LTC PROPERTIES INC
Form 10-Q
August 08, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

OR

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

For the Transition period from to

Commission file number 1-11314

LTC PROPERTIES, INC.

(Exact name of Registrant as specified in its charter)

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

31365 Oak Crest Drive, Suite 200

Westlake Village, California 91361

(Address of principal executive offices)

(805) 981-8655

(Registrant s telephone number, including area code)

Indicate by check mark whether registrant (1) has filed all reports 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 registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer x Non-accelerated filer o

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

Shares of registrant s common stock, $.01 par value, outstanding on August 6, 2007 23,369,990

LTC PROPERTIES, INC.

FORM 10-Q

June 30, 2007

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LTC PROPERTIES, INC.

CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except per share amounts)

	June 30, 2007 (unaudited)	**December 31, 2006**
ASSETS		
Real Estate Investments:		
Buildings and improvements, net of accumulated depreciation and amortization: 2007 - $109,043; 2006 - $102,091	$ 347,148	$ 351,148
Land	34,942	35,048
Mortgage loans receivable, net of allowance for loan losses: 2007 - $860 2006 - $1,280	88,541	116,992
Real estate investments, net	470,631	503,188
Other Assets:		
Cash and cash equivalents	63,562	29,887
Debt issue costs, net	425	548
Interest receivable	2,627	3,170
Prepaid expenses and other assets	18,175	16,771
Notes receivable	3,492	4,264
Marketable securities	6,462	9,939
Total Assets	$ 565,374	$ 567,767
LIABILITIES AND STOCKHOLDERS EQUITY		
Bank borrowings	$	$
Mortgage loans payable	47,723	48,266
Bonds payable	5,130	5,545
Accrued interest	348	358
Accrued expenses and other liabilities	5,214	6,223
Distributions payable	3,416	3,423
Total Liabilities	61,831	63,815
Minority interest	3,518	3,518
Stockholders equity:		
Preferred stock $0.01 par value: 15,000 shares authorized; shares issued and outstanding: 2007 8,820; 2006 8,834	209,012	209,341
Common stock: $0.01 par value; 45,000 shares authorized; shares issued and outstanding: 2007 23,724; 2006 23,569	237	236
Capital in excess of par value	333,617	332,149
Cumulative net income	468,061	442,833
Other	1,127	1,693
Cumulative distributions	(512,029)	(485,818)
Total Stockholders Equity	500,025	500,434
Total Liabilities and Stockholders Equity	$ 565,374	$ 567,767

See accompanying notes.

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LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

(Amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30, 2007	**2006**	**Six Months Ended June 30, 2007**	**2006**
Revenues:				
Rental income	$ 14,430	$ 12,777	$ 28,815	$ 25,407
Interest income from mortgage loans	3,785	4,001	7,254	8,322
Interest and other income	1,578	1,868	2,453	2,951
Total revenues	19,793	18,646	38,522	36,680
Expenses:				
Interest expense	1,235	1,780	2,483	3,651
Depreciation and amortization	3,575	3,409	7,116	6,872
Legal expenses	116	120	145	170
Operating and other expenses	1,938	1,384	3,527	2,711
Total expenses	6,864	6,693	13,271	13,404
Income before non-operating income and minority interest				
Minority interest	86	86	172	172
Income from continuing operations	12,843	11,867	25,079	23,104
Discontinued operations:				
Income from discontinued operations		122		688
Gain on sale of assets, net			149	31,938
Net income from discontinued operations		122	149	32,626
Net income	12,843	11,989	25,228	55,730
Preferred stock dividends	(4,234)	(4,306)	(8,473)	(8,615)
Net income available to common stockholders	$ 8,609	$ 7,683	$ 16,755	$ 47,115
Net Income per Common Share from Continuing Operations net of Preferred Stock Dividends:				
Basic	$ 0.37	$ 0.32	$ 0.70	$ 0.62
Diluted	$ 0.36	$ 0.32	$ 0.70	$ 0.62
Net Income per Common Share from Discontinued Operations:				
Basic	$	$ 0.01	$ 0.01	$ 1.40
Diluted	$	$ 0.01	$ 0.01	$ 1.33
Net Income per Common Share Available to Common Stockholders:				
Basic	$ 0.37	$ 0.33	$ 0.71	$ 2.02
Diluted	$ 0.36	$ 0.33	$ 0.71	$ 1.88
Basic weighted average shares outstanding	23,529	23,339	23,505	23,314
Comprehensive income				
Net income	$ 12,843	$ 11,989	$ 25,228	$ 55,730
Unrealized gain on available-for-sale securities		173		173
Reclassification adjustment	(406)	(192)	(566)	(382)
Total comprehensive income	$ 12,437	$ 11,970	$ 24,662	$ 55,521

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

See accompanying notes.

