	—	—	—	—	— (4)	—	—	—	943
Mississippi	—	1	—	—	—	62	—	96	9,430
Nebraska	—	4	—	—	—	157	—	177	9,595
Nevada	—	—	—	—	1	118	—	98	9,274
New Jersey	—	4	—	—	—	205	—	134	62,042
New Mexico	7	—	—	—	—	843	—	109	50,913
N. Carolina	—	5	—	—	—	210	—	48	13,096
Ohio	2	11	—	—	—	772	—	99	99,300
Oklahoma	—	6	—	—	—	219	—	48	12,315
Oregon	1	1	—	—	—	135	—	34	7,347
Pennsylvania	—	3	—	—	—	199	—	103	18,040
S. Carolina	—	4	2	—	—	428	—	104	35,290
Tennessee	2	—	—	—	—	141	—	84	5,275
Texas	24	16	1	—	—	4,340	—	126	268,955
Virginia	3	—	1	—	—	500	—	97	29,378
Washington	1	—	—	—	—	123	—	55	8,024
Wisconsin	1	9	—	—	—	844	—	168	126,133
TOTAL	69	104	7	—	1	15,352	$ —	117	$ 1,301,563

(1) Weighted average remaining months in lease term as of December 31, 2016.

(2) Includes two MC development with a total of 132 units.

(3) Includes one SNF developments with 143 beds.

(4) Includes three 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, 2016 (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
2017	1	—	—	—	60	1	359	0.3 %
2018	2	9	1	—	1,061	4	9,297	6.7 %
2019	3	—	—	—	613	1	1,571	1.1 %
2020	1	35	—	—	1,639	2	13,826	9.9 %
2021	26	—	4	—	3,450	4	14,091	10.1 %
2022	1	—	—	—	121	1	771	0.6 %
2023	4	—	—	—	326	2	2,539	1.8 %
2024	—	10	—	—	471	1	2,611	1.9 %
2025	6	3	—	1	1,166	3	11,181	8.0 %
2026	11	—	2	—	1,755	2	15,490	11.0 %
Thereafter	14	46	—	—	4,654	7	67,992	48.6 %
TOTAL	69	103 (2)	7	1	15,316	(3)	$ 139,728	100.0 %

(1) Annualized rental income is the total rent, including amortization of lease incentives, over the life of the lease recognized evenly over that lease term as of December 31, 2016.

(2) Excludes a closed assisted living community.

(3) We have a total of 27 operators. One of our operators is a party 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, 2016 (dollars amounts in thousands):

ocation	No. of SNFs	No. of ALFs	No. of OTHs	No. of Beds/ Units	Interest Rate	Average Months to Maturity	Original Face Amount of Mortgage Loans	Gross Investments	Current Annual De Service(1
rizona	—	1	—	100	7.5%	31	$ 3,257	$ 3,210	$ 357
ichigan	20	—	—	2,748	9.41%-9.53%	314	207,639	214,142	20,227
issouri	1	—	—	100	11.6%	12	1,500	2,120	487
ennsylvania	—	1	—	70	7.32%	3	5,100	4,686	418
exas	1	6	—	201	10.70%-13.95%	18	8,315	5,593	1,046
tah	1	—	—	84	11.05%	35	1,400	1,158	174
irginia	—	—	—	(2) —	9.00%	3	1,208	1,207	112
OTAL	23	8	—	3,303		291	$ 228,419	$ 232,116	$ 22,821

(1) Includes principal and interest payments.

(2) Includes a parcel of land secured under a short-term mortgage loan.

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 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.

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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.

	2016		2015	
	High	Low	High	Low
First quarter	$ 46.29	$ 40.55	$ 48.85	$ 41.42
Second quarter	$ 51.74	$ 44.90	$ 46.98	$ 40.70
Third quarter	$ 54.20	$ 49.83	$ 44.77	$ 38.64
Fourth quarter	$ 52.05	$ 43.17	$ 44.84	$ 40.02

Holders of Record

As of February 15, 2017 we had approximately 391 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	
	2016	2015	2016	2015
First quarter	$ 0.54	$ 0.51	$ 0.54	$ 0.51
Second quarter	$ 0.54	$ 0.51	$ 0.54	$ 0.51
Third quarter	$ 0.54	$ 0.51	$ 0.54	$ 0.51
Fourth quarter	$ 0.57	$ 0.54	$ 0.57	$ 0.54
	$ 2.19	$ 2.07	$ 2.19	$ 2.07

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, 2016 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, 2016	—	$ —	—	—
November 1 - November 30, 2016	—	$ —	—	—
December 1 - December 31, 2016	311	$ 47.00	—	—
Total	311		—	—

(1) During the three months ended December 31, 2016, 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.

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 50% or more of assets directly or indirectly in the equity ownership of real estate as an equity REIT. Our equity ownership of real estate assets was more than 75% during 2016.

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This graph compares the cumulative total stockholder return on our common stock from December 31, 2011 to December 31, 2016 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, 2011 in our common stock and in each of the foregoing indices and assumes the reinvestment of dividends.

	Period Ending					
Index	12/31/11	12/31/12	12/31/13	12/31/14	12/31/15	12/31/16
LTC Properties, Inc.	$ 100.00	$ 120.42	$ 127.11	$ 163.38	$ 171.22	$ 195.28
NAREIT Equity	100.00	118.06	120.97	157.43	162.46	176.30
S&P 500	100.00	116.00	153.57	174.60	177.01	198.18

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.

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.

	2016	2015	2014	2013	2012
	(In thousands, except per share amounts)				
Operating information:					
Total revenues	$ 161,583	$ 136,203	$ 118,961	$ 104,974	$ 92,482
Income from continuing operations	85,115	73,081	73,399	55,405	50,306
Income allocated to non-controlling interests(1)	—	—	—	—	37
Income allocated to participating securities	385	484	481	383	377
Income allocated to preferred stockholders	—	2,454	3,273	3,273	3,273
Net income available to common stockholders	84,730	70,143	69,645	54,159	47,640
Per share information:					
Net income per common share from continuing operations available to common stockholders:					
Basic	$ 2.21	$ 1.97 (2)	$ 2.01	$ 1.56	$ 1.54
Diluted	$ 2.21	$ 1.94 (2)	$ 1.99	$ 1.56	$ 1.54
Net income per common share available to common stockholders:					
Basic	$ 2.21	$ 1.97 (2)	$ 2.01	$ 1.64	$ 1.58
Diluted	$ 2.21	$ 1.94 (2)	$ 1.99	$ 1.63	$ 1.57
Common stock distributions declared	$ 2.19	$ 2.07	$ 2.04	$ 1.91	$ 1.79
Common stock distributions paid	$ 2.19	$ 2.07	$ 2.04	$ 1.91	$ 1.79
Balance sheet information:					
Total assets	$ 1,394,896	$ 1,275,424	$ 964,770	$ 930,305	$ 788,446
Total debt(3)	609,391 (4)	571,872 (4)	280,584	277,730	302,789

(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) Decreased primarily as a result of an impairment charge related to a contingent agreement to sell an assisted living community, partially offset by a gain related to the sale of a skilled nursing center in 2015.

