

LTC PROPERTIES INC  
Form 10-Q  
August 02, 2006

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

(Mark One)

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

For the quarterly period ended **June 30, 2006**

OR

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

For the Transition period from        to

Commission file number 1-11314

**LTC PROPERTIES, INC.**

(Exact name of Registrant as specified in its charter)

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**Maryland**

(State or other jurisdiction of  
incorporation or organization)

**71-0720518**

(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  No

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  Accelerated filer  Non-accelerated filer

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

Shares of Registrant's common stock, \$.01 par value, outstanding on July 26, 2006 23,318,874

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**LTC PROPERTIES, INC.**

**FORM 10-Q**

**June 30, 2006**

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## LTC PROPERTIES, INC.

## CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except per share amounts)

	June 30, 2006 (unaudited)	December 31, 2005
<b>ASSETS</b>		
Real Estate Investments:		
Buildings and improvements, net of accumulated depreciation and amortization: 2006 - \$96,201; 2005 - \$89,545	\$ 346,690	\$ 345,065
Land	33,650	33,376
Properties held for sale, net of accumulated depreciation and amortization: 2006 - \$0; 2005 - \$6,226		26,511
Mortgage loans receivable, net of allowance for doubtful accounts: 2006 - \$1,280 2005 - \$1,280	125,912	148,052
Real estate investments, net	506,252	553,004
Other Assets:		
Cash and cash equivalents	51,362	3,569
Debt issue costs, net	954	1,268
Interest receivable	3,446	3,436
Prepaid expenses and other assets	6,271	5,130
Notes receivable	8,159	8,931
Marketable securities	11,549	9,933
Total Assets	\$ 587,993	\$ 585,271
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Bank borrowings	\$	\$ 16,000
Mortgage loans payable	58,216	58,891
Bonds payable and capital lease obligations	5,545	5,935
Senior mortgage participation payable	9,782	11,535
Accrued interest	482	524
Accrued expenses and other liabilities	4,497	8,427
Liabilities related to properties held for sale		3,852
Distributions payable	3,487	11,890
Total Liabilities	82,009	117,054
Minority interest	3,518	3,524
Stockholders equity:		
Preferred stock \$0.01 par value: 15,000 shares authorized; shares issued and outstanding: 2006 8,955; 2005 8,993	212,386	213,317
Common stock: \$0.01 par value; 45,000 shares authorized; shares issued and outstanding: 2006 23,312; 2005 23,276	233	233
Capital in excess of par value	328,438	331,415
Cumulative net income	419,775	364,045
Other	2,031	(941)
Cumulative distributions	(460,397)	(443,376)
Total Stockholders Equity	502,466	464,693
Total Liabilities and Stockholders Equity	\$ 587,993	\$ 585,271

See accompanying notes.



## LTC PROPERTIES, INC.

## CONSOLIDATED STATEMENTS OF INCOME

(Amounts in thousands, except per share amounts)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2006	2005	2006	2005
<b>Revenues:</b>				
Rental income	\$ 12,923	\$ 11,167	\$ 25,698	\$ 25,943
Interest income from mortgage loans and notes receivable	4,001	3,230	8,322	5,912
Interest income from REMIC Certificates		1,219		2,683
Interest and other income	1,868	310	2,951	3,163
Total revenues	18,792	15,926	36,971	37,701
<b>Expenses:</b>				
Interest expense	1,780	2,138	3,651	4,310
Depreciation and amortization	3,431	3,092	6,916	6,120
Legal expenses	120	63	170	136
Operating and other expenses	1,386	1,199	2,715	3,108
Total expenses	6,717	6,492	13,452	13,674
Income before non-operating income and minority interest	12,075	9,434	23,519	24,027
Non-operating income				6,217
Minority interest	(86 )	(86 )	(172 )	(172 )
Income from continuing operations	11,989	9,348	23,347	30,072
<b>Discontinued operations:</b>				
Income from discontinued operations		756	445	1,536
Gain on sale of assets, net		30	31,938	30
Net income from discontinued operations		786	32,383	1,566
Net income	11,989	10,134	55,730	31,638
Preferred stock dividends	(4,306 )	(4,341 )	(8,615 )	(8,688 )
Net income available to common stockholders	\$ 7,683	\$ 5,793	\$ 47,115	\$ 22,950
<b>Net Income per Common Share from Continuing Operations net of Preferred Stock Dividends:</b>				
Basic	\$ 0.33	\$ 0.23	\$ 0.63	\$ 0.99
Diluted	\$ 0.33	\$ 0.23	\$ 0.63	\$ 0.95
<b>Net Income per Common Share from Discontinued Operations:</b>				
Basic		\$ 0.04	\$ 1.39	\$ 0.07
Diluted		\$ 0.04	\$ 1.32	\$ 0.07
<b>Net Income per Common Share Available to Common Stockholders:</b>				
Basic	\$ 0.33	\$ 0.27	\$ 2.02	\$ 1.06
Diluted	\$ 0.33	\$ 0.27	\$ 1.88	\$ 1.02
Basic weighted average shares outstanding	23,339	21,614	23,314	21,553
<b>Comprehensive income</b>				
Net income	\$ 11,989	\$ 10,134	\$ 55,730	\$ 31,638
Unrealized gain on available-for-sale securities	173		173	