LTC PROPERTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in thousands)

(Unaudited)

	Six Months Ended June 30, 2007	2006
OPERATING ACTIVITIES:		
Net income	$ 25,228	$ 55,730
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization continuing operations	7,116	6,872
Depreciation and amortization discontinued operations		44
Minority interest	172	172
Stock-based compensation expense	979	503
Straight-line rental income	(2,398)	(1,256)
Other non-cash items, net	(1,226)	44
Gain on sale of real estate investments, net	(149)	(31,938)
Decrease in accrued interest payable	(11)	(48)
Decrease (increase) in interest receivable	244	(10)
Net change in other assets and liabilities	(320)	(2,198)
Net cash provided by operating activities	29,635	27,915
INVESTING ACTIVITIES:		
Investment in real estate properties and capital improvements, net	(2,857)	(8,010)
Proceeds from sale of real estate investments	158	54,042
Principal payments received on mortgage loans receivable	29,047	21,300
Investment in marketable equity securities		(1,440)
Proceeds from redemption of marketable debt securities	4,049	
Advance under notes receivable	(40)	(1,152)
Principal payments received on notes receivable	870	385
Net cash provided by investing activities	31,227	65,125
FINANCING ACTIVITIES:		
Borrowings under the line of credit		2,000
Repayments of borrowings under the line of credit		(18,000)
Mortgage principal payments on the senior mortgage participation		(1,753)
Principal payments on mortgage loans payable and bonds payable	(958)	(1,071)
Repurchase of common stock		(1,476)
Distributions paid to minority interests	(172)	(178)
Distributions paid to stockholders	(26,217)	(25,423)
Other	160	654
Net cash used in financing activities	(27,187)	(45,247)
Increase in cash and cash equivalents	33,675	47,793
Cash and cash equivalents, beginning of period	29,887	3,569
Cash and cash equivalents, end of period	$ 63,562	$ 51,362
SUPPLEMENTAL CASH FLOW INFORMATION:		
Interest paid	$ 1,123	$ 3,330
Non-cash investing and financing transactions:		
Conversion of preferred stock to common stock	329	931
Reclassification of previously issued restricted stock		3,123

See accompanying notes.

LTC PROPERTIES, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

(Unaudited)

1. General

LTC Properties, Inc., a Maryland corporation, is a real estate investment trust (or REIT) that invests primarily in long term care properties through mortgage loans, property lease transactions and other investments.

In accordance with plain English guidelines provided by the Securities and Exchange Commission, whenever we refer to our company or to us, or use the terms we or our, we are referring to LTC Properties, Inc. and/or its subsidiaries.

We have prepared consolidated financial statements included herein without audit (except for the balance sheet at December 31, 2006 which is audited) and in the opinion of management have included all adjustments necessary for a fair presentation of the results of operations for the three and six months ended June 30, 2007 and 2006 pursuant to the rules and regulations of the Securities and Exchange Commission. The accompanying consolidated financial statements include the accounts of our company, its wholly-owned subsidiaries and a controlled partnership. All significant intercompany accounts and transactions have been eliminated in consolidation. Control over the partnership is based on the provisions of the partnership agreement that provide us with a controlling financial interest in the partnership. Under the terms of the partnership agreement, our company, as general partner, is responsible for the management of the partnership s assets, business and affairs. Certain of our rights and duties in management of the partnership include making all operating decisions, setting the capital budget, executing all contracts, making all employment decisions, and handling the purchase and disposition of assets. We, as the general partner, are responsible for the ongoing, major, and central operations of the partnership and make all management decisions. In addition, we, as the general partner, assume the risk for all operating losses, capital losses, and are entitled to substantially all capital gains (i.e. asset appreciation).

The limited partners have virtually no rights and are precluded from taking part in the operation, management or control of the partnership. The limited partners are also precluded from transferring their partnership interests without the express permission of the general partner. However, we can transfer our interest without consultation or permission of the limited partners.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to rules and regulations governing the presentation of interim financial statements; however, we believe that the disclosures in the accompanying financial statements are adequate to make the information presented not misleading.

Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation and as required by Statement of Financial Accounting Standards (or SFAS) No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets*. The results of operations for the three and six months ended June 30, 2007 are not necessarily indicative of the results for a full year.

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

In July 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (or FIN 48), which clarifies the accounting for income taxes by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 utilizes a two-step approach for evaluating tax positions. Recognition (step one)

occurs when a company concludes that a tax position, based solely on its technical merits, is more likely than not to be sustained upon examination. Measurement (step two) is only addressed if step one has been satisfied (i.e., the position is more likely than not to be sustained). Under step two, the tax benefit is measured as the largest amount of benefit (determined on a cumulative probability basis) that is more likely than not to be realized upon ultimate settlement. FIN 48 is effective for fiscal years beginning after December 15, 2006. Adoption of FIN 48 on January 1, 2007 did not have any effect on our consolidated financial statements.

We may from time to time be assessed interest or penalties by certain tax jurisdictions. In the event we have received an assessment for interest and/or penalties, it has been classified in the financial statements as general and administrative expense.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value of Option for Financial Assets and Financial Liabilities* (or SFAS No. 159). SFAS No. 159 permits entities to choose to measure certain financial assets and liabilities at fair value, with the change in unrealized gains and losses on items for which the fair value option has been elected reported in earnings. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 is not expected to have a material impact on our results of operations or financial position.

2. Real Estate Investments

Owned Properties. At June 30, 2007, our investment in owned properties consisted of 62 skilled nursing properties with a total of 7,214 beds, 84 assisted living properties with a total of 3,744 units and one school in 23 states.

During the six months ended June 30, 2007, we invested $2,590,000 under agreements to expand and renovate 12 properties operated by seven different operators. The total commitment under these agreements is $9,210,000, of which $7,685,000 had been invested as of June 30, 2007. These investments are at a weighted average yield of 9.7%. Also during the six months ended June 30, 2007 we sold a closed, previously impaired skilled nursing property to a third party for a purchase price of $166,000. As a result of the sale, we recognized a net gain of $149,000 during the six months ended June 30, 2007. Additionally, we invested $267,000 in capital improvements to existing properties under various lease agreements whose rental rates already reflected this investment.

