LTC PROPERTIES INC
Form 10-K
February 27, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2011

OR

o **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 ý No o

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

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 ý No o

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 ý No o

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. o

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 ý	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

The aggregate market value of voting and non-voting common equity held by non-affiliates of the Registrant was approximately $823,215,000 as of June 30, 2011 (the last business day of the Registrant's most recently completed second fiscal quarter). For purposes of this calculation, shares of common stock held by officers and directors of the registrant and shares of common stock held by persons who hold more than 10% of the outstanding common stock of the Registrant have been excluded from this calculation because such persons may be deemed to be affiliates.

The number of shares of common stock outstanding as of February 17, 2012 was 30,401,774.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement relating to its 2012 Annual Meeting of Stockholders are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

CAUTIONARY STATEMENTS

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 of those 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; 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; 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.

PART I

Item 1. BUSINESS

General

LTC Properties, Inc., a health care real estate investment trust (or REIT), was incorporated on May 12, 1992 in the State of Maryland and commenced operations on August 25, 1992. We invest primarily in senior housing and long term care properties through property lease transactions, mortgage loans and other investments. We conduct and manage our business as one operating segment, rather than multiple operating segments, for internal reporting and internal decision making purposes. Our primary objectives are to sustain and enhance stockholder equity value and provide current income for distribution to stockholders through real estate investments in senior housing and long term care properties managed by experienced operators. Our primary senior housing and long term healthcare property types include skilled nursing properties (or SNF), assisted living properties (or ALF), independent living properties (or ILF) and combinations thereof. To meet these objectives, we attempt to invest in properties that provide opportunity for additional value and current returns to our stockholders and diversify our investment portfolio by geographic location, operator, property type and form of investment.

Skilled nursing facilities provide restorative, rehabilitative and nursing care for people not requiring the more extensive and sophisticated treatment available at acute care hospitals. Many skilled nursing facilities provide ancillary services that include occupational, speech, physical, respiratory and

IV therapies, as well as sub-acute care services which are paid either by the patient, the patient's family, private health insurance, or through the federal Medicare or state Medicaid programs.

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

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

One property in our real estate investment portfolio is a charter school. Charter schools provide an alternative to the traditional public school. Charter schools are generally autonomous entities authorized by the state or locality to conduct operations independent from the surrounding public school district. Laws vary by state, but generally charters are granted by state boards of education either directly or in conjunction with local school districts or public universities. Operators are granted charters to establish and operate schools based on the goals and objectives set forth in the charter. Upon receipt of a charter, schools receive an annuity from the state for each student enrolled. Another property in our real estate investment portfolio is a school that provides therapeutic support and intensive home, school and center-based behavioral therapy for children, youth and families affected by Autism Spectrum Disorders. The operator receives revenues largely from insurance companies, government sponsored programs and private pay.

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

Portfolio

Our real estate investment in senior housing and long term care healthcare properties is managed and conducted as a single operating segment for internal reporting and for internal decision-making purposes. The following table summarizes our real estate investment portfolio as of December 31, 2011 *(dollar amounts in thousands):*

			Twelve Months Ended December 31, 2011				Number of		
Type of Property	**Gross Investments**	**Percentage of Investments**	**Rental Income**[1]	**Interest Income**[2]	**Percentage of Revenues**[3]	**Number of Properties**[4]	**SNF Beds**[5]	**ALF Units**[5]	**ILF Units**[5]
Assisted Living	$ 308,757	39.6%	$ 33,172	$ 2,596	42.6%	102		4,365	
Skilled Nursing	389,458	50.0%	35,579	3,447	46.4%	89	10,347		
Other Senior Housing[6]	67,732	8.7%	7,543	368	9.4%	14	913	330	423
Schools	12,192	1.6%	1,349		1.6%	2			
Under Development[7]	894	0.1%			0.0%				
Totals	$ 779,033	100.0%	$ 77,643	$ 6,411	100.0%	207	11,260	4,695	423

(1) Includes rental income from properties classified as held-for-sale.

(2) Includes interest income from mortgage loans.

(3) Includes rental income and interest income from mortgage loans.

(4) We have investments in 30 states leased or mortgaged to 41 different operators.

(5)

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

(6)

Other senior housing properties consist of independent living properties and properties providing any combination of skilled nursing, assisted living and/or independent living services.

(7)

During 2011, we acquired a vacant parcel of land in Texas and entered into a commitment to fund the construction of a skilled nursing property with 120 beds which will replace an existing 90-bed skilled nursing property.

As of December 31, 2011 we had $599.9 million in carrying value of net real estate investment, consisting of $546.8 million or 91.1% invested in owned and leased properties and $53.1 million or 8.9% invested in mortgage loans secured by first mortgages.

In addition to the information below, see *Item 2. Properties* for more information about our portfolio.

Owned Properties. The following table summarizes our investment in owned properties at December 31, 2011 *(dollar amounts in thousands)*:

Type of Property	Gross Investments	Percentage of Investments	Number of Properties[1]	Number of SNF Beds[2]	Number of ALF Units[2]	Number of ILF Units[2]	Investment per Bed/Unit
Assisted Living	$ 285,981	39.4%	88		3,941		$ 72.57
Skilled Nursing	361,326	49.9%	68	8,021			$ 45.05
Other Senior Housing[3]	64,638	8.9%	13	814	256	423	$ 43.29
Schools	12,192	1.7%	2				N/A
Under Development[4]	894	0.1%					N/A
Totals	$ 725,031	100.0%	171	8,835	4,197	423	

(1)

We have investments in 25 states leased to 30 different operators.

(2)

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

(3)

Other senior housing properties consist of independent living properties and properties providing any combination of skilled nursing, assisted living and/or independent living services.

(4)

During 2011, we acquired a vacant parcel of land in Texas and entered into a commitment to fund the construction of a skilled nursing property with 120 beds which will replace an existing 90-bed skilled nursing property.

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 and one contains limited period options that permit the operator to purchase the property. 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 net patient 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. See *Item 8. FINANCIAL STATEMENTS NOTE 6. Real Estate Investments* for further descriptions.

The following operators accounted for more than 10% of our 2011 and 2010 rental income revenues:

Lessee	Percent of Rental Revenue 2011	2010
Extendicare REIT and Assisted Living Concepts, Inc.	14.1%	16.9%
Brookdale Senior Living Communities, Inc.	13.6%	15.9%
Preferred Care, Inc.	12.6%	14.6%

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, 2011 *(dollar amounts in thousands)*:

Type of Property	Gross Investments	Percentage of Investments	Number of Loans	Number of Properties(1)	Number of SNF Beds(2)	ALF Units(2)	Average Investment per Bed/Unit
Assisted Living	$ 22,776	42.2%	9	14		424	$ 53.72
Skilled Nursing	28,132	52.1%	20	21	2,326		$ 12.09
Other Senior Housing(3)	3,094	5.7%	1	1	99	74	$ 17.88
Totals	$ 54,002	100.0%	30	36	2,425	498	

(1) We have investments in 12 states that include mortgages to 14 different operators.

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

(3) Other senior housing properties consist of independent living properties and properties providing any combination of skilled nursing, assisted living and/or independent living services.

In general, the mortgage loans may not be prepaid except in the event of the sale of the collateral property to a third party that is not affiliated with the borrower, although partial prepayments (including the prepayment premium) are often permitted where a mortgage loan is secured by more than one property upon a sale of one or more, but not all, of the collateral properties to a third party which is not an affiliate of the borrower. The terms of the mortgage loans generally impose a premium upon prepayment of the loans depending upon the period in which the prepayment occurs, whether such prepayment was permitted or required, and certain other conditions such as upon the sale of the property under a pre-existing purchase option, destruction or condemnation, or other circumstances as approved by us. On certain loans, such prepayment amount is based upon a percentage of the then outstanding balance of the loan, usually declining ratably each year. For other loans, the prepayment premium is based on a yield maintenance formula. 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. See *Item 8. FINANCIAL STATEMENTS Note 6. Real Estate Investments* for further description.

Investment and Other Policies

Objectives and Policies. Our investment policy is to invest primarily in income-producing senior housing and long term care properties. Over the past three years (2009 through 2011), we invested approximately $1.9 million in mortgage loans and we acquired skilled nursing properties, assisted living properties, independent living properties and combinations thereof, plus a parcel of vacant land for approximately $213.4 million. 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 some future investments should we determine such future investments are financially feasible. The timing, source and amount of cash flows provided by financing activities and used in investing activities are sensitive to the capital markets environment, especially to changes in interest rates. We continuously evaluate the availability of cost-effective capital and believe we have sufficient liquidity for additional capital investments in 2012.

Our primary marketing and development focus is to increase the awareness of our presence at the state and local levels through participation in various healthcare associations and trade shows. We believe that this targeted marketing effort has increased deal flow and continues to provide opportunities for new investments in 2012. Since the competition from buyers in large transactions consisting of multiple property portfolios generally results in pricing that does not meet our investment criteria, our marketing efforts primarily focus on single property transactions or small multiple property portfolios that complement our historic investments and are priced with yields that are accretive to our stockholders.

Historically our investments have consisted of:

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

In evaluating potential investments, we consider factors such as:

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

Prior to every investment, we conduct a property site review to assess the general physical condition of the property and the potential of additional services. In addition, we review the environmental reports, site surveys and financial statements of the property before the investment is made. We 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 and independent living facilities are an important sector in the long term care market and our investments include direct ownership and mortgages secured by assisted living and/or independent living properties. For assisted living and independent living investments we have attempted to diversify our portfolio both geographically and across product levels. Thus, we believe that although the majority of our investments are in affordably priced units, our portfolio also includes upscale units in appropriate markets with certain operators.