(3) Includes bank borrowings, senior unsecured notes (net of debt issue costs) 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 and Investment Strategy

We are a self-administered health care real estate investment trust (or REIT) that invests primarily in seniors housing and health care properties primarily through sale-leaseback transactions, mortgage financing and structured finance solutions including mezzanine lending. 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 seniors housing and health care properties managed by experienced operators. Our primary seniors housing and health care property classifications include skilled nursing centers (or SNF), assisted living communities (or ALF), independent living communities (or ILF), memory care communities (or MC) and combinations thereof. ALF, ILF, MC, and combinations thereof are included in the ALF property classification. Range of care communities (or ROC) property classification consists of properties providing skilled nursing and any combination of assisted living, independent living and/or memory care services. As of December 31, 2016, seniors housing and long-term health care properties comprised approximately 99% of our real estate investment portfolio. We have been operating since August 1992.

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 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.

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Portfolio Overview

The following table summarizes our real estate investment portfolio as of December 31, 2016 (dollar amounts in thousands):

Type of Property	Gross Investments	Percentage of Investments	Twelve Months Ended December 31, 2016 Rental Income(1)	Interest Income(2)	Percentage of Revenues	Number of Properties(3)	Number SNF Beds(4)
Skilled Nursing	$ 753,328	49.2 %	$ 61,429	$ 25,430	54.6 %	92	11,644
Assisted Living	711,645	46.4 %	64,380	1,171	41.2 %	112	—
Range of Care	43,140	2.8 %	5,774	—	3.6 %	7	634
Under Development(5)	14,142	0.9 %	—	—	— %	—	—
Other(6)	11,424	0.7 %	865	111	0.6 %	1	118
Totals	$ 1,533,679	100.0 %	$ 132,448	$ 26,712	100.0 %	212	12,396

(1) Excludes rental income from properties sold during 2016.

(2) Excludes interest income from mortgage loans paid off during 2016.

(3) We have investments in 30 states leased or mortgaged to 31 different operators.

(4) See Item 2. Properties for discussion of bed/unit count.

(5) Includes three development projects, consisting of two memory care communities with a total of 132 units, and a 143-bed skilled nursing center.

(6) Includes four parcels of land held-for-use and one behavioral health care hospital. The behavioral health care hospital has 2 skilled nursing beds and 116 medical hospital beds.

As of December 31, 2016 we had $1.3 billion in carrying value of net real estate investments, consisting of $1.0 billion or 81.7% invested in owned and leased properties and $0.3 billion or 18.3% invested in mortgage loans secured by first mortgages.

For the year ended December 31, 2016, rental income and interest income from mortgage loans represented 82.6% and 16.9%, 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 year ended December 31, 2016, we recognized $13.5 million in straight line rental income and recorded $0.1 million of straight line rent receivable reserve. For the remaining leases in place at December 31, 2016, 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 decrease from $13.5 million in 2016 to

$8.8 million for projected annual 2017. Conversely, our cash rental income is projected to increase from $122.0 million in 2016 to $133.3 million for projected annual 2017. During the year ended December 31, 2016, we received $122.0 million of cash rental revenue and recorded $1.9 million of lease incentives. At December 31, 2016, the straight line rent receivable balance, net of reserves, on the consolidated balance sheet was $55.3 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. During the year ended December 31, 2016, there were no lease renewals. During 2016, we amended an existing master lease to extend the terms for an additional five years. Additionally during 2016, we consolidated six individual master leases with three operators into three single master leases.

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2016 Transaction overview

Investment in Owned Properties

The following table summarizes our acquisitions for the twelve months ended December 31, 2016 (dollar amounts in thousands):

Type of Property	Purchase Price	Transaction Costs(1)	Total Acquisition Costs	Number of Properties	Number of Beds/Units
Skilled Nursing(2)	$ 16,000	$ 45	$ 16,045	1	126
Assisted Living(3)	53,550	423	53,973	4	250
Land(4)	6,891	108	6,999	—	—
Totals	$ 76,441	$ 576	$ 77,017	5	376

(1) Represents cost associated with our acquisitions; however, depending on the accounting treatment of our acquisitions, transaction costs may be capitalized to the properties' basis and, for our land purchases with forward development commitments, transaction costs are capitalized as part of our construction in progress. Additionally, transaction costs may include costs related to the prior year due to timing and may include costs related to terminated transactions.

(2) We acquired a newly constructed 126-bed skilled nursing center in Texas.

(3) We acquired a newly constructed memory care community in Kentucky for $14,250 which includes a $2,000 holdback, a newly constructed assisted living and memory care community in Georgia for $14,300 and two memory care communities in Kansas for an aggregate purchase price of $25,000.

(4) We acquired a parcel of land and improvements and entered into a development commitment of up to $24,325, including the land and bed rights purchase, for the development of a 143-bed skilled nursing center in Kentucky. Also, we purchased a parcel of land in Illinois and entered into a development commitment to construct a memory care community. The commitment totals approximately $14,500, including the land purchase.

Sold Properties

During 2016, we sold a 48-unit assisted living community located in Florida for $1.8 million which was previously written down to its estimated sale price in the fourth quarter of 2015. Additionally, we sold two skilled nursing centers in Texas and an assisted living community in Florida for an aggregate price of $11.9 million. As a result of these sales, we recognized a net gain on sale of $3.8 million. Also, we sold a school in New Jersey for $3.9 million and recorded a net loss on sale in the amount of $193,000. Subsequent to December 31, 2016, we entered into a contingent purchase and sale agreement to sell an 85-unit ROC community in Texas for $1.2 million. We performed a recoverability analysis on the property as of December 31, 2016 and determined that a portion of the carrying value of the property was not recoverable. Accordingly, we recorded an impairment charge of $0.8 million to write the property down to its estimated sale price at December 31, 2016.

During 2015, we sold a 112-bed skilled nursing center located in Texas for $1.6 million, resulting in net sales proceed of $1.5 million and a net gain on sale of $0.6 million. No properties were sold during 2014.