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Reclassification adjustment	(192	)	(382	)	(3,610	)		
Total comprehensive income	\$	11,970	\$	10,134	\$	55,521	\$	28,028

NOTE: Quarterly and year-to-date computations of per share amounts are made independently. Therefore, the sum of per share amounts for the quarters may not agree with the per share amounts for the year. 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,	
	2006	2005
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 55,730	\$ 31,638
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization continuing operations	6,916	6,120
Depreciation and amortization discontinued operations		450
Minority interest	172	172
Realization of reserve on note receivable		(3,905)
Realization of deferred gain on note receivable		(3,610)
Straight-line rental income	(1,256)	(387)
Other non-cash charges, net	(538)	1,863
Gain on sale of real estate investments, net	(31,938)	(30)
(Decrease)increase in accrued interest	(48)	141
Net change in other assets and liabilities	(1,705)	1,305
Net cash provided by operating activities	27,333	33,757
<b>INVESTING ACTIVITIES:</b>		
Investment in real estate mortgages		(18,928)
Investment in real estate properties and capital improvements, net	(8,010)	(2,775)
Conversion of REMIC Certificates to mortgage loans		(855)
Conversion of mortgage loans into owned properties		(310)
Proceeds from sale of real estate investments	54,042	102
Principal payments received on mortgage loans receivable and REMIC Certificates	21,300	8,550
Investment in marketable equity securities	(1,440)	
Income from investments in marketable debt and equity securities	582	
Advances under notes receivable	(1,152)	(759)
Principal payments received on notes receivable	385	15,072
Net cash provided by investing activities	65,707	97
<b>FINANCING ACTIVITIES:</b>		
Borrowings under the line of credit	2,000	2,000
Repayments of borrowings under the line of credit	(18,000)	(2,000)
Mortgage principal payments on the senior mortgage participation	(1,753)	(445)
Principal payments on mortgage loans payable, bonds and capital lease obligations	(1,071)	(1,319)
Repurchase of common stock	(1,476)	(2,958)
Distributions paid to minority interests	(178)	(360)
Distributions paid to stockholders	(25,423)	(20,051)
Other	654	926
Net cash used in financing activities	(45,247)	(24,207)
Increase in cash and cash equivalents	47,793	9,647
Cash and cash equivalents, beginning of period	3,569	4,315
Cash and cash equivalents, end of period	\$ 51,362	\$ 13,962
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Interest paid	\$ 3,330	\$ 4,206



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Non-cash investing and financing transactions:

Exchange of mortgage loans for owned properties		1,690
Exchange of REMIC Certificates for mortgage loans receivable		9,567
Conversion of preferred stock to common stock	931	4,460
Reclassification of previously issued restricted stock	3,123	
Restricted stock issued, net of cancellations		157

*See accompanying notes.*

**LTC PROPERTIES, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**(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, 2005 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, 2006 and 2005 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 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. The general partner is responsible for the ongoing, major, and central operations of the partnership and makes all management decisions. In addition, the general partner assumes the risk for all operating losses, capital losses, and is entitled to substantially all capital gains (i.e., 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, 2006 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 are not taxed on income that is distributed to our stockholders.

## 2. Real Estate Investments

*Owned Properties.* At June 30, 2006, our investment in owned properties consisted of 62 skilled nursing properties with a total of 7,255 beds, 84 assisted living properties with a total of 3,744 units and one school in 23 states.