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

In addition, we may incur mortgage indebtedness on real estate which we have acquired through purchase, foreclosure or otherwise. We may also obtain mortgage financing for unleveraged or underleveraged properties in which we have invested or may refinance properties acquired on a leveraged basis. There is no limitation on the number or amount of mortgages that may be placed on any one property, and we have no policy with respect to limitations on borrowing, whether secured or unsecured.

Prohibited Investments and Activities. Our policies, which are subject to change by our Board of Directors without stockholder approval, impose certain prohibitions and restrictions on our investment practices or activities including prohibitions against:

- investing in any junior mortgage loan unless by appraisal or other method, our Board of Directors determine that

  (a) the capital invested in any such loan is adequately secured on the basis of the equity of the borrower in the property underlying such investment and the ability of the borrower to repay the mortgage loan; or

  (b) such loan is a financing device we enter into to establish the priority of our capital investment over the capital invested by others investing with us in a real estate project;

- investing in commodities or commodity futures contracts (other than interest rate futures, when used solely for hedging purposes);

- investing more than 1% of our total assets in contracts for the sale of real estate unless such contracts are recordable in the chain of title;

- holding equity investments in unimproved, non-income producing real property, except such properties as are currently undergoing development or are presently intended to be developed within one year, together with mortgage loans on such property (other than first mortgage development loans), aggregating to more than 10% of our assets.

Competition

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

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

Government Regulation

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

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

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

A significant portion of the revenue of our skilled nursing property borrowers and lessees is derived from governmentally-funded reimbursement programs, such as Medicare and Medicaid. Because of significant health care costs paid by such government programs, both federal and state governments have adopted and continue to consider various health care reform proposals to control health care costs. Over the years there 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. In many instances, revenues from Medicaid programs are already insufficient to cover the actual costs incurred in providing care to those patients. The American Recovery and Reinvestment Act of 2009 temporarily increased federal Medicaid payments by approximately $87 billion to help support state Medicaid programs facing budget shortfalls. An additional $16.1 billion in temporary enhanced federal Medicaid assistance was included in the Education Jobs and Medicaid Assistance Act, which President Obama signed into law in August 2010. However, enhanced funding under this federal legislation expired in June 2011. Moreover, the Kaiser Commission on Medicaid and the Uninsured reported in October 2011 that nearly every state implemented at least one new Medicaid policy to control spending in fiscal years 2011 and 2012, with 39 states in fiscal year 2011 implementing provider rate cuts or freezes, and 46 states planning to do so in fiscal year 2012. Thirty states restricted nursing home rates in fiscal year 2011 (24 rate freezes and 6 cuts), while 17 states plan to freeze rates and 14 states plan to cut rates in fiscal year 2012. On the other hand, 21 states increased nursing home rates in fiscal year 2011 and 20 plan to do so in fiscal year 2012. In addition, many states have been making changes to their long term care delivery systems that emphasize home and community-based long term care services, in some cases coupled with cost controls for institutional providers. According to the Kaiser Commission, 32 states in FY 2011 and 33 states in FY 2012 expanded long term care services (primarily expanding home and community-based service), while 14 states in FY 2011 and 11 states in FY 2012 acted to restrict long term care services. The federal government also has adopted policies to promote community-based alternatives to institutional services. As states and the federal government continue to respond to budget pressures, future reduction in Medicaid and/or Medicare 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. 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.

The Centers for Medicare & Medicaid Services (or CMS) annually updates Medicare skilled nursing facility prospective payment system rates and other policies. On July 29, 2011, CMS issued its final rule updating Medicare skilled nursing facility rates for fiscal year 2012, which began on October 1, 2011. Under the final rule, average rates have been reduced by 11.1%, or $3.87 billion, compared to fiscal year 2011 levels. CMS has stated that the rate reduction is needed to recalibrate skilled nursing facility payment rates to correct what CMS characterizes as an "unintended spike" in payments in fiscal year 2011, when CMS implemented the Resource Utilization Groups, version four (or RUG-IV) patient classification system. Although CMS intended implementation of RUG-IV to be budget-neutral, CMS has taken the position that claims under the updated system show a significant increase in Medicare expenditures, in part because the proportion of patients grouped in the highest-paying RUG therapy categories greatly exceeded CMS expectations. CMS is applying a 12.6% recalibration reduction, which is partially offset by a 1.7% standard rate update (which represents a 2.7% market basket update reduced by a 1.0% percentage point "multifactor productivity adjustment" mandated by the Affordable Care Act). There can be no assurance that this rule or any future reductions in Medicare skilled nursing facility payment rates 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.

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

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

Health Care Reform and Other Legislative Developments

Congress and the state legislatures regularly consider, and in some cases adopt, legislation impacting health care providers, including long term care providers. For instance, the Balanced Budget Act of 1997 enacted significant changes to the Medicare and Medicaid programs designed to modernize payment and health care delivery systems while achieving substantial budgetary savings. Among other things, the law established the prospective payment system for skilled nursing facility services to replace the cost-based reimbursement system, which resulted in significant reductions in Medicare payments to skilled nursing facilities. Over the years, Congress adopted legislation to somewhat mitigate the impact of the new payment system, including a temporary payment add-on for high-acuity patients, which subsequently expired, and a temporary payment add-on for residents with AIDS that still is in effect through fiscal year 2012. Other legislation enacted by Congress in recent years has reduced certain Medicare skilled nursing facility bad debt payments, strengthened Medicaid asset transfer restrictions for persons seeking to qualify for Medicaid long term care coverage, reduced Medicaid provider taxes that are used by many states to finance state health programs, and given states greater flexibility to expand access to home and community based services.

In March 2010, the President signed into law the Patient Protection and Affordable Care Act, which subsequently was amended by the Health Care and Education and Reconciliation Act of 2010 (collectively referred to as the "Affordable Care Act"). The Affordable Care Act is designed to expand access to affordable health insurance, contain health care costs, and institute a variety of health policy reforms. The provisions of the sweeping law may affect us directly, as well as impact our lessees and borrowers. While certain provisions, such as expanding the insured population, may positively impact the revenues of our lessees and borrowers, other provisions, particularly those intended to reduce federal health care spending, could have a negative impact on our lessees and borrowers. Among other things, the Affordable Care Act: reduces Medicare skilled nursing facility reimbursement by a so-called "productivity adjustment" based on economy-wide productivity gains beginning in fiscal year 2012; requires the development of a value-based purchasing program for Medicare skilled nursing facility services; establishes a national voluntary pilot program to bundle Medicare payments for hospital and post-acute services that could lead to changes in the delivery of post-acute services; and provides incentives to state Medicaid programs to promote community-based care as an alternative to institutional long term care services. The Affordable Care Act also includes provisions intended to expand public disclosure about nursing home ownership and operations, institute mandatory compliance and quality assurance programs, increase penalties for noncompliance, and expand fraud and abuse enforcement and penalty provisions that could impact our operators. In addition, the Affordable Care Act impacts both us and our lessees and borrowers as employers, including new requirements related to the health insurance we offer to our respective employees. Many aspects of the Affordable Care Act are being implemented through new regulations and subregulatory guidance. We cannot predict at this time what effect, if any, the various provisions of the Affordable Care Act will have on our lessees and borrowers or our business. There can be no assurances, however, that the Affordable Care Act will not adversely impact the operations, cash flows or financial condition of our lessees and borrowers, which subsequently could materially adversely impact our revenue and operations.

On August 2, 2011, President Obama signed into law the Budget Control Act of 2011, which increased the nation's debt ceiling while taking steps to reduce the federal deficit. Under this law, a bipartisan Joint Select Committee on Deficit Reduction was responsible for identifying $1.5 trillion in deficit reduction, which could include cuts in Medicare, Medicaid, and other federal spending and/or revenue increases. The Committee failed to achieve consensus on deficit reduction measures. As a result, because no legislation was adopted to achieve deficit reduction targets by the statutory deadline, absent additional legislation, an enforcement mechanism known as sequestration will trigger a total of $1.2 trillion in spending reductions in January 2013, divided between domestic and defense spending. Medicare provider payments will also be subject to sequestration, although the reductions will be capped at 2%. There can be no assurances that federal spending reductions resulting from the Budget Control Act or other budget control mechanisms will not have an adverse impact on the financial condition of our borrowers and lessees and borrowers, which subsequently could materially adversely impact our company.

In addition, comprehensive 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. Changes in the law, new interpretations of existing laws, or changes in payment methodologies may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business and the amount of reimbursement by the government and other third party payors.

Environmental Matters

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

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

Insurance

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

Employees

At December 31, 2011, we employed 17 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 ten-year period, called the recognition period, beginning on the date on which we acquired the asset, then, to the extent of the built-in gain (i.e., the excess of (a) the fair market value of such asset over (b) our adjusted basis in such asset, both determined as of the beginning of the recognition period), such gain will be subject to tax at the highest regular corporate tax rate, pursuant to IRS regulations.