Development Projects

The following table summarizes our investment in development and improvement projects for the year ended December 31, 2016 (in thousands):

	Development	Improvements
ALF/ ILF/ MC	$ 41,859	$ 3,034
SNF	483	3,758
	$ 42,342	$ 6,792

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Completed Developments

During the twelve months ended December 31, 2016, we completed the following projects (dollar amounts in thousands):

Type of Project	Number of Properties	Type of Property	Number of Beds/Units	State	2016 Funding	Total Funding
Development	1	MC	66	Illinois	$ 2,980	$ 12,248
Development	1	MC	56	Texas	1,110	11,776
Development	1	MC	66	Illinois	7,331	11,962
Development	1	MC	66	California	7,716	12,400
Development	1	ALF/MC	89	South Carolina	9,170	15,080
Development	1	ILF	108	Kansas	11,235	13,423
Improvement	1	SNF	160	Arizona	3,432	4,672
	7		611		$ 42,974	$ 81,561

Investment in Mortgage Loans

A summary of our mortgage loan origination and funding for the year ended December 31, 2016, is as follows (in thousands):

Origination/Funding	$ 20,685
Pay-offs	6,036
Scheduled principal payments received	2,242

Investment in Unconsolidated Joint Ventures

We have made a preferred equity investment in an entity (or the JV) that owns four properties in Arizona that provide independent, assisted living and memory care services. At closing, we provided an initial preferred capital contribution of $20.1 million and have committed to provide an additional preferred capital contribution of $5.5 million for a total preferred capital contribution of $25.6 million. As the preferred member of the JV, we are entitled to receive a 15% preferred return, a portion of which is paid in cash and a portion of which is deferred if the cash flow of the JV is insufficient to pay all of the accrued preferred return. Any unpaid accrued preferred return, whether recorded or unrecorded by us, will be paid upon redemption. During 2016, we provided an additional preferred capital contribution of $1.8 million. Accordingly, we have a remaining preferred capital contribution commitment of $3.7 million.

Additionally, during 2016 we entered into a $3.4 million seven-year term mezzanine loan commitment for the development of a 127-unit senior housing community in Florida which will provide a combination of assisted living, memory care and independent living services. In accordance with the terms of the loan agreement, we are entitled to receive a 15% preferred return, a portion of which, subject to minimum payment requirements, is paid in cash and the remaining unpaid portion is deferred and subsequently paid to us at times set forth in the loan agreement. We evaluated this acquisition, development and construction (or ADC) arrangement and determined that the characteristics are similar to a jointly-owned investment or partnership, and accordingly, the investment is accounted for as an unconsolidated joint venture under the equity method of accounting instead of loan accounting.

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Notes Receivable

The following table summarizes our notes receivable activities (dollar amounts in thousands):

	2016
Advances and originations under notes receivable	$ 14,969
Principal payments received under notes receivable	(100)
Reclassified to real estate under development (1)	(237)
Notes receivable reserve	(166)
Net increase in notes receivable	$ 14,466

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

During 2016, we purchased a $12.5 million mezzanine loan on a portfolio of 64 skilled nursing centers located in eight states. The mezzanine loan has a five-year term and a face rate of LIBOR plus 11.75%. We have characterized this investment as a loan in accordance to the ADC arrangement.

Key Transactions During the Quarter

During the fourth quarter, we purchased a parcel of land in Illinois and entered into a development commitment to construct a memory care community. The commitment totals $14.5 million, including the land purchase. Subsequent to December 31, 2016, we entered into a contingent purchase and sale agreement to sell an 85-unit ROC community in Texas for $1.2 million.

During the quarter we completed the development of a 108-unit independent living community in Kansas.

During the fourth quarter, we entered into a $3.4 million seven-year term mezzanine loan commitment for development of a 127-unit senior housing community in Florida which will provide a combination of assisted living, memory care and independent living services. In accordance with the terms of the loan agreement, we are entitled to receive a 15% preferred return, a portion of which, subject to minimum payment requirements, is paid in cash and the remaining unpaid portion is deferred and subsequently paid to us at times set forth in the loan agreement. Additionally, we purchased a $12.5 million mezzanine loan on a portfolio of 64 skilled nursing centers located in eight states. The mezzanine loan has a five-year term and a face rate of LIBOR plus 11.75%.

Subsequent to December 31, 2016, we sold 312,881 shares of common stock for $14.6 million in net proceeds under our equity distribution agreement. Accordingly, we have approximately $185.2 million available under these agreements.

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 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 50 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.

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

	12/31/16	9/30/16	6/30/16	3/31/16	12/31/15
Asset mix:					
Real property	$ 1,301,563	$ 1,292,459	$ 1,291,386	$ 1,229,756	$ 1,198,686
Loans receivable	232,116	236,707	235,243	225,299	219,719
Investment mix:					
Skilled nursing centers	$ 753,328	$ 757,490	$ 755,287	$ 750,663	$ 726,865
Assisted living communities (1)	711,645	706,279	702,386	636,059	623,449
Range of care communities	43,140	43,907	43,907	43,907	43,907
Under development(1)	14,142	10,065	4,354	3,731	3,489
Other(2)	11,424	11,425	20,695	20,695	20,695
Operator mix:					
Prestige Healthcare(2)	$ 227,274	$ 226,204	$ 224,220	$ 213,690	$ 207,092
Senior Lifestyle Corporation	201,862	201,227	200,515	200,357	199,349
Senior Care Centers	138,109	138,109	138,109	138,109	138,109
Brookdale Senior Living	126,991	126,991	126,991	126,991	126,991
Anthem Memory Care	111,620	106,637	102,714	71,655	62,821
Remaining operators	727,823	729,998	734,080	704,253	684,043
Geographic mix:					
Texas	$ 274,547	$ 280,486	$ 281,795	$ 287,187	$ 270,759
Michigan	215,085	214,014	212,029	201,501	194,902
Wisconsin	126,133	125,990	125,680	125,680	125,680
Colorado	114,923	114,924	114,924	114,924	114,924
Ohio	99,300	99,133	98,997	98,957	98,647
Remaining states	703,691	694,619	693,204	626,806	613,493

(1) During the three months ended December 31, 2016, we completed the construction of a 108-unit independent living community. Accordingly, this property was reclassified from “Under development” to “Assisted living communities” for all periods presented.

(2) We have four parcels of land as of December 31, 2016. Three parcels of land are located adjacent to properties securing the Prestige mortgage loan and are managed by Prestige.