During the three months ended June 30, 2006, we purchased three skilled nursing properties in Ohio with a total of 150 beds for \$6,398,000. These properties are leased to a third party under a 10-year master lease, with two five-year renewal options. The initial annual rent is approximately \$659,000, a 10.3% current yield, and increases 2.5% annually. Additionally, we have signed agreements and begun to expand and renovate six skilled nursing properties operated by four different operators for a total commitment of \$5,760,000, of which \$983,000 was invested during the second quarter. These investments are at an average yield of approximately 10%. Subsequent to June 30, 2006, we purchased a 123-bed skilled nursing property for approximately \$7,100,000. The property is leased to a third party under a ten-year lease with two five-year renewal options at an initial effective yield of approximately 9.5%.

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 \$58,500,000. 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 \$56,500,000, 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, 2006		Six Months Ended June 30, 2006		2005	
Rental income	\$	\$ 1,070	\$ 365	\$	\$ 2,166	
Interest and other income			97			
Interest expense		(85 )	(17 )		(170 )	
Depreciation and amortization		(225 )			(450 )	
Operating and other expenses		(4 )			(10 )	
Income from discontinued operations	\$	\$ 756	\$ 445	\$	\$ 1,536	

*Mortgage Loans.* At June 30, 2006, we had investments in 61 mortgage loans secured by first mortgages on 60 skilled nursing properties with a total of 6,868 beds, 11 assisted living properties with 799 units and one school located in 20 states. At June 30, 2006, the mortgage loans had interest rates ranging from 5.5% to 12.9% and maturities ranging from 2006 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, 2006, we received \$20,115,000 plus accrued interest related to the payoff of nine mortgage loans secured by seven skilled nursing properties and two assisted living properties located in various states and a partial principal pay down on one mortgage loan secured by one skilled nursing property located in Georgia. We also received \$1,185 in regularly scheduled principal payments.

### 3. Notes Receivable

During the six months ended June 30, 2006, we funded a \$675,000 loan (including a \$23,000 capital expenditure hold back) secured by certain assets including accounts receivable of the borrower. This loan matures in December 2006 and bears interest at 11.0%. In addition, we funded \$500,000 under line of credit agreements with certain operators.

At December 31, 2005, we held a Promissory Note (or Note) from an operator in the amount of \$1,500,000. During the fourth quarter of 2005, we sold an option to purchase four of our assisted living properties to Sunwest. The price of the option was \$500,000 in cash and the Note. During the first quarter of 2006, the option to purchase the properties was exercised and the proceeds from the payoff of the Note were applied to the purchase price of the four properties (see *Note 2. Real Estate Investments*). Additionally, during the six months ended June 30, 2006, we received \$385,000 in principal payments on notes receivable.

During the first half of 2005, we received \$22,309,000 in cash as payment in full for a note receivable and a related \$500,000 mortgage loan, including accrued and unpaid interest through the payoff date. As a result of the payoff, we recognized \$3,667,000 in rental income related to past due rents that were not previously accrued, \$2,335,000 of interest income related to past due interest that was not previously accrued, a \$477,000 reimbursement for certain expenses paid on behalf of an operator in prior years, a \$1,000,000 bonus accrual related to the realization of the value of the note receivable and non-operating income of \$6,217,000 (\$3,610,000 of which was classified as Accumulated Comprehensive Income in the equity section of the balance sheet at December 31, 2004). The \$6,217,000 of non-operating income is net of \$1,298,000 of legal and investment advisory fees related to the transaction that resulted in the note receivable payoff.

Subsequent to June 30, 2006, we funded \$100,000 under a \$300,000 line of credit agreement with an operator. This loan matures in July 2007 and bears interest at 10.0%.

### 4. Marketable Securities

Investments in debt and marketable equity securities are accounted for in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securities* (FAS No. 115) which requires that we categorize our investments as trading, available-for-sale or held-to-maturity. At June 30, 2006, we had no trading securities. During the second quarter of 2006, we purchased 60,000 shares of National Health Investors, Inc. (or NHI) common stock for a total of \$1,440,000, or an average purchase price of \$24.00 per share. We categorized this investment in marketable equity securities as available-for-sale at the time of purchase. In accordance with FAS No. 115, we record available-for-sale instruments at fair value, with unrealized gains and losses reported as a component of other comprehensive income until realized. At June 30, 2006, the fair market value of our investment in this marketable equity security was \$1,613,000. Accordingly, during the second quarter of 2006, we recorded an unrealized gain of \$173,000 related to the increase in fair market value of our investment in marketable equity securities. Based upon the current \$0.48 per share quarterly dividend, the current yield of our investment in NHI common stock is 8.0%. NHI is a healthcare REIT and as such the dividend

income we receive from them is qualified income as defined by the Internal Revenue Code. See page 10 of our Annual Report on Form 10-K for the year ended December 31, 2005, for a description of the income tests required by the Internal Revenue Code.