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

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

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

Finally, if we own a residual interest in a real estate mortgage investment conduit (or REMIC), we will be taxed at the highest corporate rate on the portion of any excess inclusion income that we derive from the REMIC residual interests equal to the percentage of our shares that is held in record name by "disqualified organization." A "disqualified organization" includes the United States, any state or political subdivision thereof, any foreign government or international organization, any agency or instrumentality of any of the foregoing, any rural electrical or telephone cooperative and any tax-exempt organization (other than a farmer's cooperative described in Section 521 of the Code) that is exempt from income taxation and from the unrelated business taxable income provisions of the

Code. However, to the extent that we own a REMIC residual interest through a taxable REIT subsidiary, we will not be subject to this tax.

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

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

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

(3) which would be taxable, but for Sections 856 through 860 of the Code, as a domestic corporation;

(4) which is neither a financial institution nor an insurance company subject to certain provisions of the Code;

(5) the beneficial ownership of which is held by 100 or more persons;

(6) during the last half of each taxable year not more than 50% in value of the outstanding stock of which is owned, actually or constructively, by five or fewer individuals (including specified entities);

(7) which meets certain other tests, described below, regarding the amount of its distributions and the nature of its income and assets;

(8) that elects to be a REIT, or has made such election for a previous year, and satisfies the applicable filing and administrative requirements to maintain qualifications as a REIT; and

(9) that adopts a calendar year accounting period.

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

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

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

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

First, at least 75% of our gross income (excluding gross income from "prohibited transactions," as defined below) for each taxable year must be derived directly or indirectly from investments relating to real property or mortgages on real property, including rents from real property, or from certain types of temporary investment income.

Second, at least 95% of our gross income for each taxable year must be directly or indirectly derived from income that qualifies under the 75% test, and from dividends (including dividends from taxable REIT subsidiaries), interest and gain from the sale or other disposition of stock or securities.

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

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

The amount of rent must not be based in whole or in part on the income or profits of any person, although rents generally will not be excluded merely because they are based on a fixed percentage or percentages of receipts or sales.

Rents received from a tenant will not qualify as rents from real property if the REIT, or an owner of 10% or more of the REIT, also directly or constructively owns 10% or more of the tenant, unless the tenant is our taxable REIT subsidiary and certain other requirements are met with respect to the real property being rented.

If rent attributable to personal property leased in connection with a lease of real property is greater than 15% of the total rent received under the lease, then the portion of rent attributable to the personal property will not qualify as rents from real property.

We generally must not furnish or render services to tenants, other than through a taxable REIT subsidiary or an "independent contractor" from whom we derive no income, except that we may directly provide services that are "usually or customarily rendered" in the geographic area in which the property is located in connection with the rental of real property for occupancy only, or are not otherwise "rendered to the occupant for his convenience."

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

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

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

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

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

Investments in Taxable REIT Subsidiaries. For taxable years beginning after December 1, 2000, REITs may own more than 10% of the voting and value of securities in a TRS. A TRS is a corporation other than a REIT in which a REIT directly or indirectly holds stock, and that has made a joint election with the REIT to be treated as a TRS. A TRS also includes any corporation other than a REIT with respect to which a TRS owns securities possessing more that 35% of the total voting power or value of the outstanding securities of such corporation. Other than some activities relating to lodging and health care facilities, a TRS may generally engage in any business, including the provision of customary or non-customary services to tenants of its parent REIT. A TRS is subject to income tax as a regular C corporation. In addition, a TRS may be prevented from deducting interest on debt funded directly or indirectly by its parent REIT if certain tests regarding the TRS's debt to equity ratio and interest expense are not satisfied. A REIT's ownership of a TRS will not be subject to the 10% or 5% asset tests described above, and its operations will be subject to the provisions described above. At this time, we do not have any taxable REIT subsidiaries.

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

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

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

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

(1) the sum of:

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

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

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

In addition, if we dispose of any asset we acquired from a corporation which is or has been a C corporation in a transaction in which our basis in the asset is determined by reference to the basis of the asset in the hands of that C corporation, within the ten-year period following our acquisition of such asset, we would be required to distribute at least 90% of the after-tax gain, if any, we recognized on the disposition of the asset, to the extent that gain does not exceed the excess of (a) the fair market value of the asset on the date we acquired the asset over (b) our adjusted basis in the asset on the date we acquired the asset.

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

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

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

(1) 85% of our real estate investment trust ordinary income for such year,

(2) 95% of our real estate investment trust capital gain net income for such year, and

(3) 100% of taxable income from prior periods less 100% of distributions from prior periods

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

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

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

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

Investor Information

We make available to the public free of charge through our internet website our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such reports with, or furnish such reports to, the Securities and Exchange Commission (or SEC). Our internet website address is *www.LTCProperties.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.LTCProperties.com* under the "Corporate Governance" heading are our Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee Charters, our Corporate Governance Policies, and a Code of Business Conduct, Ethics and Corporate

Governance 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, Ethics and Corporate Governance and any waiver applicable to our Principal Executive Officer, Principal Financial Officer, Principal Accounting Officer or Directors. In addition, our website under the heading "SEC Filings" includes information concerning purchases and sales of our equity securities by our executive officers and directors.

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

You also may contact our Investor Relations Department at:

LTC Properties, Inc.
2829 Townsgate Road, Suite 350
Westlake Village, California 91361
Attn: Investor Relations
(805) 981-8655

Item 1A. RISK FACTORS

The following discussion of risk factors contains "forward-looking statements" as discussed above under the heading "Cautionary Statement." These risk factors may be important to understanding any statement in this Annual Report on Form 10-K or elsewhere. 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. In January 2012, we declared a $0.145 per share monthly dividend for the first quarter of calendar 2012 which is a 3.6% increase from the previous $0.14 per share per month dividend. 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. We believe that our $4.4 million cash balance at December 31, 2011, our low debt levels, $154.0 million available under our $210.0 million Unsecured Credit Agreement and $100.0 million available under the uncommitted private shelf agreement, and our potential ability to access the capital markets through the issuance of $64.6 million of common stock under our Amended Equity Distribution Agreement and through the issuance of debt and/or equity securities under our $167.6 million effective shelf registration, will enable us to meet our obligations and continue to make investments.

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% of our revenue for the year ended December 31, 2011, 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 or that if such failure to renew were to occur, we could lease the property to others on favorable terms.

We Rely on a Few Major Operators. Extendicare REIT and Assisted Living Concepts, Inc. (or ALC), collectively lease 37 assisted living properties with a total of 1,427 units owned by us representing approximately 8.6%, or $55.5 million, of our total assets at December 31, 2011. Brookdale Senior Living Communities, Inc., (or Brookdale Communities), a wholly owned subsidiary of Brookdale Senior Living, Inc., leases 35 assisted living properties with a total of 1,416 units owned by us representing approximately 8.6%, or $55.5 million, of our total assets at December 31, 2011. Preferred Care, Inc. (or Preferred Care), through various wholly owned subsidiaries, operates 30 skilled nursing properties and two other senior housing properties that we own or on which we hold mortgages secured by first trust deeds. These properties consist of a total of 3,861 skilled nursing beds and 49 assisted living units. This represents approximately 8.8% or $57.0 million of our total assets at December 31, 2011. Our financial position and ability to make distributions may be adversely affected by financial difficulties experienced by any of our other lessees and borrowers, including bankruptcies, inability to emerge from bankruptcy, insolvency or general downturn in business of any such operator, or in the event any such operator does not renew and/or extend its relationship with us or our borrowers when it expires.

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

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

In March 2010, the President signed into law the Patient Protection and Affordable Care Act, which subsequently was amended by the Health Care and Education and Reconciliation Act of 2010 (collectively referred to as the "Affordable Care Act"). The Affordable Care Act is designed to expand access to affordable health insurance, contain health care costs, and institute a variety of health policy reforms. The provisions of the sweeping law may affect us directly, as well as impact our lessees and borrowers. While certain provisions, such as expanding the insured population, may positively impact the revenues of our lessees and borrowers, other provisions, particularly those intended to reduce federal health care spending, could have a negative impact on our lessees and borrowers. Among other things, the Affordable Care Act: reduces Medicare skilled nursing facility reimbursement by a so-called "productivity adjustment" based on economy-wide productivity gains beginning in fiscal year 2012; requires the development of a value-based purchasing program for Medicare skilled nursing facility services; establishes a national voluntary pilot program to bundle Medicare payments for hospital and post-acute services that could lead to changes in the delivery of post-acute services; and provides incentives to state Medicaid programs to promote community-based care as an alternative to institutional long term care services. The Affordable Care Act also includes provisions intended to expand public disclosure about nursing home ownership and operations, institute mandatory compliance and quality assurance programs, increase penalties for noncompliance, and expand fraud and abuse enforcement and penalty provisions that could impact our operators. In addition, the Affordable Care Act impacts both us and our lessees and borrowers as employers, including new requirements related to the health insurance we offer to our respective employees. Many aspects of the Affordable Care Act are being implemented through new regulations and subregulatory guidance. We cannot predict at this time what effect, if any, the various provisions of the Affordable Care Act will have on our lessees and borrowers or our business. There can be no assurances, however, that the Affordable Care Act will not adversely impact the operations, cash flows or financial condition of our lessees and borrowers, which subsequently could materially adversely impact our revenue and operations.

In addition, comprehensive 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. In particular, absent new legislation, the federal Budget Control Act of 2011 will trigger a total of $1.2 trillion in spending reductions in January 2013, divided between domestic and defense spending. Medicare provider payments will be subject to sequestration, although the reductions will be capped at 2%. Changes in the law, new interpretations of existing laws, or changes in payment methodologies may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business and the amount of reimbursement by the government and other third party payors.