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 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 or loss 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:

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Balance Sheet Metrics

	Year Ended		Quarter Ended													
	12/31/16		12/31/16			9/30/16			6/30/16			3/31/16			12/31/15	
Debt to gross asset value	36.4	%	36.4	%	(1)	35.9	%	(4)	36.8	%	(6)	38.5	%	(1)	37.4	%
Debt to market capitalization ratio	24.9	%	24.9	%	(2)	22.4	%	(5)	23.1	%	(4)	26.2	%	(7)	26.1	%
Interest coverage ratio(9)	5.2	x	5.3	x	(3)	5.2	x	(3)	5.1	x		5.1	x	(8)	5.7	x
Fixed charge coverage ratio(9)	5.2	x	5.3	x	(3)	5.2	x	(3)	5.1	x		5.1	x	(8)	5.7	x

(1) Increased primarily due to the increase in outstanding debt partially offset by the increase in gross asset value from acquisitions, additional development and capital improvement funding.

(2) Increased primarily due to increase in outstanding debt and decrease in market capitalization.

(3) Increased primarily due to revenue from new investments.

(4) Decreased primarily due to decrease in outstanding debt.

(5) Decreased primarily due to increase in market capitalization resulting from increase in stock price and the sale of common stock under our equity distribution agreement as well as decrease in outstanding debt.

(6) Decreased due to increase in gross asset value from acquisitions, additional developments, mortgage loan originations and capital improvements and decrease in outstanding debt.

(7) Increased primarily due to increase in outstanding debt partially offset by increase in market capitalization resulting from the sale of common stock under our equity distribution agreement as well as increase in stock price.

(8) Decreased primarily due to increase in interest expense resulting from increase in outstanding debt.

(9) 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 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 for 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.

	Year Ended	Quarter Ended				
	12/31/16	12/31/16	9/30/16	6/30/16	3/31/16	12/31/15
Net income	$ 85,115	$ 20,666	$ 22,411	$ 22,180	$ 19,858	$ 17,954
Less: Gain on sale	(3,582)	—	(1,780)	(1,802)	—	(586)
Add: Impairment on real estate for sale	766	766	—	—	—	2,250
Add: Interest expense	26,442	6,856	6,836	6,750	6,000	5,581
Add: Depreciation and amortization	35,932	9,309	9,155	8,907	8,561	8,310
Total adjusted EBITDA	$ 144,673	$ 37,597	$ 36,622	$ 36,035	$ 34,419	$ 33,509
Interest expense	$ 26,442	$ 6,856	$ 6,836	$ 6,750	$ 6,000	$ 5,581
Add: Capitalized interest	1,408	215	251	256	686	346
Interest incurred	$ 27,850	$ 7,071	$ 7,087	$ 7,006	$ 6,686	$ 5,927
Interest coverage ratio	5.2 x	5.3 x	5.2 x	5.1 x	5.1 x	5.7 x
Interest incurred	$ 27,850	$ 7,071	$ 7,087	$ 7,006	$ 6,686	$ 5,927
Total fixed charges	$ 27,850	$ 7,071	$ 7,087	$ 7,006	$ 6,686	$ 5,927
Fixed charge coverage ratio	5.2 x	5.3 x	5.2 x	5.1 x	5.1 x	5.7 x

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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, 2016 compared to year ended December 31, 2015 (in thousands):

	Years ended December 31, 2016	2015	Difference	
Revenues:				
Rental income	$ 133,527	$ 113,080	$ 20,447	(1)
Interest income from mortgage loans	27,321	22,119	5,202	(2)
Interest and other income	735	1,004	(269)	(3)
Total revenues	161,583	136,203	25,380	
Expenses:				
Interest expense	26,442	17,497	(8,945)	(4)
Depreciation and amortization	35,932	29,431	(6,501)	(1)
Impairment on real estate for sale	766	2,250	1,484	(5)
Provision for doubtful accounts	457	619	162	
Transaction costs	179	744	565	(6)
General and administrative expenses	17,412	14,986	(2,426)	(7)
Total expenses	81,188	65,527	(15,661)	
Operating income	80,395	70,676	9,719	
Income from unconsolidated joint ventures	1,138	1,819	(681)	(8)
Gain on sale of real estate, net	3,582	586	2,996	(9)
Net income	85,115	73,081	12,034	
Income allocated to participating securities	(385)	(484)	99	
Income allocated to preferred stockholders	—	(2,454)	2,454	(10)
Net income available to common stockholders	$ 84,730	$ 70,143	$ 14,587	

(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) Decreased due to non-accrual of interest under certain notes receivable partially offset by the interest income from mezzanine loans.

(4) Increased primarily due to the sale of senior unsecured notes, increased borrowing under our unsecured revolving line of credit and decrease in capitalized interest related to development projects.

(5) Subsequent to December 31, 2016 and 2015, we entered into contingent purchase and sale agreements to sell a range of care community and an assisted living community, respectively, and determined that a portion of the carrying value of these properties were not recoverable. Accordingly, we recorded an impairment charge of $766

and $2,250 to write the property down to its estimated sale price at December 31, 2016 and 2015, respectively.

(6) Transaction costs were higher in 2015 primarily due to costs associated with the acquisition of the 10-property senior housing portfolio in 2015.

(7) Increased primarily due to additional expenditures related to increased investment activity and restricted stock vesting.

(8) Income from unconsolidated joint ventures was higher in 2015 primarily due to the accrual of the deferred portion of our preferred return of up to the extent of the common member's capital account under the joint venture.

(9) Represents the net gain on sale of two skilled nursing centers, one assisted living community and one school in 2016 partially offset by the net gain on sale of one skilled nursing center in 2015.

(10) During the 2015 fourth quarter, the sole holder our Series C Convertible Preferred Stock elected to convert all of its shares into shares of common stock.

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Year ended December 31, 2015 compared to year ended December 31, 2014 (in thousands)

	Years ended December 31,			
	2015	2014	Difference	
Revenues:				
Rental income	$ 113,080	$ 101,849	$ 11,231	(1)
Interest income from mortgage loans	22,119	16,553	5,566	(2)
Interest and other income	1,004	559	445	(3)
Total revenues	136,203	118,961	17,242	
Expenses:				
Interest expense	17,497	13,128	(4,369)	(4)
Depreciation and amortization	29,431	25,529	(3,902)	(1)
Impairment on real estate for sale	2,250	—	(2,250)	(5)
Provision for doubtful accounts	619	32	(587)	(2)
Acquisition costs	744	195	(549)	(6)
General and administrative expenses	14,986	11,637	(3,349)	(7)
Total expenses	65,527	50,521	(15,006)	
Operating income	70,676	68,440	2,236	
Income from unconsolidated joint ventures	1,819	—	1,819	(8)
Gain on sale of real estate, net	586	4,959	(4,373)	(9)
Income from continuing operations	73,081	73,399	(318)	
Income allocated to participating securities	(484)	(481)	(3)	
Income allocated to preferred stockholders	(2,454)	(3,273)	819	(10)
Net income available to common stockholders	$ 70,143	$ 69,645	$ 498	

(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 additional funding under our notes receivable.