During the six months ended June 30, 2006, we sold four assisted living properties with a total of 431 units located in four states to an entity formed by the principals of Sunwest Management Inc., (or Sunwest) for $56,500,000. We recognized a gain of $31,938,000 on the sale and received total net proceeds of $54,542,000, after paying closing costs and a $3,840,000 8.75% State of Oregon bond obligation related to one of the properties sold. In 2005 we sold an option to purchase these four properties to Sunwest for $2,000,000. In exchange for the right to purchase the properties for $58,500,000, we received $500,000 in cash and a note receivable for $1,500,000. The proceeds from the sale of the purchase option have been applied to the proceeds of the sale of the four properties.

In accordance with SFAS No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* properties held for sale at any reporting period include only those properties available for immediate sale in their present condition and for which management believes that it is probable that a sale of the property will be completed within one year. Properties held for sale are carried at the lower of cost or fair value less estimated selling costs. No depreciation expense is recognized on properties held for sale. In addition, the operating results of real estate assets designated as held for sale and all gains and

losses from real estate sold are included in discontinued operations in the consolidated statement of income.

Set forth in the table below are the components of the net income from discontinued operations *(in thousands)*:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2007	**2006**	**2007**	**2006**
Rental income	$	$ 146	$	$ 656
Interest and other income				97
Interest expense				(17)
Depreciation and amortization		(22)		(44)
Operating and other expenses		(2)		(4)
Income from discontinued operations	$	$ 122	$	$ 688

Mortgage Loans. At June 30, 2007, we had investments in 50 mortgage loans secured by first mortgages on 47 skilled nursing properties with a total of 5,517 beds, 10 assisted living properties with 705 units and one school located in 16 states. At June 30, 2007, the mortgage loans had interest rates ranging from 6.6% to 13.1% and maturities ranging from 2007 to 2019. In addition, some loans contain certain guarantees, provide for certain facility fees and generally have 25-year amortization schedules. The majority of the mortgage loans provide for annual increases in the interest rate based upon a specified increase of 10 to 25 basis points.

During the six months ended June 30, 2007, we received $26,683,000 plus accrued interest related to the payoff of eight mortgage loans secured by eleven skilled nursing properties located in various states. We also received $2,364,000 in regularly scheduled principal payments. Subsequent to June 30, 2007 we received $1,037,000 plus accrued interest related to the payoff of two mortgage loans secured by two skilled nursing properties located in various states.

3. Notes Receivable

During the six months ended June 30, 2007, we received $870,000 and funded $40,000 in principal payments under various loans and line of credit agreements with certain operators.

4. Marketable Securities

At December 31, 2006, we had an investment in $10,000,000 face value of Skilled Healthcare Group, Inc. (or SHG) Senior Subordinated Notes with a face rate of 11.0% and an effective yield of 11.1%. Interest on the notes is payable semi-annually in arrears and the notes mature on January 15, 2014.

During the three months ended June 30, 2007 SHG redeemed $3,500,000 face value of the $10,000,000 face value Senior Subordinated Notes at a redemption price equal to 111% of the principal amount of the notes, plus accrued and unpaid interest. As a result of this early redemption, we recognized additional interest income of $385,000 during the quarter ended June 30, 2007.

One of our board members is the chief executive officer of SHG. We account for this investment in marketable debt securities as held-to-maturity in accordance with SFAS No. 115 *Accounting for Certain Investments in Debt and Equity Securities* at amortized cost, adjusted for any related premiums (discounts) over the estimated remaining period until maturity.

5. Debt Obligations

At June 30, 2007, we had no outstanding borrowings under our $90,000,000 Unsecured Revolving Credit Agreement and the full amount was available for borrowing. During the six months ended June 30, 2007, pricing under the Unsecured Revolving Credit Agreement based on our borrowing election was Prime Rate plus 0.50% or LIBOR plus 1.50%.

6. Stockholders Equity

Preferred Stock. During the six months ended June 30, 2007, holders of 13,161 shares of our 8.5% Series E Cumulative Convertible Preferred Stock (Series E preferred stock) elected to convert such shares into 26,322 shares of our common stock at the Series E preferred stock conversion rate of $12.50 per share. Total shares reserved for issuance of common stock related to the conversion of Series E preferred stock were 360,966 at June 30, 2007. Subsequent to June 30, 2007, holders of 12,700 shares of our Series E preferred stock elected to convert such shares into 25,400 shares of our common stock. After these conversions, total shares reserved for issuance of common stock related to the conversion of Series E preferred stock were 335,566.

Common Stock. During the six months ended June 30, 2007, a total of 30,000 stock options were exercised at a total option value of $160,000 and a total market value as of the dates of exercise of $800,000. Subsequent to June 30, 2007 4,000 stock options were exercised at an option value of $31,000 and a market value as of the date of exercise of $83,000. In June 2007 our Board terminated the existing share repurchase program and authorized a new share repurchase program enabling us to repurchase up to 5,000,000 shares of our equity securities. Subsequent to June 30, 2007, and as of August 6, 2007, we repurchased and retired 383,400 shares of common stock for an aggregate purchase price of $8,062,000 at an average purchase price of $21.03 per share. The shares were purchased on the open market under the Board authorization discussed above. Therefore, we continue to have an open Board authorization to purchase an additional 4,616,600 shares.