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

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

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

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

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

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

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

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

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

Provisions in Our Articles of Incorporation May Limit Ownership of Shares of Our Capital Stock. In order for us to qualify as a REIT, no more than 50% in value of the outstanding shares of our stock may be beneficially owned, directly or indirectly, by five or fewer individuals at any time during the last half of each taxable year. To ensure qualification under this test, our Articles of Incorporation provide that, subject to exceptions, no person may beneficially own more than 9.8% of outstanding shares of any class or series of our stock, including our common stock. Our Board of Directors may exempt a person from the 9.8% ownership limit upon such conditions as the Board of Directors may 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 healthcare-related facilities are subject to regulatory approvals not required for transfers of other types of commercial operations and other types of real estate. Thus, if the operation of any of our properties becomes unprofitable due to competition, age of improvements or other factors such that our lessee or borrower becomes unable to meet its obligations on the lease or mortgage loan, the liquidation value of the property may be substantially less than the net book value or the amount owing on any related mortgage loan, than would be the case if the property were readily adaptable to other uses. The receipt of liquidation proceeds or the replacement of an operator that has defaulted on its lease or loan could be delayed by the approval process of any federal, state or local agency necessary for the transfer of the property or the replacement of the operator with a new operator licensed to manage the facility. In addition, certain significant expenditures associated with real estate investment, such as real estate taxes and maintenance costs, are generally not reduced when circumstances cause a reduction in income from the investment. Should such events occur, our income and cash flows from operations would be adversely affected.

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

We are Subject to Risks and Liabilities in Connection with Properties Owned Through Limited Liability Companies and Partnerships. We have ownership interests in a limited liability partnership. 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.

Item 1B. UNRESOLVED STAFF COMMENTS

None.

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

Owned Properties. The following table sets forth certain information regarding our owned properties as of December 31, 2011 (*dollars amounts in thousands*):

Location	No. of SNFs	No. of ALFs	No. of Others(4)	No. of Schools	No. of Beds/Units	Encumbrances	Remaining Lease Term(1)	Gross Investment
Alabama	2		2		459	$	49	$ 18,622
Arizona	5	2			1,029		75	41,212
California	2	2			499		79	48,719
Colorado	3	6	1		582		108	27,816
Florida	2	8	3		1,058		108	60,567
Georgia	2		1		300		38	6,600
Idaho		4			148		36	9,756
Indiana		3			140		64	9,856
Iowa	6	1	1		616		110	17,422
Kansas	3	4			398		113	20,844
Minnesota				1			8	2,922
Mississippi		1			62		106	9,400
Nebraska		4			156		36	9,332
New Jersey		1		1	39		51	12,195
New Mexico	7				860		81	48,876
N. Carolina		5			210		108	13,096
Ohio	6	11			737		51	56,804
Oklahoma		6			221		108	12,315
Oregon	1	3			218		41	11,927
Pennsylvania		3			199		105	18,040
S. Carolina		3	2		339		109	19,734
Tennessee	2				142		82	3,075
Texas	23	13	2		4,044		111	189,745
Virginia	3		1		568		123	29,052
Washington	1	8			431	3,200	38	27,104
TOTAL	68	88	13	2	13,455	$ 3,200(2)	87	$ 725,031(3)

(1) Weighted average remaining months in lease term as of December 31, 2011.

(2) Consists of $3,200 of tax-exempt bonds secured by five assisted living properties in Washington with 188 units. As of December 31, 2011 our gross investment in properties encumbered by these bonds was $11,280.

(3)

Of the total, $285,981 relates to investments in assisted living properties, $361,326 relates to investments in skilled nursing properties, $64,638 relates to investments in other senior housing properties, $12,192 relates to investments in two schools and $894 relates to a development project in Texas to construct a skilled nursing property with 120 beds which will replace an existing 90-bed skilled nursing property.

(4)

Other represents other senior housing properties consisting of independent living properties and properties providing any combination of skilled nursing, assisted living and/or independent living services.

Mortgage Loans. The following table sets forth certain information regarding our mortgage loans as of December 31, 2011 (*dollars amounts in thousands*):

Location	No. of SNFs	No. of ALFs	No. of Other(1)	No. of Beds/ Units	Interest Rate	Average Months to Maturity	Original Face Amount of Mortgage Loans	Current Carrying Amount of Mortgage Loans	Current Annual Debt Service(2)
California	1		1	297	11.25%-11.30%	24	$ 6,800	$ 3,317	$ 852
Florida	4	1		387	10.88%-14.63%	15	11,360	9,650	1,472
Iowa		1		44	11.44%	22	2,400	2,074	276
Missouri	2			190	10.51%-10.98%	75	3,000	3,838	646
Montana		1		34	14.23%	22	2,346	2,115	331
Nebraska		4		163	11.44%-11.67%	22	10,911	9,211	1,239
Oklahoma							1,300	385(3)	
S. Dakota		1		34	11.44%	22	2,346	2,028	269
Texas	11	6		1,471	9.95%-13.32%	41	26,865	18,015	3,206
Utah	1			84	10.30%	95	1,400	1,330	166
Washington	1			104	13.38%	58	1,700	847	236
Wisconsin	1			115	11.00%	62	2,200	1,192	272
TOTAL	21	14	1	2,923		37	$ 72,628	$ 54,002(4)	$ 8,965

(1)

Other represents other senior housing properties consisting of independent living properties and properties providing any combination of skilled nursing, assisted living and/or independent living services.

(2)

Includes principal and interest payments.

(3)

Represents a mortgage loan secured by land which was fully reserved during 2010.

(4)

Of the total current principal balance, $28,132 relates to investments in skilled nursing properties, $22,776 relates to investments in assisted living properties and $3,094 relates to an investment in other senior housing properties. This balance is gross of a loan loss reserve of $921 and includes discounts and premiums related to loans acquired in prior years totaling $30.

Item 3. LEGAL PROCEEDINGS

We are from time to time a party to various general and professional liability claims and lawsuits asserted against the lessees or borrowers of our properties, which in our opinion are not singularly or in the aggregate material to our results of operations or financial condition. These types of claims and lawsuits may include matters involving general or professional liability, 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.

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.

	2011		2010	
	High	**Low**	**High**	**Low**
First Quarter	$ 29.48	$ 27.01	$ 28.10	$ 24.52
Second Quarter	$ 30.14	$ 26.51	$ 28.76	$ 23.13
Third Quarter	$ 28.85	$ 20.41	$ 26.06	$ 22.91
Fourth Quarter	$ 31.38	$ 23.75	$ 28.66	$ 25.37

Holders of Record

As of December 31, 2011 we had approximately 321 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	
	2011	**2010**	**2011**	**2010**
First Quarter	$ 0.42	$ 0.39	$ 0.42	$ 0.39
Second Quarter	$ 0.42	$ 0.39	$ 0.42	$ 0.39
Third Quarter	$ 0.42	$ 0.39	$ 0.42	$ 0.39
Fourth Quarter	$ 0.42	$ 0.41	$ 0.42	$ 0.41
	$ 1.68	$ 1.58	$ 1.68	$ 1.58

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" beginning on page 17.)

Issuer Purchases of Equity Securities

Our Board of Directors authorized a share repurchase program enabling us to repurchase up to 5,000,000 shares of our equity securities, including common and preferred stock on the open market. This authorization does not expire until 5,000,000 shares of our equity securities have been repurchased or the Board of Directors terminates its authorization. During the fourth quarter ended December 31, 2011, we did not repurchase any of our outstanding common stock or preferred securities.

Since inception of our existing share repurchase program through December 31, 2011, we have repurchased on the open market (i) 893,979 shares of our common stock at an average cost of $21.01 per share, including fees and costs, for an aggregate purchase price including fees and costs paid of

$18.8 million and (ii) 745,784 shares of our Series F preferred stock at an average cost of $21.83 per share, including fees and costs, for an aggregate purchase price including fees and costs paid of $16.3 million. We continue to have authorization to purchase on the open market an additional 3,360,237 shares of our equity securities.

Stock Performance Graph

The National Association of Real Estate Investment Trusts (or NAREIT), an organization representing U.S. REITs and publicly traded real estate companies, classifies a company with 75% or more of assets directly or indirectly in the equity ownership of real estate as an equity REIT. In 2011, our equity ownership of real estate assets was more than 75%.

This graph compares the cumulative total stockholder return on our common stock from December 31, 2006 to December 31, 2011 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, 2006 in our common stock and in each of the foregoing indices and assumes the reinvestment of dividends.

Total Return Performance

	Period Ending					
Index	**12/31/06**	**12/31/07**	**12/31/08**	**12/31/09**	**12/31/10**	**12/31/11**
LTC Properties, Inc.	100.00	97.62	84.24	119.54	133.23	155.58
NAREIT Equity	100.00	84.31	52.50	67.20	85.98	93.11
S&P 500	100.00	105.49	66.46	84.05	96.71	98.76

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.