(4) Increased primarily due to the sale of senior unsecured notes, increased borrowing under our unsecured revolving line of credit and decrease in capitalized interest related to development projects.

(5) Subsequent to December 31, 2015, we entered into a contingent purchase and sale agreement to sell a 48-unit assisted living community in Florida for $1,750. Accordingly, we recorded an impairment charge of $2,250 to write the property down to its estimated sale price at December 31, 2015.

(6) Increased primarily due to costs associated with the acquisition of the 10-property senior housing portfolio in 2015.

(7) Increased primarily due to additional expenditures related to increased investment activity and restricted stock vesting.

(8) Represents our preferred return from our investment in an unconsolidated joint venture entered into during the first quarter of 2015.

(9) Represents the net gain on sale of two assisted living centers and one school in 2014 partially offset by the net gain on sale of one skilled nursing center in 2015.

(10) During the 2015 fourth quarter, the sole holder our Series C Convertible Preferred Stock elected to convert all of its shares into shares of common stock.

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Funds From Operations

Funds from Operations (or FFO) attributable to common stockholders, basic FFO attributable to common stockholders per share and diluted FFO attributable to common stockholders per share are supplemental measures of a REIT's financial performance that are not defined by U.S. GAAP. Real estate values historically rise and fall with market conditions, but cost accounting for real estate assets in accordance with U.S. GAAP assumes that the value of real estate assets diminishes predictably over time. We believe that by excluding the effect of historical cost depreciation, which may be of limited relevance in evaluating current performance, FFO facilitates comparisons of operating performance between periods.

We use FFO as a supplemental performance measurement of our cash flow generated by operations. FFO does not represent cash generated from operating activities in accordance with U.S. GAAP, and is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to net income available to common stockholders.

We calculate and report FFO in accordance with the definition and interpretive guidelines issued by the National Association of Real Estate Investment Trusts (or NAREIT). FFO, as defined by NAREIT, means net income available to common stockholders (computed in accordance with U.S. GAAP) excluding gains or losses on the sale of real estate and impairment write downs of depreciable real estate plus real estate depreciation and amortization, and after adjustments for unconsolidated partnerships and joint ventures. Our calculation of FFO may not be comparable to FFO reported by other REITs that do not define the term in accordance with the current NAREIT definition or that have a different interpretation of the current NAREIT definition from us; therefore, caution should be exercised when comparing our FFO to that of other REITs.

The following table reconciles net income available to common stockholders to FFO attributable to common stockholders (unaudited, amounts in thousands, except per share amounts):

	For the year ended December 31,					
	2016		2015		2014	
GAAP net income available to common stockholders	$ 84,730		$ 70,143		$ 69,645	
Add: Depreciation and amortization	35,932		29,431		25,529	
Add: Impairment on real estate for sale	766		2,250		—	
Less: Gain on sale of real estate, net	(3,582)		(586)		(4,959)	
NAREIT FFO attributable to common stockholders	$ 117,846		$ 101,238		$ 90,215	
NAREIT FFO attributable to common stockholders per share:						
Basic	$ 3.07		$ 2.84		$ 2.61	
Diluted	$ 3.06	(1)	$ 2.77	(2)	$ 2.55	(2)
Weighted average shares used to calculate NAREIT FFO per share:						
Basic	38,388		35,590		34,617	
Diluted	38,597	(3)	37,563	(4)	36,866	(4)

(1) Includes the effect of participating securities.

(2) Includes the effect of participating securities and the convertible preferred securities.

(3) Diluted weighted average shares used to calculate FFO per share for the year ended December 31, 2016, includes the effect of stock option equivalents, participating securities and performance based stock units.

(4) Diluted weighted average shares used to calculate FFO per share for the years ended December 31, 2015 and 2014, includes the effect of stock option equivalents, participating securities and convertible preferred securities.

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Critical Accounting Policies

See Item 8. FINANCIAL STATEMENTS—Note 2. Summary of Significant Accounting Policies.

Liquidity and Capital Resources

Sources and Uses of Cash

As of December 31, 2016, we had a total of $8.0 million of cash and cash equivalents, $492.9 million available under our unsecured revolving line of credit and $22.5 million available under our senior unsecured note shelf agreement. Subsequent to December 31, 2016, we amended our shelf agreement, issued senior unsecured notes and used the proceeds to repay our unsecured revolving line of credit. Accordingly, we have $600.0 million available under our unsecured revolving line of credit and $36.7 million available under our shelf agreement. See Debt Obligations below for further discussion.

Additionally, we have the potential ability to access the capital markets through the issuance of $200.0 million of common stock under our equity distribution agreement and unlimited amount through the issuance of debt and/ or equity securities under our effective shelf registration. Subsequent to December 31, 2016, we sold shares of common stock under our equity distribution agreement. Accordingly, we have $185.2 million available under these agreements. See Equity below for further discussion.

We believe that our current cash balance, cash flow from operations available for distribution or reinvestment, our borrowing capacity and our potential ability to access the capital markets are sufficient to provide for payment of our current operating costs, meet debt obligations and pay common dividends at least sufficient to maintain our REIT status and repay borrowings at, or prior to, their maturity. 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 2017.

We expect our future income and ability to make distributions from cash flows from operations to depend on the collectability of our rents and mortgage loans receivable. The collection of these loans and rents will be dependent, in large part, upon the successful operation by the operators of the seniors housing and health care properties we own or that are pledged to us. The operating results of the facilities will be impacted by various factors over which the operators/owners may have no control. Those factors include, without limitation, the status of the economy, changes in supply of or demand for competing seniors housing and health care facilities, ability to control rising operating costs, and the potential for significant reforms in the health care industry. In addition, our future growth in net income and cash flow may be adversely impacted by various proposals for changes in the governmental regulations and financing of the health care industry. We cannot presently predict what impact these proposals may have, if any. We believe that an adequate provision has been made for the possibility of loans proving uncollectible but we will continually evaluate the financial status of the operations of the seniors housing and health care properties. In addition, we will monitor our borrowers and the underlying collateral for mortgage loans and will make future revisions to the provision, if considered necessary.