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

	Six months ended June 30, 2007				Six months ended June 30, 2006			
	Declared		Paid		Declared		Paid	
Preferred Stock								
Series C	$ 1,636		$ 1,636		$ 1,636		$ 1,636	
Series E	197		203		339		359	
Series F	6,640		6,640		6,640		6,640	
	8,473		8,479		8,615		8,635	
Common Stock	17,738	(1)	17,738	(1)	8,406	(2)	16,788	(3)
Total	$ 26,211	(4)	$ 26,217	(4)	$ 17,021	(4)	$ 25,423	(4)

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(1) Represents $0.125 per share per month for the six months ended June 30, 2007.

(2) Represents $0.12 per share per month for the second quarter of 2006. Common dividends for the first quarter of 2006 were declared in December 2005. Common dividends for the third quarter of 2006 were declared subsequent to June 30, 2006.

(3) Represents $0.12 per share per month for the six months ended June 30, 2006.

(4) The difference between declared and paid is the change in distributions payable on the balance sheet at June 30 and December 31.

In July 2007, we declared a monthly cash dividend of $0.125 per common share per month for the months of July, August and September 2007, payable on July 31, August 31 and September 28, 2007, respectively, to stockholders of record on July 23, August 23 and September 20, 2007, respectively.

Other Equity. Other equity consists of accumulated comprehensive income of $1,127,000 and $1,693,000 at June 30, 2007 and December 31, 2006, respectively. This balance represents the net unrealized holding gains on available-for-sale REMIC Certificates recorded in 2005 when we repurchased the loans in the underlying loan pool. This amount is being amortized to increase interest income over the remaining life of the loans that we repurchased from the REMIC Pool. See *Note 6. Real Estate Investments* to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006 for further discussion of the repurchase of the loans underlying our investment in REMIC Certificates.

Stock-Based Compensation. Effective January 1, 2006, we adopted SFAS No. 123(R) which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values. Thus, for all options that vested during 2006, regardless of when they were granted, compensation expense was recognized during 2006 according to SFAS No. 123(R). We use the Black-Scholes-Merton formula to estimate the value of stock options granted to employees. This model requires management to make certain estimates including stock volatility, discount rate and the termination discount factor. If management incorrectly estimates these variables, the results of operations could be affected.

During the six months ended June 30, 2007 and 2006, $36,000 and $29,000 of compensation expense was recognized related to the vesting of stock options. During the six months ended June 30, 2007, 174,500 options to purchase common stock were issued at an exercise price of $23.79 and vest ratably over a three-year period. Also during the six months ended June 30, 2007, 30,000 options to purchase common stock were issued at an exercise price of $23.47 and vest ratably over a three-year period. No stock options were issued during the six months ended June 30, 2006. At June 30, 2007, the total number of stock options that are scheduled to vest through December 31, 2007, 2008, 2009 and 2010 is 0, 73,163, 68,167, and 68,170, respectively. We have no stock options outstanding that are scheduled to vest beyond 2010. The remaining compensation expense to be recognized related to the future service period of unvested outstanding stock options for 2007, 2008, 2009 and 2010 is $70,000, $142,000, $140,000, and $59,000, respectively.

During the three months ended June 30, 2007 we granted 46,500 shares of restricted common stock at $23.79 per share. These shares vest ratably over a three-year period. Also during the three months ended June 30, 2007 we granted 12,000 shares of restricted common stock at $23.47 per share. These shares vest ratably over a three-year period.

During the six months ended June 30, 2007 we granted 40,000 shares of restricted common stock at $25.98 per share. These shares vest ratably over a three-year period. Also during the six months ended June 30, 2007 we extended the vesting of 27,120 shares of unvested restricted stock to align the vesting dates with the 40,000 share grant previously discussed. The impact on future compensation expense we will recognize related to this vesting modification is immaterial. Additionally, during the six months ended June 30, 2007 we modified the vesting of 54,960 shares of unvested restricted stock by accelerating the vesting so that the 54,960 shares vest ratably from March through December 2007. Prior to this modification the shares were vesting in two traunches ratably over two and three years, respectively. The impact on future compensation expense we will recognize related to this vesting acceleration is $551,000 in 2007. During the three and six months ended June 30, 2007, $618,000 and $943,000 of compensation expense was recognized related to the vesting of restricted stock, respectively. During the three and six months ended June 30, 2006, we recognized $242,000 and $479,000 of compensation expense related to the vesting of restricted stock, respectively.

Total shares available for future grant under the 2004 Stock Option Plan and the 1998 Equity Participation Plan as of June 30, 2007 were 265,500, and 9,350, respectively. There are no remaining shares available for grant under the 2004 Restricted Stock Plan.

7. Commitments and Contingencies

At June 30, 2007, we had the following commitments outstanding:

We committed to provide Alterra Healthcare Corporation (or Alterra) $2,500,000 over three years ending December 4, 2009, to invest in leasehold improvements to properties they lease from us. This investment would be made at a 10% annual return to us. To date Alterra has not requested any funds under this agreement.