	2011	2010	2009	2008	2007
			(In thousands, except per share amounts)		
Operating Information:					
Total revenues	$ 85,160	$ 73,696	$ 68,794	$ 68,839	$ 74,304
Income from continuing operations	49,673	45,860	44,473	43,056	47,803
Income allocated to non-controlling interests	191	191	296	307	343
Income allocated to participating securities	342	230	139	159	219
Income allocated to preferred stockholders(5)	9,078	16,045	14,515	14,401	16,923
Net income allocable to common stockholders	39,832	29,587	29,410	28,417	30,613
Per share Information:					
Net Income per Common Share from Continuing Operations Allocable to Common Stockholders:					
Basic	$ 1.37	$ 1.20	$ 1.28	$ 1.23	$ 1.31
Diluted	$ 1.37	$ 1.20	$ 1.28	$ 1.23	$ 1.29
Net Income Per Common Share Allocable to Common Stockholders:					
Basic	$ 1.36	$ 1.21	$ 1.27	$ 1.24	$ 1.32
Diluted	$ 1.36	$ 1.21	$ 1.27	$ 1.24	$ 1.31
Common Stock Distributions declared	$ 1.68	$ 1.58	$ 1.56	$ 1.56	$ 1.50
Common Stock Distributions paid	$ 1.68	$ 1.58	$ 1.56	$ 1.56	$ 1.50
Balance Sheet Information:					
Total assets	$ 647,097	$ 561,264	$ 490,593	$ 506,053	$ 544,105
Total debt(1)	159,200(4)	91,430(4)	25,410(3)	36,753(2)	52,295

(1) Includes bank borrowings, senior unsecured notes, mortgage loans payable and bonds payable.

(2) Lower due to the pay off during 2008 of a mortgage loan in the amount of $14.2 million secured by four assisted living properties.

(3) Lower due to the pay off during 2009 of three mortgage loans totaling $23.9 million secured by 11 assisted living properties partially offset by outstanding bank borrowings of $13.5 million.

(4) Increase due to the sale of the senior unsecured term notes and additional bank borrowing to fund real estate acquisitions.

(5)

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

	2011	2010	2009	2008	2007
Preferred stock dividends	$ 5,512	$ 13,662	$ 15,141	$ 15,390	$ 16,923
Preferred stock redemption charge	3,566	2,383			
Allocation of income from preferred stock buyback			(626)	(989)	
Total income allocated to preferred stockholders	$ 9,078	$ 16,045	$ 14,515	$ 14,401	$ 16,923

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

Executive Overview

Business

We are a self-administered health care real estate investment trust (or REIT) that invests primarily in senior housing and long term care properties through mortgage loans, property lease transactions and other investments. We conduct and manage our business as one operating segment, rather than multiple operating segments, for internal reporting and internal decision making purposes. In 2011, senior housing and long term care properties, which include skilled nursing properties, assisted living properties, independent living properties, and combinations thereof comprised approximately 98% of our investment portfolio. The following table summarizes our real estate investment portfolio as of December 31, 2011 *(dollar amounts in thousands):*

			Twelve Months Ended December 31, 2011				Number of		
Type of Property	**Gross Investments**	**Percentage of Investments**	**Rental Income(1)**	**Interest Income(2)**	**Percentage of Revenues(3)**	**Number of Properties(4)**	**SNF Beds(5)**	**ALF Units(5)**	**ILF Units(5)**
Assisted Living	$ 308,757	39.6%	$ 33,172	$ 2,596	42.6%	102		4,365	
Skilled Nursing	389,458	50.0%	35,579	3,447	46.4%	89	10,347		
Other Senior Housing(6)	67,732	8.7%	7,543	368	9.4%	14	913	330	423
Schools	12,192	1.6%	1,349		1.6%	2			
Under Development(7)	894	0.1%			0.00%				
Totals	$ 779,033	100.0%	$ 77,643	$ 6,411	100.0%	207	11,260	4,695	423

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(1) Includes rental income from properties classified as held-for-sale.

(2) Includes interest income from mortgage loans.

(3) Includes rental income and interest income from mortgage loans.

(4) We have investments in 30 states leased or mortgaged to 41 different operators.

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

(6) Other senior housing properties consist of independent living properties and properties providing any combination of skilled nursing, assisted living and/or independent living services.

(7) During 2011, we acquired a vacant parcel of land in Texas and entered into a commitment to fund the construction of a skilled nursing property with 120 beds which will replace an existing 90-bed skilled nursing property.

As of December 31, 2011 we had $599.9 million in carrying value of net real estate investment, consisting of $546.8 million or 91.1% invested in owned and leased properties and $53.1 million or 8.9% invested in mortgage loans secured by first mortgages.

For the year ended December 31, 2011, rental income and interest income from mortgage loans excluding discontinued operations represented 91.2% and 7.5%, respectively, of total gross revenues. In most instances, 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. For the years ended December 31, 2011, 2010 and 2009 we recorded $3.7 million, $3.8 million, and $4.2 million,

respectively, in straight-line rental income. Also during 2011, 2010 and 2009 we recorded $46,000, $0.8 million and $0.8 million, respectively, of straight-line rent receivable reserve. Straight-line rental income for leases in place at December 31, 2011 are projected to decrease from $3.7 million in 2011 to $2.4 million in 2012 assuming no new leased investments with fixed annual rental escalations are added to our portfolio. Conversely, our cash rental income is projected to increase from $74.6 million in 2011 to $81.1 million in 2012 assuming no modification or replacement of existing leases and no new leased investments are added to our portfolio. During the year ended December 31, 2011, we received $74.6 million of cash rental revenue and recorded $0.7 million of lease inducement costs. At December 31, 2011 and 2010, the straight-line rent receivable balance, net of reserves, for continuing and discontinued operations on the consolidated balance sheet was $23.8 million and $20.1 million, respectively.

Our primary objectives are to sustain and enhance stockholder equity value and provide current income for distribution to stockholders through real estate investments in senior housing and long term care properties managed by experienced operators. To meet these objectives, we attempt to invest in properties that provide opportunity for additional value and current returns to our stockholders and diversify our investment portfolio by geographic location, operator and form of investment. We opportunistically consider investments in health care properties in related businesses where the business model is similar to our existing model and the opportunity provides an attractive expected return. Consistent with this strategy, we pursue, from time to time, opportunities for potential acquisitions and investments, with due diligence and negotiations often at different stages of development at any particular time.

With respect to skilled nursing properties, we attempt to invest in properties that do not have to rely on a high percentage of private-pay patients. We seek to invest primarily in properties that are located in communities with viable and sustainable economic and demographic trends whether located in primary, secondary or tertiary markets. We prefer to invest in a property that has significant market presence in its community and where state certificate of need and/or licensing procedures limit the entry of competing properties.

For assisted living and independent living investments we have attempted to diversify our portfolio both geographically and across product levels. Thus, we believe that although the majority of our investments are in affordably priced units, our portfolio also includes a significant number of upscale units in appropriate markets with certain operators.

Substantially all of our revenues and sources of cash flows from operations are derived from operating lease rentals and interest earned on outstanding loans receivable. Our investments in mortgage loans and owned properties represent our primary source of liquidity to fund distributions and are dependent upon the performance of the operators on their lease and loan obligations and the rates earned thereon. 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 lease or loan 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. Prior to 2008 we might have financed up to 90 percent of the stabilized market value of a property. Due to recent market uncertainties we most likely will finance at a lower percentage. 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 initially 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 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 capital markets environment may impact the availability of cost-effective capital. 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.

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

At December 31, 2011, we had $4.4 million of cash on hand, $154.0 million available on our $210.0 million Unsecured Credit Agreement, and $100.0 million available under the uncommitted private shelf agreement. Also, our potential ability to access the capital markets through the issuance of $64.6 million of common stock under our Amended Equity Distribution Agreement and through the issuance of debt and/or equity securities under our $167.6 million effective shelf registration. As a result, 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 some future investments should we determine such future investments are financially feasible.

Key Transactions

Owned Properties. The following table summarizes our acquisitions during 2011 *(dollars amounts in thousands)*:

Type of Property	Purchase Price	Transaction Costs	Total Acquisition Costs	Number of Properties	Number of SNF Beds	Number of ALF Units	Number of ILF Units
Skilled Nursing[2][3][4][5]	$ 93,841	$ 330	$ 94,171	7	1,016		
Other Senior Housing[1][6]	11,450	34	11,484	2	118	40	53
Land[2]	844	11	855				
Totals	$ 106,135	$ 375	$ 106,510	9	1,134	40	53

(1) Other senior housing properties consist of independent living properties and properties providing any combination of skilled nursing, assisted living and/or independent living services.

(2) We acquired a 196-bed skilled nursing property and a vacant parcel of land in Texas for a purchase price of $15,500 and $844, respectively. Simultaneous with the purchases, we entered into a commitment, in an amount not to exceed $8,250, to fund the construction of a 120-bed skilled nursing property on the acquired parcel of land which will replace a 90-bed skilled nursing property in our existing portfolio. Upon completion of the construction, the lessee intends to relocate the residents to the newly constructed property. These properties are leased to an operator within our existing portfolio pursuant to a 10-year master lease agreement at a GAAP

yield of 11.0%. The master lease contains annual escalations of 2.5% and has two 5-year renewal options.

(3) We purchased a 140-bed skilled nursing property located in Texas for an aggregate purchase price of $10,000. Simultaneous with the purchase, we added the property to an existing master lease with a third party operator at an incremental GAAP yield of 10.5%.

(4) We purchased four skilled nursing properties with 524 beds in Texas for $50,841 which consists of $41,000 in cash at closing with the remainder in the form of contingent earn-out payments. The contingent earn-out payment arrangements require us to pay two earn-out payments totalling up to $11,000 upon the properties achieving a sustainable stipulated rent coverage ratio. During 2011, we paid $4,000 related to the first contingent earn-out payment. We estimated the fair value of the contingent earn-out payments using a discounted cash flow analysis.