Our investments, principally our investments in mortgage loans and owned properties, are subject to the possibility of loss of their carrying values as a result of changes in market prices, interest rates and inflationary expectations. The effects on interest rates may affect our costs of financing our operations and the fair market value of our financial assets. Generally our loans have predetermined increases in interest rates and our leases have agreed upon annual increases. Inasmuch as we may initially fund some of our investments with variable interest rate debt, we would be at risk of net interest margin deterioration if medium and long-term rates were to increase.

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Our primary sources of cash include rent and interest receipts, borrowings under our primary unsecured credit facility, public issuances of debt and equity securities, proceeds from investment dispositions and principal payments on loans receivable. Our primary uses of cash include dividend distributions, debt service payments (including principal and interest), real property investments (including acquisitions, capital expenditures and construction advances), loan advances and general and administrative expenses. These sources and uses of cash are reflected in our Consolidated Statements of Cash Flows as summarized below (in thousands):

	Year ended		Change	
Cash provided by (used in):	2016	2015	$	%
Operating activities	$ 105,708	$ 102,341	$ 3,367	3.3 %
Investing activities	(139,898)	(326,820)	186,922	(57.2)%
Financing activities	29,239	212,184	(182,945)	(86.2)%
(Decrease) increase in cash and cash equivalents	(4,951)	(12,295)	7,344	59.7 %
Cash and cash equivalents, beginning of period	12,942	25,237	(12,295)	(48.7)%
Cash and cash equivalents, end of period	$ 7,991	$ 12,942	$ (4,951)	(38.3)%

Operating Activities. Cash provided by operating activities for the year ended December 31, 2016, increased to $105.7 million compared to $102.3 million for the year ended December 31, 2015 due to increased operating cash flow from acquisitions, completed developments and capital improvement projects.

Investing Activities. Cash used in investing activities decreased from $326.8 million for the year ended December 31, 2015 compared to $139.9 million for the year ended December 31, 2016 primarily due to decreased acquisitions and loan originations partially offset by increased real estate development and capital improvement projects in 2016.

Financing Activities. Cash provided by financing activities decreased to $29.2 million for the year ended December 31, 2016, from $212.2 million for the comparable 2015 period. The decrease in cash provided by financing activities is primarily attributable to decreased bank borrowings partially offset by proceeds from common stock offerings during 2016, and an increase in distributions paid to stockholders.

Debt Obligations

Bank Borrowings. We have an Unsecured Credit Agreement that provides for a revolving line of credit up to $600.0 million. The Unsecured Credit Agreement matures on October 14, 2018 and provides for a one-year extension option at our discretion, subject to customary conditions. Based on our leverage at December 31, 2016, the facility provides for interest annually at LIBOR plus 150 basis points and an unused commitment fee of 35 basis points. During 2016, we borrowed $123.6 million and repaid $137.0 million under our Unsecured Credit Agreement. At December 31, 2016, we were in compliance with all covenants. Subsequent to December 31, 2016, we repaid our outstanding balance of $107.1 million using proceeds from the sale of senior unsecured notes, as discussed below. Accordingly, we have $600.0 million available under our revolving line of credit.

Senior Unsecured Notes. During the twelve months ended December 31, 2016, we sold $37.5 million senior unsecured notes to affiliates and managed accounts of Prudential Investment Management, Inc. (or Prudential) with an annual fixed rate of 4.15%. The notes have an average 10-year life, scheduled principal payments and mature in 2028. During the twelve months ended December 31, 2016, we paid $26.7 million in regular scheduled principal payments under our Prudential senior unsecured notes. Accordingly, at December 31, 2016, we had $22.5 million available under our shelf agreement with Prudential.

Subsequent to December 31, 2016, we paid $4.2 million in regular scheduled principal payments and amended our shelf agreement with Prudential to increase our shelf commitment to $337.5 million. Additionally, subsequent to December 31, 2016, we sold 15-year senior unsecured notes in the aggregate amount of $100.0 million to a group of institutional investors, which included Prudential, in a private placement transaction. The notes bear interest at an annual fixed rate of 4.5%, have scheduled principal payments and mature on February 16, 2032. Accordingly, we have $36.7 million available under our amended shelf agreement with Prudential.

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Additionally, during the twelve months ended December 31, 2016, we amended our agreement with AIG Asset Management (U.S.) LLC (or AIG) which provided for the possible issuance of up to an additional of $40.0 million of senior unsecured notes and sold $40.0 million senior unsecured term notes with a fixed rate of 3.99% to affiliated insurance company investment advisory clients of AIG. The notes have an average 10-year life, scheduled principal payments and will mature in 2031.

The following table summarizes information regarding debt obligations by component as of December 31, 2016 (dollar amounts in thousands):

Debt Obligations	Applicable Interest Rate(1)	Outstanding Balance	Available for Borrowing
Bank borrowings (2)	2.25%	$ 107,100	$ 492,900
Senior unsecured notes, net of debt issue costs (3)	4.50%	502,291	22,500
Total	4.11%	$ 609,391	$ 515,400

(1) Represents weighted average of interest rate as of December 31, 2016.

(2) Subsequent to December 31, 2016, we repaid $107,100, accordingly we have no outstanding balance and $600,000 available for borrowing.

(3) Subsequent to December 31, 2016, we paid $4,167 in regular scheduled principal payments and sold $100,000 senior unsecured notes. Additionally, we amended our shelf agreement with Prudential. Accordingly, we have $598,124 of senior unsecured notes outstanding and $36,667 available under our shelf agreement.

Equity

At December 31, 2016, we had 39,221,370 shares of common stock outstanding, equity on our balance sheet totaled $740.0 million and our equity securities had a market value of $1.8 billion.

At-The-Market Program. During 2015, we entered into an equity distribution agreement (or Original Agreement) to issue and sell, from time to time, up to $200.0 million in aggregate offering price of our common shares. Sales of common shares are made by means of ordinary brokers' transactions, which may include block trades, or transactions that are deemed to be "at the market" offerings. During the twelve months ended December 31, 2016, we sold 1,643,017 shares of common stock for $78.6 million in net proceeds under the Original Agreement.

During the twelve months ended December 31, 2016, we terminated the Original Agreement and entered into a new equity distribution agreement (or Equity Distribution Agreement) to issue and sell, from time to time, up to $200.0 million in aggregate offering price of our company common shares. As of December 31, 2016, no shares were issued under this agreement. Subsequent to December 31, 2016, we sold 312,881 shares of common stock for $14.6 million under our Equity Distribution Agreement. Accordingly, we have $185.2 million available under this agreement.