We committed to provide Assisted Living Concepts, Inc. (or ALC), under certain conditions, up to $5,000,000 per year, throughout the term of the lease, for expansion of the 37 properties they lease from us. Should we invest such funds, ALC s minimum rent would increase by an amount equal to (a) 9.5% plus the positive difference, if any, between the average yield on the U.S. Treasury 10-year note for the five days prior to funding, minus 420 basis points (expressed as a percentage), multiplied by (b) the amounts funded. To date ALC has not requested any funds under this agreement. See *Note 8. Major Operators.*

We committed to provide Preferred Care, Inc. (or Preferred Care) $3,000,000 for capital improvements on 25 of the skilled nursing properties they lease from us under a master lease. As of June 30, 2007 we funded $358,000 under this agreement. Subsequent to June 30, 2007, we funded an additional $604,000 under this agreement. We also committed to invest up to $7,000,000 on specific projects on four skilled nursing properties they lease from us. The minimum rent will increase for each specific project by an amount equal to 11% of either (a) our final funding including capitalized interest during construction for two specific projects or (b) our periodic funding plus the related capitalized interest on each advance from the date funded through the end of the month for two specific projects. As of June 30, 2007 we funded $545,000 under this agreement. Subsequent to Jun 30, 2007, we funded an additional $80,000 under this commitment. These commitments expire on March 31, 2010.

We committed to provide a lessee of a skilled nursing property accounts receivable financing. The loan has a credit limit not to exceed $75,000 and an interest rate of 10.0%. The commitment matures on June 30, 2008. As of June 30, 2007, we had funded $63,000 under this agreement. We committed to make certain capital improvements to be mutually agreed upon by us and the lessee on a skilled nursing property. The lessee s minimum rent will increase by an amount equal to 11.0% of our investment in these capital improvements. As of June 30, 2007 we funded $95,000 under this agreement.

We committed to provide a lessee of three skilled nursing properties with the following: (i) up to $260,000 to invest in capital improvements to a property they lease from us; (ii) up to $735,000 to invest in capital improvements on two properties they lease from us, however, under this commitment, the monthly minimum rent will increase by the amount of the capital funding multiplied by 11%; and (iii) up to $3,000,000 to purchase land, construct and equip a new property in the general vicinity of an existing property they lease from us with a corresponding increase in the minimum rent of 11% multiplied by the amount funded plus capitalized interest costs associated with the construction of the new property. These commitments expire on November 1, 2008. As of June 30, 2007 no funds have been requested under these agreements.

We committed to provide a lessee accounts receivable financing on three skilled nursing properties. The loan has a credit limit not to exceed $450,000, and interest rate of 8.75%, and matures on June 30, 2008. As of June 30, 2007 we funded $250,000 under this agreement.

We committed to provide a lessee with $1,000,000 to invest in capital improvements on an assisted living property. The minimum rent increases by the previous month s capital funding multiplied by 8.0%. The commitment will mature in February 2008. As of June 30, 2007 we funded $931,000 under this agreement.

We committed to provide a lessee of a skilled nursing property with $500,000 to invest in capital improvements to the property they lease from us. The commitment includes interest capitalized at 10% on each advance made from the disbursement date until the final distribution of the commitment. The capital improvements must be completed by December 31, 2007. Upon final distribution of the capital allowance, minimum rent shall increase by the total commitment multiplied by 10%. As of June 30, 2007 no funds have been requested under this agreement.

We committed to provide a lessee of a skilled nursing property $2,200,000 to invest in leasehold improvements to the property they lease from us. The commitment includes interest capitalized at 10% on each advance made from each disbursement date until final distribution of the commitment. The leasehold improvements must be completed by August 31, 2007. Upon final distribution of the capital allowance, minimum rent shall increase by the total commitment multiplied by 10%. As of June 30, 2007 we funded $1,357,000 under this agreement. Subsequent to June 30, 2007 we funded an additional $395,000 under this agreement.

8. Major Operators

We have three operators, based on properties subject to lease agreements and secured by mortgage loans that represent between 10% and 20% of our total assets and three operators from each of which we derive over 10% of our rental revenue and interest income.

In 2006, Extendicare Services, Inc. (or EHSI), one of our major operators, effected a reorganization whereby it completed a spin-off of Assisted Living Concepts, Inc (or ALC). ALC is now a NYSE traded public company operating assisted living centers. The remaining EHSI assets and operations were converted into a Canadian REIT (Extendicare REIT) listed on the Toronto Stock Exchange (or TSX). Both Extendicare REIT and ALC continue to be parties to the leases with us.

Alterra Healthcare Corporation (or Alterra) is a wholly owned subsidiary of a publicly traded company, Brookdale Senior Living, Inc. (or Brookdale).

The following table summarizes Extendicare REIT s, ALC s and Brookdale s financial information as of and for the three months ended March 31, 2007 per the operators public filings (*audited, in thousands*). Our other operator is privately owned and thus no public financial information is available:

	Extendicare REIT (in thousands)	**ALC (in thousands)**	**Brookdale (in thousands)**
Current assets	$ 299,595	$ 47,667	$ 267,866
Non-current assets	1,016,033	405,753	4,474,189
Current liabilities	271,021	29,442	495,361
Non-current liabilities	1,064,807	102,576	2,549,152
Stockholders (deficit) equity	(20,200)	321,402	1,692,810
Gross revenue	$ 456,844	$ 57,521	$ 446,834
Operating expenses	404,210	48,681	462,927
Income(loss) from continuing operations	19,229	4,727	(35,009)
Net income (loss)	15,366	4,727	(35,140)
Cash provided by operations	$ 30,347	$ 12,912	$ 28,828
Cash used in investing activities	(22,462)	(3,979)	(75,551)
Cash provided by (used in) financing activities	6,926	(488)	34,610

Extendicare REIT and ALC, collectively lease 37 assisted living properties with a total of 1,427 units owned by us representing approximately 11.5%, or $64,975,000 of our total assets at June 30, 2007 and 15.5% of rental income and interest income recognized in 2007 excluding the effects of straight-line rent.