(5) We purchased a 156-bed skilled nursing property located in California for $17,500 and entered into a 12-year lease with an unrelated third party. The lease has a GAAP yield of 10.3%, contains annual escalations of 2.0% and has two 10-year renewal options.

(6) We purchased two senior housing properties located in South Carolina with 118 skilled nursing beds, 40 assisted living units and 53 independent living units for $11,450. The lease has a GAAP yield of 10.1%, contains annual escalations of 2.5% and has three 5-year renewal options.

Bank Borrowings. During 2011, we entered into a new $210.0 million Unsecured Credit Agreement which provides for the opportunity to increase the credit amount up to a total of $250.0 million. The new Unsecured Credit Agreement provides a revolving line of credit with no scheduled maturities other than the maturity date of April 18, 2015, and allows us to borrow at the same interest rates applicable to borrowings under our prior agreement, 150 basis points over LIBOR based on current leverage ratios. Financial covenants contained in the new Unsecured Credit Agreement, which are measured quarterly, require us to maintain, among other things:

(i) a ratio of total indebtedness to total asset value not greater than 0.5 to 1.0;

(ii) a ratio of secured debt to total asset value not greater than 0.35 to 1.0;

(iii) a ratio of unsecured debt to the value of the unencumbered asset pool not greater than 0.6 to 1.0; and

(iv) a ratio of EBITDA, as calculated in the new Unsecured Credit Agreement, to fixed charges not less than 1.50 to 1.0.

Senior Unsecured Notes. During 2011, we sold $50.0 million aggregate principal amount of 4.8% senior unsecured notes fully amortizing to maturity on July 20, 2021 to affiliates and managed accounts of Prudential Investment Management, Inc. (individually and collectively "Prudential"). We also entered into an Amended and Restated Note Purchase and Private Shelf Agreement with Prudential which provides for the possible issuance of up to an additional $100.0 million of senior unsecured fixed-rate term notes during a three-year issuance period.

Common Stock. During 2011, we sold 3,990,000 shares of common stock in an underwritten public offering at a price of $27.25 per share, before fees and costs of $5.1 million, for net proceeds of $103.6 million. The net proceeds were used to redeem all of our 8.0% Series F Cumulative Preferred Stock (or Series F preferred stock), as discussed below, and the remaining net proceeds were used to partially repay amounts outstanding under our Unsecured Credit Agreement.

Preferred Stock. We redeemed 3,536,530 shares of our Series F preferred stock, representing all of the outstanding shares. The redemption price was $25.1333 per share, including accrued and unpaid dividends up to the redemption date. Accordingly, we recognized the $3.6 million of original issue costs related to the Series F preferred stock as a preferred stock redemption charge in the consolidated income statement line item income allocated to preferred stockholders.

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 or mortgage loans. In order to qualify as an equity REIT, at least 75 percent of our total assets must be represented by real estate assets, cash, cash items and government securities. Investment mix measures the portion of our investments that relate to our various property types. Operator mix measures the portion of our investments that relate to our top 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 *(gross investment, in thousands)*:

	Period Ended				
	12/31/11	**9/30/11**	**6/30/11**	**3/31/11**	**12/31/10**
Asset mix:					
Real property	$ 725,031	$ 690,458	$ 679,806	$ 679,616	$ 615,666
Loans receivable	54,002	54,987	56,355	58,018	60,007
Investment asset mix:					
Skilled nursing properties	$ 389,458	$ 357,271	$ 348,195	$ 349,700	$ 298,734
Assisted living properties	308,757	308,680	308,785	308,702	309,129
Other senior housing properties(1)	67,732	67,302	67,011	67,062	55,640
Schools	12,192	12,192	12,170	12,170	12,170
Under Development(2)	894				
Operator asset mix:					
Extendicare (ALC)	$ 88,034	$ 88,034	$ 88,034	$ 88,034	$ 88,034
Preferred Care, Inc.(3)	88,309	88,471	88,324	88,489	87,685
Brookdale Communities	84,210	84,210	84,210	84,210	84,210
Remaining operators	518,480	484,730	475,593	476,901	415,744
Geographic mix:					
Texas	$ 207,760	$ 191,965	$ 182,317	$ 183,600	$ 134,366
Florida	70,217	70,282	70,345	70,406	70,466
Ohio	56,804	56,804	56,804	56,804	56,804
California	52,036	34,653	34,767	34,878	34,605
New Mexico	48,876	48,876	48,876	48,876	48,876
Remaining states	343,340	342,865	343,052	343,070	330,556

(1) Other senior housing properties consist of independent living properties and properties providing any combination of skilled nursing, assisted living and/or independent living services.

(2) During 2011, we acquired a vacant parcel of land in Texas and entered into a commitment to fund the construction of a skilled nursing property with 120 beds which will replace an existing 90-bed skilled nursing property.

(3) Preferred Care, Inc. leases 23 skilled nursing and two other senior housing properties under two master leases and one skilled nursing property under a separate lease agreement. In addition, they operate six skilled nursing properties securing five mortgage loans receivable that we have with unrelated third parties and one mortgage loan receivable we have with Preferred Care. They also operate one skilled nursing facility under a sub-lease with another lessee we have which is not included in the Preferred Care operator mix.

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 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 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:

Balance Sheet Metrics

	Year to Date	**Quarter Ended**				
	12/31/11	**12/31/11**	**9/30/11**	**6/30/11**	**3/31/11**	**12/31/10**
Debt to book capitalization ratio	25.4%	25.3%[1]	21.9%[1]	20.8%[1]	10.1%[6]	16.7%
Debt & Preferred Stock to book capitalization ratio	31.5%	31.5%[1]	28.3%[1]	27.3%[1]	17.5%[7]	39.8%
Debt to market capitalization ratio	14.0%	14.0%	14.0%[2]	12.2%[1]	5.6%[6]	9.5%
Debt & Preferred Stock to market capitalization ratio	17.4%	17.4%[3]	18.1%[2]	16.0%[1]	9.6%[7]	23.0%
Interest coverage ratio[9]	11.7x	9.9x[4]	10.7x[4]	12.2x[4]	16.1x[8]	17.5x
Fixed charge coverage ratio[9]	6.3x	7.0x[4]	7.3x[4]	8.0x[5]	4.3x	4.8x

(1) Increase primarily due to the increase in bank borrowing.

(2) Increase primarily due to the increase in bank borrowing and by the decrease in market capitalization.

(3) Decrease primarily due to the increase in market capitalization, partially offset by the increase in bank borrowing.

(4) Decrease primarily due to the increase in interest expense due to increased bank borrowing and the $50.0 million of 4.80% senior unsecured term notes, the increase in debt issue costs related to the new $210.0 million Unsecured Credit Agreement and the non-cash interest related to the contingent earn-out liabilities.

(5) Increase due to the decrease in preferred dividends resulting from the redemption of all of our Series F preferred stock, partially offset by the increase in interest expense, as discussed in explanation (4) above.

(6) Decrease primarily due to the payoff of the outstanding bank borrowing.

(7) Decrease primarily due to the payoff of the outstanding bank borrowing and the redemption of all of our Series F preferred stock.

(8) Decrease due to the increase in interest expense related to higher average outstanding bank borrowing.

(9) In calculating our interest coverage and fixed charge coverage ratios above, we use EBITDA, which is a financial measure not derived in accordance with U.S. generally accepted accounting principles (non-GAAP financial measure). EBITDA is not an alternative to net income, operating income, income from continuing operations or cash flows from operating activities as calculated and presented in accordance with U.S. GAAP. You should not rely on 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 EBITDA.

Below are a reconciliation of net income to EBITDA and the calculation of the interest coverage and fixed charge coverage ratios disclosed above.

	Year to Date	**Quarter Ended**				
	12/31/11	**12/31/11**	**9/30/11**	**6/30/11**	**3/31/11**	**12/31/10**
Net income	$ 49,443	$ 12,604	$ 12,423	$ 12,262	$ 12,154	$ 12,291
Less: Gain on sale						(310)
Add: Interest Expense	6,434	1,993	1,794	1,543	1,104	981
Add: Depreciation and amortization continuing & discontinued operations	19,623	5,141	4,974	4,987	4,521	4,162
Total EBITDA	$ 75,500	$ 19,738	$ 19,191	$ 18,792	$ 17,779	$ 17,124
Interest expense	$ 6,434	$ 1,993	$ 1,794	$ 1,543	$ 1,104	$ 981
Interest coverage ratio	11.7x	9.9x	10.7x	12.2x	16.1x	17.5x
Interest expense	$ 6,434	$ 1,993	$ 1,794	$ 1,543	$ 1,104	$ 981
Preferred stock dividends (excludes preferred stock redemption charge)	5,512	818	818	818	3,058	2,586
Total fixed charges	$ 11,946	$ 2,811	$ 2,612	$ 2,361	$ 4,162	$ 3,567
Fixed charge coverage ratio	6.3x	7.0x	7.3x	8.0x	4.3x	4.8x

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

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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

Year ended December 31, 2011 compared to year ended December 31, 2010

Revenues for the year ended December 31, 2011 increased to $85.2 million from $73.7 million for the same period in 2010 primarily due to increases in rental income partially offset by decreases in interest income from mortgage loans and interest and other income, as discussed below. Rental income for the year ended December 31, 2011 increased $13.3 million from the same period in 2010 primarily due to increases resulting from acquisitions in 2011 and 2010.