During 2016, we acquired 49,405 shares of common stock held by the employees who tendered shares to satisfy tax withholding obligations. Subsequent to December 31, 2016, we acquired 23,691 shares of common stock held by employees who tendered owned shares to satisfy tax withholding obligations.

Stock Based Compensation Plans. During 2015, we adopted and our shareholders approved the 2015 Equity Participation Plan (or the 2015 Plan) which replaces the 2008 Equity Participation Plan (or the 2008 Plan). Under the 2015 Plan, 1,400,000 shares of common stock have been reserved for awards, including nonqualified stock option grants and restricted stock grants to officers, employees, non-employee directors and consultants. The terms of the awards granted under the 2015 Plan are set by our compensation committee at its discretion. During the twelve months ended December 31, 2016, no stock options were granted under this plan.

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During 2016, we granted 127,087 shares of restricted common stock under the 2015 Plan as follows:

Year	No. of Shares/Units	Price per Share	Vesting Period
2016	65,300	$ 43.24	ratably over 3 years
	54,107	$ 46.87	TSR targets (1)
	7,680	$ 46.87	June 1, 2017
	127,087		

(1) Vesting is based on achieving certain total shareholder return (or TSR) targets in 3.7 years with acceleration opportunity in 2.7 years.

Subsequent to December 31, 2016, we granted 74,760 shares of restricted common stock at $45.76 per share. These shares vest ratably from the grant date over a three-year period.

At December 31, 2016, the total number of restricted common stock and performance-based stock units that are scheduled to vest and remaining compensation expense to be recognized related to the future service period of unvested outstanding restricted common stock and performance-based stock units are as follows:

Vesting Date	Number of Awards		Remaining Compensation Expense
2017	85,343		3,428,000
2018	49,352		2,071,000
2019	75,878	(1)	236,000
	210,573		$ 5,735,000

(1) Includes 54,107 performance-based stock units. The performance based stock units are valued utilizing a lattice-binomial option pricing model based on Monte Carlo simulations. The company recognizes the fair value of the awards over the applicable vesting period as compensation expense.

Stock Options. We did not issue any stock options during the year ended December 31, 2016. During 2016, a total of 6,667 stock options were exercised at a total option value of $159,000 and a total market value on the date of exercise of $311,000. At December 31, 2016, we have 33,334 stock options outstanding of which 28,334 of those stock options are exercisable.

Available Shelf Registrations. We had an automatic shelf registration statement which was filed in 2013 and provided us with the capacity to publicly offer up to $800.0 million in common stock, preferred stock, warrants, debt, depositary shares, or units. In advance of the three-year expiration of the 2013 automatic shelf registration statement, we filed a new automatic shelf registration statement with the SEC on January 29, 2016 to provide us with additional capacity to publicly offer an indeterminate amount of common stock, preferred stock, warrants, debt, depositary shares, or units. We may from time to time raise capital under the automatic registration statement we filed in 2016 (until its expiration on January 29, 2019) in amounts, at prices, and on terms to be announced when and if the securities are offered. The specifics of any future offerings, along with the use of proceeds of any securities offered, will be described in detail in a prospectus supplement, or other offering materials, at the time of the offering.

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Contractual Obligations

We monitor our contractual obligations and commitments detailed above to ensure funds are available to meet obligations when due. The following table represents our long term contractual obligations (scheduled principal payments and amounts due at maturity) as of December 31, 2016, excluding the effects of interest and debt issue costs (in thousands):

	Total	2017	2018	2019	2020	2021	Thereafter
Bank borrowings	$ 107,100(1)	$ —	$ 107,100	$ —	$ —	$ —	$ —
Senior unsecured notes	503,300(2)	31,167	38,167	33,666	40,160	40,160	319,980
	$ 610,400	$ 31,167	$ 145,267	$ 33,666	$ 40,160	$ 40,160	$ 319,980

(1) Subsequent to December 31, 2016, we repaid the $107,100 outstanding balance. Accordingly, we have $600,000 available under our unsecured revolving line of credit.

(2) Subsequent to December 31, 2016, we paid $4,167 in regular scheduled principal payments and sold $100,000 senior unsecured notes. Additionally, we amended our shelf agreement with Prudential. Accordingly, we have $598,124 of senior unsecured notes outstanding and $36,667 available under our shelf agreement.

The following table represents our projected interest expense, excluding capitalized interest, amortization of debt issue costs, bank fees and earn-out accretion, as of December 31, 2016 and including the effects of the subsequent borrowing and repayment of our outstanding debt as discussed above (in thousands):

	Total	2017	2018	2019	2020	2021	Thereafter
Bank borrowings	$ 3,797	$ 2,129	$ 1,668	$ —	$ —	$ —	$ —
Senior unsecured notes	195,318	25,694	24,979	23,377	21,808	19,715	79,745
	$ 199,115	$ 27,823	$ 26,647	$ 23,377	$ 21,808	$ 19,715	$ 79,745

Off Balance Sheet Arrangements:

We had no off balance sheet arrangements as of December 31, 2016.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

You are cautioned that statements contained in this section are forward looking and should be read in conjunction with the disclosure under the heading “Cautionary Statements” and the “Risk Factors” set forth above.

We are exposed to market risks associated with changes in interest rates as they relate to our mortgage loans receivable and debt. Interest rate risk is sensitive to many factors, including governmental monetary and tax policies, domestic and international economic and political considerations and other factors that are beyond our control.

We do not utilize interest rate swaps, forward or option contracts, or foreign currencies or commodities, or other types of derivative financial instruments nor do we engage in “off balance sheet” transactions. The purpose of the following disclosure is to provide a framework to understand our sensitivity to hypothetical changes in interest rates as of December 31, 2016.

Our future earnings, cash flows and estimated fair values relating to financial instruments are dependent upon prevalent market rates of interest, such as LIBOR or term rates of U.S. Treasury Notes. Changes in interest rates generally impact the fair value, but not future earnings or cash flows, of mortgage loans receivable and fixed rate debt. Our mortgage loans receivable and debt, such as our senior unsecured notes, are primarily fixed rate instruments. For variable rate debt, such as our revolving line of credit, changes in interest rates generally do not impact the fair value, but do affect future earnings and cash flows.