At June 30, 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. 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 FAS No. 115 at amortized cost, adjusted for any related premiums (discounts) over the estimated remaining period until maturity.

## 5. Debt Obligations

At June 30, 2006, we had no outstanding borrowings under our \$90,000,000 Unsecured Revolving Credit Agreement. During the six months ended June 30, 2006, pricing under the Unsecured Revolving Credit Agreement ranged between LIBOR plus 1.50% and LIBOR plus 2.50%. At June 30, 2006 our pricing was LIBOR plus 1.50%

During the six months ended June 30, 2006, the company paid \$3,840,000 in principal and accrued interest to fully repay the 8.75% State of Oregon bond obligation related to one of the properties sold as discussed in *Note 2. Real Estate Investments*.

## 6. Senior Mortgage Participation Payable

In 2002, we completed a loan participation transaction whereby we issued a \$30,000,000 senior participating interest in 22 of our first mortgage loans that had a total unpaid principal balance of \$58,627,000 (the Participation Loan Pool ) to a private bank. The Participation Loan Pool had a weighted average interest rate of 11.6% and a weighted average scheduled term to maturity of 77 months. The senior participation balance is secured by the entire Participation Loan Pool.

The senior participation receives interest at a rate of 9.25% per annum, payable monthly in arrears, on the then outstanding principal balance of the senior participation. In addition, the senior participation receives all mortgage principal collected on the Participation Loan Pool until the senior participation balance has been reduced to zero. We retain interest received on the Participation Loan Pool in excess of the 9.25% paid to the senior participation. The ultimate extinguishments of the senior participation are tied to the underlying maturities of loans in the Participation Loan Pool, which range from 7 to 146 months. We have accounted for the participation transaction as a secured borrowing under SFAS No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*.

During the six months ended June 30, 2006, the senior participation received principal payments of \$1,753,000, which included a \$1,324,000 payoff of a loan in the Participation Loan Pool. During the same period last year the senior participation received principal payments of \$445,000. At June 30, 2006, 17 loans with a total principal balance of \$32,519,000 remain in the Participation Loan Pool and \$9,782,000 was outstanding under the senior mortgage participation.

## 7. Stockholders Equity

*Preferred Stock.* During the six months ended June 30, 2006, holders of 37,245 shares of our 8.5% Series E Cumulative Convertible Preferred Stock (Series E preferred stock) notified us of their election to convert such shares into 74,490 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 630,860 at June 30, 2006. Subsequent to June 30, 2006, holders of 3,439 shares of our Series E preferred stock notified us of their election to convert such shares into 6,878 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 623,982.

*Common Stock.* During the six months ended June 30, 2006, a total of 32,600 stock options were exercised at a total option value of \$189,000 and a total market value as of the dates of exercise of \$713,000. During the first half of 2006, we repurchased and retired 71,493 shares of common stock for an aggregate purchase price of \$1,476,000 or \$20.65 per share. The shares were purchased on the open market under a Board authorization to purchase up to 5,000,000 shares. Including these purchases, 2,604,393 shares have been purchased under this authorization. Therefore, we continue to have an open Board authorization to purchase an additional 2,395,607 shares.

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

	Six months ended June 30, 2006			Six months ended June 30, 2005		
	Declared	Paid		Declared	Paid	
Preferred Stock						
Series C	\$ 1,636	\$ 1,636		\$ 1,636	\$ 1,636	
Series E	339	359		412	507	
Series F	6,640	6,640		6,640	6,640	
	8,615	8,635		8,688	8,783	
Common Stock	8,406	(1) 16,788	(2) 13,650	(3) 11,268	(3)	
Total	\$ 17,021	(4) \$ 25,423	(4) \$ 22,338	(4) \$ 20,051	(4)	

(1) Represents \$0.12 per share per month for the second quarter of 2006. Common dividends for the third quarter of 2006 were declared subsequent to June 30, 2006.

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

(3) Represents \$0.30 per share for the first quarter of 2005 and \$0.11 per share per month in the second quarter of 2005.

(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 2006, we declared a monthly cash dividend of \$0.12 per share on our common stock for the months of July, August, and September 2006, payable on July 31, August 31, and September 29, 2006, respectively, to stockholders of record on July 21, August 23, and September 21, 2006, respectively.

*Other Equity.* Other equity consists of the following (*in thousands*):

June 30, 2006