Interest income from mortgage loans for the year ended December 31, 2011 decreased $1.1 million from the same period in 2010 primarily due to payoffs, normal amortization of existing mortgage loans and the conversion of a mortgage loan to an owned property. During 2010, we acquired the school property via deed-in-lieu of foreclosure as a result of the borrower filing for Chapter 7 bankruptcy. During 2011, we leased the school to a non-for-profit corporation that provides therapeutic support and intensive home, school and center-based behavioral therapy for children, youth and families affected by Autism Spectrum Disorders.

Interest and other income for the year ended December 31, 2011 decreased $0.8 million from the same period in 2010 primarily due to a $0.8 million bankruptcy settlement distribution received in 2010 related to a former operator.

Interest expense for the year ended December 31, 2011 was $3.8 million higher than the same period in 2010 primarily due to an increase in borrowings to fund acquisitions in 2011 and 2010, and the non-cash interest expense related to earn-out liabilities which represents the accretion of the difference between the current fair value and estimated payment of the contingent earn-out liabilities.

Depreciation and amortization expense for the year ended December 31, 2011 increased $3.8 million from the same period in 2010 primarily due to acquisitions in 2011 and 2010.

Provisions for doubtful accounts for the year ended December 31, 2011 decreased $1.4 million from the same period in 2010 primarily due to a provision for doubtful accounts charge in 2010 relating to two mortgage loans (one secured by a private school property located in Minnesota and one secured by land in Oklahoma).

Acquisition costs for the year ended December 31, 2011 were comparable to the same period in 2010.

Operating and other expenses for the year ended December 31, 2011 increased $1.5 million from the same period in 2010 primarily due to higher expense related to vesting of restricted stock granted in 2010, increased salaries and benefits reflective of increasing staffing levels, and higher consulting and marketing expenses.

For the year ended December 31, 2011 and 2010, net income from discontinued operations included the financial results from properties sold and properties classified as held-for-sale and a gain on sale of properties sold. Properties classified as held-for-sale include a 140-unit independent living property located in Texas that we acquired via foreclosure in 2008. This reclassification was made in accordance with accounting guidance which requires that the financial results of properties meeting certain criteria be reported on a separate line item called "Discontinued Operations."

Net income allocable to common stockholders for the year ended December 31, 2011 increased $10.2 million from the same period in 2010 primarily due to the redemption of all of our Series E and Series F preferred stock and the changes previously described above.

Year ended December 31, 2010 compared to year ended December 31, 2009

Revenues for the year ended December 31, 2010 increased to $73.7 million from $68.8 million for the same period in 2009 primarily due to increases in rental income and in interest and other income partially offset by decreases in interest income from mortgage loans, as discussed below. Rental income for the year ended December 31, 2010 increased $5.4 million from the same period in 2009 primarily from acquisitions.

Interest income from mortgage loans for the year ended December 31, 2010 decreased $1.1 million from the same period in 2009 primarily due to payoffs, normal amortization of existing mortgage loans and the conversion of a mortgage loan to an owned property. During 2010, we acquired the school property via deed-in-lieu of foreclosure as a result of the borrower filing for Chapter 7 bankruptcy. During 2011, we leased the school to a non-for-profit corporation that provides therapeutic support and intensive home, school and center-based behavioral therapy for children, youth and families affected by Autism Spectrum Disorders.

Interest and other income for the year ended December 31, 2010 increased $0.5 million from the same period in 2009 primarily due to a $0.8 million bankruptcy settlement distribution related to a former operator partially offset by lower interest income resulting from payoffs and the normal amortization of our notes receivable.

Interest expense for the year ended December 31, 2010 was $0.2 million higher than the same period in 2009 due to increase in bank borrowings outstanding during 2010 and the sale of $50.0 million aggregate principal of senior unsecured notes partially offset by a decrease in mortgage loans payable outstanding during the period resulting from the repayment of mortgage loans and the normal amortization of existing mortgage loans.

Depreciation and amortization expense for the year ended December 31, 2010 increased $1.4 million from the same period in 2009 primarily due to acquisitions.

Provisions for doubtful accounts for the year ended December 31, 2010 increased $1.2 million from the same period in 2009 primarily due to a provision for doubtful accounts charge related to two mortgage loans (one secured by a private school property located in Minnesota and one secured by land in Oklahoma).

Acquisition costs for the year ended December 31, 2010 increased $0.2 million as compared to same period in 2009 due to higher transaction volume in 2010.

Operating and other expenses for the year ended December 31, 2010 increased $0.5 million from the same period in 2009 primarily due to an increase in legal and other expenses related to the shelf registration and the Series E and Series F preferred stock redemption.

For the year ended December 31, 2010 and 2009, net income from discontinued operations included the financial results from properties sold and properties classified as held-for-sale and a gain on sale of properties sold. During 2010, we sold a 195-bed skilled nursing property in Virginia and recognized a gain of $0.3 million. Properties classified as held-for-sale include a 140-unit independent living property located in Texas that we acquired via foreclosure in 2008. This reclassification was made in accordance with accounting guidance which requires that the financial results of properties meeting certain criteria be reported on a separate line item called "Discontinued Operations."

Net income allocable to common stockholders for the year ended December 31, 2010 increased $0.2 million from the same period in 2009 primarily due to the changes previously described above and the redemption of all of our Series E and 40% of our Series F preferred stock in 2010 partially offset by the repurchase of our Series F preferred stock for less than liquidation value in 2009.

Critical Accounting Policies

Preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles (U.S. GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. See *Item 8. FINANCIAL STATEMENTS Note 2. Summary of Significant Accounting Policies* for a description of the significant accounting policies we followed in preparing the consolidated financial statements for all periods presented. We have identified the following significant accounting policies as critical accounting policies in that they require significant judgment and estimates and have the most impact on financial reporting.

Impairments. Impairment losses are recorded when events or changes in circumstances indicate the asset is impaired and the estimated undiscounted cash flows to be generated by the asset are less than its carrying amount. Management assesses the impairment of properties individually and impairment losses are calculated as the excess of the carrying amount over the fair value of assets to be held and used, and carrying amount over the fair value less cost to sell in instances where management has determined that we will dispose of the property. In determining fair value, we use current appraisals or other third party opinions of value and other estimates of fair value such as estimated discounted future cash flows.

Also, we evaluate the carrying values of mortgage loans receivable on an individual basis. Management periodically evaluates the realizability of future cash flows from the mortgage loan receivable when events or circumstances, such as the non-receipt of principal and interest payments and/or significant deterioration of the financial condition of the borrower, indicate that the carrying amount of the mortgage loan receivable may not be recoverable. An impairment charge is recognized in current period earnings and is calculated as the difference between the carrying amount of the mortgage loan receivable and the discounted cash flows expected to be received, or if foreclosure is probable, the fair value of the collateral securing the mortgage.

Accounting Standards Codification No. 320, *Investments Debt and Equity Securities* (or ASC 320), requires an entity to assess whether it intends to sell, or it is more likely than not that it will be required to sell, a debt security in an unrealized loss position before recovery of its amortized cost basis. If either of these criteria is met, the entire difference between fair value and amortized cost is recognized as impairment through earnings. For securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) other-than-temporary impairment (or OTTI) related to other factors such as an entity's ability to make scheduled interest or principal payments on the debt securities, which is recognized in other comprehensive income and 2) OTTI related to credit loss, which must be recognized in the income statement. The credit loss is determined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Mortgage Loans Receivable. Mortgage loans receivable we originate are recorded on an amortized cost basis. Mortgage loans we acquire are recorded at fair value at the time of purchase net of any related premium or discount which is amortized as a yield adjustment to interest income over the life of the loan. We maintain a valuation allowance based upon the expected collectability of our mortgage loans receivable. Changes in the valuation allowance are included in current period earnings.

Revenue Recognition. Interest income on mortgage loans is recognized using the effective interest method. We follow a policy related to mortgage interest whereby we consider a loan to be non-performing after 60 days of non-payment of amounts due and do not recognize unpaid mortgage interest income from that loan until the past due amounts have been received.

Rental income from operating leases is generally recognized on a straight-line basis over the terms of the leases. Substantially all of our leases contain provisions for specified annual increases over the rents of the prior year and are generally computed in one of four methods depending on specific provisions of each lease as follows:

(i) a specified annual increase over the prior year's rent, generally between 2.0% and 3.0%;

(ii) a calculation based on the Consumer Price Index;

(iii) as a percentage of facility net patient revenues in excess of base amounts or

(iv) specific dollar increases.

The FASB does not provide for the recognition of contingent revenue until all possible contingencies have been eliminated. We consider the operating history of the lessee and the general condition of the industry when evaluating whether all possible contingencies have been eliminated and have historically, and expect in the future, to not include contingent rents as income until received. We follow a policy related to rental income whereby we consider a lease to be non-performing after 60 days of non-payment of past due amounts and do not recognize unpaid rental income from that lease until the amounts have been received.

Rental revenues relating to non-contingent leases that contain specified rental increases over the life of the lease are recognized on the straight-line basis. Recognizing income on a straight-line basis requires us to calculate the total non-contingent rent containing specified rental increases over the life of the lease and to recognize the revenue evenly over that life. This method results in rental income in the early years of a lease being higher than actual cash received, creating a straight-line rent receivable asset included in our consolidated balance sheet. At some point during the lease, depending on its terms, the cash rent payments eventually exceed the straight-line rent which results in the straight-line rent receivable asset decreasing to zero over the remainder of the lease term. We assess the collectability of straight-line rent in accordance with the applicable accounting standards and our reserve policy. If the lessee becomes delinquent in rent owed under the terms of the lease, we may provide a reserve against the recognized straight-line rent receivable asset for a portion, up to its full value, that we estimate may not be recoverable.