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At December 31, 2016, the fair value of our mortgage loans receivable using an 8.2% discount rate was approximately $294.3 million. A 1% increase in such rates would decrease the estimated fair value of our mortgage loans by approximately $26.7 million while a 1% decrease in such rates would increase their estimated fair value by approximately $31.6 million. At December 31, 2016, the fair value of our senior unsecured notes using a 4.47% discount rate for those maturing before year 2026 and 4.60% discount rate for those maturing at or beyond year 2026 was approximately $498.9 million. A 1% increase in such rates would decrease the estimated fair value of our senior unsecured notes by approximately $26.9 million while a 1% decrease in such rates would increase their estimated fair value by approximately $29.1 million. These discount rates were measured based upon management's estimates of rates currently prevailing for comparable loans available to us and instruments of comparable maturities.

The estimated impact of changes in interest rates discussed above are determined by considering the impact of the hypothetical interest rates on our borrowing costs, lending rates and current U.S. Treasury rates from which our financial instruments may be priced. We do not believe that future market rate risks related to our financial instruments will be material to our financial position or results of operations. These analyses do not consider the effects of industry specific events, changes in the real estate markets, or other overall economic activities that could increase or decrease the fair value of our financial instruments. If such events or changes were to occur, we would consider taking actions to mitigate and/or reduce any negative exposure to such changes. However, due to the uncertainty of the specific actions that would be taken and their possible effects, the sensitivity analysis assumes no changes in our capital structure.

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Item 8. FINANCIAL STATEMENTS

LTC Properties, Inc.

Index to Consolidated Financial Statements

and Financial Statement Schedules

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of LTC Properties, Inc.

We have audited the accompanying consolidated balance sheets of LTC Properties, Inc. (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive income, equity, and cash flows for each of the three years in the period ended December 31, 2016. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of LTC Properties, Inc. at December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects, the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), LTC Properties, Inc.'s internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 22, 2017 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Los Angeles, California

February 22, 2017

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LTC PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share amounts)

	December 31, 2016	2015
ASSETS		
Investments:		
Land	$ 116,096	$ 106,841
Buildings and improvements	1,185,467	1,091,845
Accumulated depreciation and amortization	(275,861)	(251,265)
Real property investments, net	1,025,702	947,421
Mortgage loans receivable, net of loan loss reserve: 2016—$2,315; 2015—$2,190	229,801	217,529
Real estate investments, net	1,255,503	1,164,950
Notes receivable, net of loan loss reserve: 2016—$166; 2015—$0	16,427	1,961
Investments in unconsolidated joint ventures	25,221	24,042
Investments, net	1,297,151	1,190,953
Other assets:		
Cash and cash equivalents	7,991	12,942
Debt issue costs related to bank borrowings	1,847	2,865
Interest receivable	9,683	4,536
Straight-line rent receivable, net of allowance for doubtful accounts: 2016—$960; 2015—$833	55,276	42,685
Prepaid expenses and other assets	22,948	21,443
Total assets	$ 1,394,896	$ 1,275,424
LIABILITIES		
Bank borrowings	$ 107,100	$ 120,500
Senior unsecured notes, net of debt issue costs: 2016—$1,009; 2015—$1,095	502,291	451,372
Accrued interest	4,675	3,974
Accrued incentives and earn-outs	12,229	12,722
Accrued expenses and other liabilities	28,553	27,654
Total liabilities	654,848	616,222
EQUITY		
Stockholders' equity:		
Common stock: $0.01 par value; 60,000 shares authorized; shares issued and outstanding: 2016—39,221; 2015—37,548	392	375
Capital in excess of par value	839,005	758,676
Cumulative net income	1,013,443	928,328
Accumulated other comprehensive income	—	47
Cumulative distributions	(1,112,792)	(1,028,224)
Total equity	740,048	659,202
Total liabilities and equity	$ 1,394,896	$ 1,275,424

See accompanying notes.

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LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share amounts)

	Year Ended December 31,		
	2016	2015	2014
Revenues:			
Rental income	$ 133,527	$ 113,080	$ 101,849
Interest income from mortgage loans	27,321	22,119	16,553
Interest and other income	735	1,004	559
Total revenues	161,583	136,203	118,961
Expenses:			
Interest expense	26,442	17,497	13,128
Depreciation and amortization	35,932	29,431	25,529
Impairment of real estate for sale	766	2,250	—
Provision for doubtful accounts	457	619	32
Transaction costs	179	744	195
General and administrative expenses	17,412	14,986	11,637
Total expenses	81,188	65,527	50,521
Operating income	80,395	70,676	68,440
Income from unconsolidated joint ventures	1,138	1,819	—
Gain on sale of real estate, net	3,582	586	4,959
Net income	85,115	73,081	73,399
Income allocated to participating securities	(385)	(484)	(481)
Income allocated to preferred stockholders	—	(2,454)	(3,273)
Net income available to common stockholders	$ 84,730	$ 70,143	$ 69,645
Earnings per common share:			
Basic	$ 2.21	$ 1.97	$ 2.01
Diluted	$ 2.21	$ 1.94	$ 1.99
Weighted average shares used to calculate earnings per common share:			
Basic	38,388	35,590	34,617
Diluted	38,597	37,329	36,640

See accompanying notes.

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LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

	Year Ended December 31,		
	2016	2015	2014
Net income	$ 85,115	$ 73,081	$ 73,399
Reclassification adjustment (See Note 9)	(47)	(35)	(35)
Comprehensive income	$ 85,068	$ 73,046	$ 73,364

See accompanying notes.

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LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF EQUITY

(In thousands, except per share amounts)

	Shares Preferred Stock	Common Stock	Preferred Stock	Common Stock	Capital in Excess of Par Value	Cumulative Net Income	Accumulated OCI	Cumulative Distributions	Total Equity
alance—December 31, 2013	2,000	34,746	$ 38,500	$ 347	$ 688,654	$ 781,848	$ 117	$ (877,028)	$ 632,438
eclassification adjustment	—	—	—	—	—	—	(35)	—	(35)
suance of common stock	—	600	—	6	24,638	—	—	—	24,644
suance of restricted stock	—	95	—	1	(1)	—	—	—	—
et income	—	—	—	—	—	73,399	—	—	73,399
esting of restricted stock	—	—	—	—	3,241	—	—	—	3,241
ock option exercises	—	45	—	1	1,070	—	—	—	1,071
ested stock options	—	—	—	—	12	—	—	—	12
eferred stock dividends	—	—	—	—	—	—	—	(3,273)	(3,273)
ommon stock cash stributions ($2.04 per are)	—	—	—	—	—	—	—	(71,158)	(71,158)
ther	—	(6)	—	—					