Alterra, a wholly owned subsidiary of Brookdale, leases 35 assisted living properties with a total of 1,416 units owned by us representing approximately 11.4%, or $64,262,000, of our total assets at June 30, 2007 and 14.7% of rental revenue and interest income recognized in 2007 excluding the effects of straight-line rent.

Preferred Care, Inc. (or Preferred Care), through various wholly owned subsidiaries, operates 33 skilled nursing properties with a total of 4,062 beds that we own or on which we hold mortgages secured by first trust deeds. This represents approximately 11.5% or $64,962,000 of our total assets as June 30, 2007 and 14.7% of rental revenue and interest income recognized to date in 2007 excluding the effects of straight-line rent.

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

9. Earnings per Share

The following table sets forth the computation of basic and diluted net income per share (*in thousands, except per share amounts*):

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2007	**2006**	**2007**	**2006**
Net income	$ 12,843	$ 11,989	$ 25,228	$ 55,730
Preferred stock dividends	(4,234)	(4,306)	(8,473)	(8,615)
Net income for basic net income per share	8,609	7,683	16,755	47,115
Effect of dilutive securities:				
Convertible preferred stock	96	168	197	1,975
Convertible limited partnership units				172
Net income for diluted net income per share	$ 8,705	$ 7,851	$ 16,952	$ 49,262
Shares for basic net income per share	23,529	23,339	23,505	23,314
Effect of dilutive securities:				
Stock options and restricted stock	72	49	71	55
Convertible preferred stock	361	631	371	2,638
Convertible limited partnership units				202
Shares for diluted net income per share	23,962	24,019	23,947	26,209
Basic net income per share	$ 0.37	$ 0.33	$ 0.71	$ 2.02
Diluted net income per share	$ 0.36	$ 0.33	$ 0.71	$ 1.88

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Overview

Business

LTC Properties, Inc. a self-administered health care real estate investment trust (or REIT) commenced operations in 1992. We invest primarily in long-term care and other health care related properties through mortgage loans, property lease transactions and other investments. The following table summarizes our portfolio as of June 30, 2007:

Type of Property	Gross Investments (in thousands)	Percentage of Investments	For the six months ended 06/30/07 Revenues (2) (in thousands)	Percentage of Revenues	Number of Properties	Number of Beds/Units	Investment per Bed/Unit (in thousands)	Number of Operators (1)	Number of States (1)
Assisted Living Facilities	$ 274,454	47.3 %	$ 15,886	44.0 %	94	4,449	$ 61.68	9	22
Skilled Nursing Facilities	293,060	50.5 %	19,457	54.0 %	109	12,731	23.02	43	20
Schools	13,020	2.2 %	726	2.0 %	2	N/A	N/A	2	2
Totals	$ 580,534	100.0 %	$ 36,069	100.0 %	205	17,180			

(1) We have leased or mortgage investments in 30 states to 50 different operators.

(2) Revenues exclude interest and other income from non-mortgage loan sources.

Our primary objectives are to sustain and enhance stockholder equity value and provide current income for distribution to stockholders through real estate investments in long-term care properties and other health care related 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 and form of investment.

Substantially all of our revenues and sources of cash flows from operations are derived from operating lease rentals and interest earned on outstanding loans receivable. Our investments in mortgage loans and owned properties represent our primary source of liquidity to fund distributions and are dependent upon the performance of the operators on their lease and loan obligations and the rates earned thereon. 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 relating to real estate taxes and insurance.

In addition to our monitoring and research efforts, we also structure our investments to help mitigate payment risk. We typically invest in or finance up to 90 percent of the stabilized appraised value of a property. 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.

For the six months ended June 30, 2007, rental income and interest income from mortgage loans represented 75% and 19%, respectively, of total gross revenues. Our lease structure contains fixed 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. This lease structure initially generates lower revenues and net income but enables us to generate additional growth and minimize non-cash straight-line rent over time.

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 and temporary borrowings under our unsecured 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 line of credit, is expected to be provided through a combination of public and private offerings of debt and equity securities and the incurrence of secured debt. We believe our liquidity and various sources of available capital are sufficient to fund operations, meet debt service obligations (both principal and interest), make dividend distributions and finance future investments.

Key Transactions

During the six months ended June 30, 2007, we invested $2.6 million under agreements to expand and renovate 12 properties operated by seven different operators. The total commitment under these agreements is $9.2 million, of which $7.7 million had been invested as of June 30, 2007. These investments are at an average yield of 9.7%.

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 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. In order to qualify as an equity REIT, at least 75 percent of our total assets must be represented by real estate assets, cash, cash items and government securities. Investment mix measures the portion of our investments that relate to our various property types. Operator mix measures the portion of our investments that relate to our top three operators. Geographic mix measures the portion of our investment that relate to our top five states. The following table reflects our recent historical trends of concentration risk:

	Period Ended 6/30/07 (gross investment, in thousands)	03/31/07	12/31/06	9/30/06	6/30/06
Asset mix:					
Real property	$ 491,133	$ 489,836	$ 488,287	$ 485,460	$ 476,541
Loans receivable	89,401	116,023	118,272	119,523	127,192
Investment mix:					
Assisted living properties	$ 274,454	$ 274,398	$ 274,052	$ 273,711	$ 276,720
Skilled nursing properties	293,060	318,441	319,487	318,252	313,993
School	13,020	13,020	13,020	13,020	13,020
Operator mix:					
Alterra	$ 84,210	$ 84,210	$ 84,210	$ 84,194	$ 84,194
Preferred Care, Inc. (1)	84,551	80,910	80,506	72,422	71,969
ALC	88,034	88,034	88,034	88,034	88,034
Remaining operators	323,739	352,705	353,809	360,333	359,536
Geographic mix:					
California	$ 43,910	$ 44,170	$ 44,439	$ 44,697	$ 44,950
Florida	46,432	46,181	45,693	45,204	48,032
Ohio	53,685	53,480	53,210	52,838	52,488
Texas	95,871	96,516	96,947	97,339	97,636
Washington	27,764	27,846	27,925	28,002	20,952
Remaining states	312,872	337,666	338,345	336,903	339,675

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(1) In October 2006 we entered into a lease termination agreement with Center Healthcare, Inc. relating to 25 skilled nursing properties. As of November 1, 2006 these 25 properties are under one master lease with Preferred Care, Inc., which was later divided into two master leases. Also, Preferred Care, Inc. leases a skilled nursing property under a separate lease agreement and operates seven skilled nursing properties securing six mortgage loans receivable we have with an unrelated third party and one mortgage loan receivable we have with Preferred Care.

Credit Strength. We measure our credit strength both in terms of leverage ratios and coverage ratios. Our leverage ratios include debt to book capitalization and debt to market capitalization. The leverage ratios indicate how much of our balance sheet capitalization relates to long-term debt. 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 earnings before interest, taxes, depreciation and amortization. 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:

	Three Months Ended 6/30/07		03/31/07		12/31/06		9/30/06		6/30/06	
Debt to book capitalization ratio	9.6	%	9.6	%	9.7	%	11.6	%	12.8	%
Debt to market capitalization ratio	6.6	%	6.0	%	5.9	%	7.7	%	9.1	%
Interest coverage ratio	14.4	x	13.7	x	10.4	x	8.9	x(1)	9.7x	
Fixed charge coverage ratio	3.2	x	3.1	x	2.8	x	2.6	x(1)	2.8x	

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(1) As a result of including a one time $1.0 million IRS settlement in the annualized calculation of coverage ratios, our ratios were lower than as of six months ended June 30, 2006. Excluding this charge, our Interest Coverage ratio would have been 9.4x and our Fixed Charge ratio would have been 2.8x.

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.

Operating Results

Three months ended June 30, 2007 compared to three months ended June 30, 2006

Revenues for the three months ended June 30, 2007, increased to $19.8 million from $18.6 million for the same period in 2006. Rental income for the three months ended June 30, 2007, increased $1.7 million from the same period in 2006 primarily as a result of rental income from new properties ($0.5 million), straight-line rental income net of amortization of lease costs ($0.4 million), a new master lease entered into during the fourth quarter of 2006 ($0.4 million) and rental increases provided for in existing lease agreements ($0.4 million). Same store rental income, properties owned for the three months ended June 30, 2007, and the three months ended June 30, 2006, and excluding straight-line rental income, increased $0.8 million due to rental increases provided for in existing lease agreements ($0.4 million) and a new master lease entered into during the fourth quarter of 2006 ($0.4 million).

Interest income from mortgage loans for the three months ended June 30, 2007, decreased $0.2 million from the same period in 2006 primarily due to payoffs.

Interest and other income for the three months ended June 30, 2007, decreased $0.3 million from the same period in 2006 primarily due to payoffs of notes and lower average cash balances invested partially offset by $0.4 million of additional interest income from the early redemption of $3.5 million face value of the Skilled Healthcare Group, Inc. (or SHG) Senior Subordinated Notes at a redemption price equal to 111% of the principal amount of the notes.

Interest expense for the three months ended June 30, 2007 was $0.6 million lower than the same period in 2006 due to a decrease in average debt outstanding during the period resulting from the payoff of mortgage loans and the senior participation payable.

Depreciation and amortization expense for the three months ended June 30, 2007 increased $0.2 million from the same period in 2006 due to acquisitions in the second half of 2006 and capital improvements to existing properties.

Legal expenses were comparable for each of the three month periods ended June 30, 2007 and 2006.

Operating and other expenses were $0.6 million higher in the three months ended June 30, 2007 as compared to the same period in 2006 primarily as a result of the vesting of restricted stock ($0.4 million), post retirement healthcare benefits vesting during the period ($0.1 million) and an increase in miscellaneous public company costs ($0.1 million).

Minority interest expense was comparable for each of the three month periods ended June 30, 2007 and 2006.

During the three months ended June 30, 2006 we recognized $0.1 million in net income from discontinued operations relating to a property sold in 2006. During the three months ended June 30, 2007 we had no discontinued operations.

Six months ended June 30, 2007 compared to six months ended June 30, 2006

Revenues for the six months ended June 30, 2007, increased to $38.5 million from $36.7 million for the same period in 2006. Rental income for the six months ended June 30, 2007, increased $3.4 million primarily as a result of rental income from new properties ($0.9 million), straight-line rental income net of amortization of lease costs ($0.8 million), a new master lease entered into during the fourth quarter of 2006 ($0.9 million) and rental increase provided for in existing lease agreements ($0.8 million). Same store rental income, properties owned for the six months ended June 30, 2007, and the six months ended June 30, 2006, and excluding straight-line rental income, increased $1.7 million due to rental increases provided for in existing lease agreements ($0.8 million) and a new master lease entered into during the fourth quarter of 2006 ($0.9 million).

Interest income from mortgage loans decreased $1.1 million from the prior year primarily due payoffs.

Interest and other income for the six months ended June 30, 2007, decreased $0.5 million from the same period in 2006 primarily due to payoffs of notes and lower average cash balances invested partially offset by $0.4 million of additional interest income from the early redemption of $3.5 million face value of the SHG Senior Subordinated Notes at a redemption price equal to 111% of the principal amount of the notes.

Interest expense for the six months ended June 30, 2007 decreased $1.2 million from the comparable period in 2006, due to a decrease in average borrowings outstanding during the period as a result of the payoff of mortgage loans and the senior participation payable.

Depreciation and amortization expense for the six months ended June 30, 2007 increased $0.2 million from the six months ended June 30, 2006 due to acquisitions in 2006 and capital improvements to existing properties.

Legal expenses were comparable for each of the six month periods ended June 30, 2007 and 2006.

Operating and other expenses were $0.8 million higher in the six months ended June 30, 2007 as compared to the six months ended June 30, 2006 primarily as a result of the vesting of restricted stock ($0.5 million), post retirement healthcare benefits vesting during the period ($0.1 million), an increase in franchise taxes from various states ($0.1 million), non-recurring accounting fees related to the IRS settlement agreement and an increase in miscellaneous public company costs ($0.1 million). See *Note 1. Summary of Significant Accounting Policies-Federal Income Taxes* to our consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2006 for further discussions of the IRS settlement.

Minority interest expense was comparable for each of the six month periods ended June 30, 2007 and 2006.

During the six months ended June 30, 2007, we recognized a $0.1 million gain related to the sale of one closed and previously impaired skilled nursing property. During the six months ended June 30, 2006 we recognized a $31.9 million gain on the sale of four assisted living properties and income from discontinued operations of $0.7 million.

Liquidity and Capital Resources

At June 30, 2007, our real estate investment portfolio (before accumulated depreciation and amortization) consisted of $491.1 million invested primarily in owned long-term care properties and mortgage loans of approximately $89.4 million (prior to deducting a $0.9 million reserve). Our portfolio consists of direct investments (properties that we either own or on which we hold promissory notes secured by first mortgages) in 109 skilled nursing properties, 94 assisted living properties and two schools in 30 states. For the six months ended June 30, 2007, we had net cash provided by operating activities of $29.6 million.

For the six months ended June 30, 2007, we had net cash provided by investing activities of $31.2 million. We invested $2.6 million at an average yield of 9.7% under agreements to expand and renovate 12 properties operated by seven different operators. We also sold a closed, previously impaired skilled nursing property to a third party for $0.2 million. As a result of the sale, we recognized a net gain of $0.1 million. Additionally, we invested $0.3 million in capital improvements to existing properties under various lease agreements whose rental rates already reflected this investment.

During the six months ended June 30, 2007, we received $29.0 million in principal payments on mortgage loans including $26.7 million related to the payoff of eight mortgage loans secured by eleven skilled nursing properties in various states. Additionally, during the six months ended June 30, 2007, we received $0.9 million in principal payments on notes receivable. Also, during the six months ended June 30, 2007 we received $4.0 million from the early redemption of $3.5 million face value of the SHG Senior Subordinated Notes at a redemption price equal to 111% of the principal amount of the notes ($3.9 million) and accrued interest ($0.1 million). Subsequent to June 30, 2007 we received $1.0 million plus accrued interest related to the payoff of two mortgage loans secured by two skilled nursing properties located in various states.

For the six months ended June 30, 2007, we used $27.2 million of cash in financing activities. We paid $1.0 million in principal payments on mortgage loans payable. We also paid cash dividends on our Series C, Series E, and Series F preferred stocks totaling $1.6 million, $0.2 million and $6.7 million, respectively. Additionally, we declared and paid cash dividends on our common stock totaling $17.7 million. In July 2007, we declared a monthly cash dividend of $0.125 per common share per month for the months of July, August and September 2007, payable on July 31, August 31 and September 28, 2007, respectively, to stockholders of record on July 23, August 23 and September 20, 2007, respectively.

During the six months ended June 30, 2007, we received $0.2 million in conjunction with the exercise of 30,000 stock options. The total market value as of the dates of exercise was approximately $0.8 million. In June 2007 our Board terminated the existing share repurchase program and authorized a new share repurchase program enabling us to repurchase up to 5,000,000 shares of our equity securities. Subsequent to June 30, 2007, and as of August 6, 2007, we repurchased and retired 383,400 shares of common stock for an aggregate purchase price of $8.1 million at an average purchase price of $21.03 per share. The shares were purchased on the open market under the Board authorization discussed above. Therefore, we continue to have an open Board authorization to purchase an additional 4,616,600 shares.

During the six months ended June 30, 2007, holders of 13,161 shares of our 8.5% Series E Cumulative Convertible Preferred Stock (or Series E preferred stock) elected to convert such shares into 26,322 shares of our common stock at the Series E preferred stock conversion rate of $12.50 per share. Subsequent June 30, 2007, holders of 12,700 shares of our Series E preferred stock elected to convert such shares into 25,400 shares of common stock. Subsequent to this most recent conversion, there are 167,783 shares of our Series E preferred stock outstanding.

We expect our future income and ability to make distributions from cash flows from operations to depend on the collectibility 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 skilled nursing properties and assisted living properties we own or are pledged to us and the school we own. 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