Net loan fee income and commitment fee income are amortized over the life of the related loan. Costs associated with leases are deferred and allocated over the lease term in proportion to the recognition of rental income.

Liquidity and Capital Resources

Operating Activities:

At December 31, 2011, our real estate investment portfolio (before accumulated depreciation and amortization) consisted of $725.0 million invested primarily in owned long term healthcare properties and mortgage loans of approximately $54.0 million (prior to deducting a $0.9 million reserve). Our portfolio consists of investments in 89 skilled nursing properties, 102 assisted living properties, 14 other senior housing properties, two schools and a parcel of land under development. These properties are located in 30 states. Other senior housing properties consist of independent living properties and properties providing any combination of skilled nursing, assisted living and/or independent living services. For the year ended December 31, 2011, we had net cash provided by operating activities of $70.8 million.

For the year ended December 31, 2011 we recorded $3.7 million in straight-line rental income and $46,000 in straight-line rent receivable reserve. We currently expect that straight-line rental income for leases in place at December 31, 2011 will decrease from $3.7 million in 2011 to $2.4 million in 2012 assuming no modification or replacement of existing leases and no new leased investments are added to our portfolio. Conversely, our cash rental income is projected to increase from $74.6 million in 2011 to $81.1 million in 2012 assuming no modification or replacement of existing leases and no new leased investments are added to our portfolio. During the year ended December 31, 2011 we received $74.6 million of cash rental revenue and recorded $0.7 million of amortized lease inducement cost.

Investing Activities:

For the year ended December 31, 2011, we used $97.4 million of cash for investing activities. The following table summarizes our acquisitions during 2011 *(dollar amounts in thousands)*:

Type of Property	Purchase Price	Transaction Costs	Total Acquisition Costs	Number of Properties	Number of SNF Beds	Number of ALF Units	Number of ILF Units
Skilled Nursing(2)(3)(4)(5)	$ 93,841	$ 330	$ 94,171	7	1,016		
Other Senior Housing(1)(6)	11,450	34	11,484	2	118	40	53
Land(2)	844	11	855				
Totals	$ 106,135	$ 375	$ 106,510	9	1,134	40	53

(1) Other senior housing properties consist of independent living properties and properties providing any combination of skilled nursing, assisted living and/or independent living services.

(2) We acquired a 196-bed skilled nursing property and a vacant parcel of land in Texas for a purchase price of $15,500 and $844, respectively. Simultaneous with the purchases, we entered into a commitment, in an amount not to exceed $8,250, to fund the construction of a 120-bed skilled nursing property on the acquired parcel of land which will replace a 90-bed skilled nursing property in our existing portfolio. Upon completion of the construction, the lessee intends to relocate the residents to the newly constructed property. These properties are leased to an operator within our existing portfolio pursuant to a 10-year master lease agreement at a GAAP yield of 11.0%. The master lease contains annual escalations of 2.5% and has two 5-year renewal options.

(3) We purchased a 140-bed skilled nursing property located in Texas for an aggregate purchase price of $10,000. Simultaneous with the purchase, we added the property to an existing master lease with a third party operator at an incremental GAAP yield of 10.5%.

(4) We purchased four skilled nursing properties with 524-beds in Texas for $50,841 which consists of $41,000 in cash at closing with the remainder in the form of contingent earn-out payments. The contingent earn-out payment arrangements require us to pay two earn-out payments totalling up to $11,000 upon the properties achieving a sustainable stipulated rent coverage ratio. During 2011, we paid $4,000 related to the first contingent earn-out payment. We estimated the fair value of the contingent earn-out payments using a discounted cash flow analysis.

(5) We purchased a 156-bed skilled nursing property located in California for $17,500 and entered into a 12-year lease with an unrelated third party. The lease has a GAAP yield of 10.3%, contains annual escalations of 2.0% and has two 10-year renewal options.

(6) We purchased two senior housing properties located in South Carolina with 118 skilled nursing beds, 40 assisted living units and 53 independent living units for $11,450. The lease has a GAAP yield of 10.1%, contains annual escalations of 2.5% and has three 5-year renewal options.

Also, during 2011, we invested $3.1 million, at an average yield of 9.7%, under agreements to expand and renovate 11 existing properties operated by seven different operators and we invested $42,000 in capital improvements to existing properties under various lease agreements whose rental rates already reflected this investment.

In January 2012, we entered into an agreement to sell a 140-bed skilled nursing property located in Texas for $1.2 million. This property is leased under a master lease and the economic terms of this master lease will not change as a result of this sale. This sale is scheduled to close on February 29, 2012 and will result in a $16,000 gain recognized in 2012.

During 2011, we received $2.8 million plus accrued interest related to the payoff of four mortgage loans secured by one assisted living property and seven skilled nursing properties. Additionally, we received $3.1 million in regularly scheduled principal payments on mortgage loans.

During the year ended December 31, 2011, we funded $0.2 million on an 8.5% construction and term loan in which we committed to provide up to $2.5 million for capital improvements at two senior housing properties we own and lease to the borrower. Upon the earlier of the full funding of the $2.5 million or December 31, 2012, construction distribution under this loan will cease and this loan will fully amortize to maturity in November 2017. Additionally, we received $0.7 million in principal payments on various loans and lines of credit with certain operators. At December 31, 2011, we had six such notes receivable outstanding with a carrying value of $0.8 million at a weighted average interest rate of 10.0%.

Financing Activities:

For the year ended December 31, 2011, we had net cash provided by financing activities of $24.1 million. During 2011, we paid $0.5 million in scheduled principal payments on bonds payable.

During 2011, we entered into a new $210.0 million Unsecured Credit Agreement which provides for the opportunity to increase the credit amount up to a total of $250.0 million. The new Unsecured Credit Agreement provides a revolving line of credit with no scheduled maturities other than the maturity date of April 18, 2015, and allows us to borrow at the same interest rates applicable to borrowings under our prior agreement, 150 basis points over LIBOR based on current leverage ratios. Financial covenants contained in the new Unsecured Credit Agreement, which are measured quarterly, require us to maintain, among other things:

(i) a ratio of total indebtedness to total asset value not greater than 0.5 to 1.0;

(ii) a ratio of secured debt to total asset value not greater than 0.35 to 1.0;

(iii) a ratio of unsecured debt to the value of the unencumbered asset pool not greater than 0.6 to 1.0; and

(iv) a ratio of EBITDA, as calculated in the new Unsecured Credit Agreement, to fixed charges not less than 1.50 to 1.0.

During the year ended December 31, 2011, we borrowed $167.6 million and repaid $149.3 million under our Unsecured Credit Agreement. At December 31, 2011, we had $56.0 million outstanding at an interest rate of LIBOR plus 1.50% and $154.0 million available for borrowing. During January 2012, we borrowed $4.0 million. After this borrowing, we had $60.0 million outstanding and $150.0 million available for borrowing. At December 31, 2011, we were in compliance with all our covenants.

During the year ended December 31, 2011, we sold to affiliates and managed accounts of Prudential Investment Management, Inc. (individually and collectively "Prudential") $50.0 million aggregate principal amount of 4.8% senior unsecured term notes fully amortizing to maturity on July 20, 2021. Additionally, we entered into an Amended and Restated Note Purchase and Private Shelf Agreement with Prudential which provides for the possible issuance of up to an additional $100.0 million of senior unsecured fixed-rate term notes during a three-year issuance period. Financial covenants contained in the Amended and Restated Note Purchase and Private Shelf agreement are substantially the same as the financial covenants contained in our Unsecured Credit Agreement. At December 31, 2011, we were in compliance with all our covenants.

During 2011, we redeemed 3,536,530 shares of our Series F preferred stock, representing all of the outstanding shares. The Series F preferred stock had a liquidation value of $25.00 per share. The redemption price was $25.1333 per share, including accrued and unpaid dividends up to the redemption date. Accordingly, we recognized the $3.6 million of original issue costs related to the Series F preferred stock as a preferred stock redemption charge in the consolidated income statement line item income allocated to preferred stockholders.

During 2011, we sold 3,990,000 shares of common stock at a price of $27.25 per share, before fees and costs of $5.1 million, in an underwritten public offering. The net proceeds of $103.6 million were used to redeem all of our Series F preferred stock outstanding, as previously discussed, and the remaining net proceeds were used to partially repay amounts outstanding under our Unsecured Credit Agreement.

We have an equity distribution agreement which allows us to issue and sell, from time to time, up to $85.7 million in aggregate offering price of our common shares. Sales of common shares are made by means of ordinary brokers' transactions at market prices, in block transactions, or as otherwise agreed between us and our sales agents. During the year ended December 31, 2011, we did not sell shares of common stock under our equity distribution agreement. At December 31, 2011 we had $64.6 million available under this agreement.

Our Board of Directors authorized a share repurchase program enabling us to repurchase up to 5,000,000 shares of our equity securities, including common and preferred securities. During 2011, we did not purchase shares of our equity securities. We continue to have an open Board authorization to purchase an additional 3,360,237 shares in total of our equity securities.

We paid cash dividends on our Series C and Series F preferred stock totaling $3.3 million and $4.0 million, respectively. Additionally, we declared and paid cash dividends on our common stock totaling $49.3 million. In January 2012, we declared a monthly cash dividend of $0.145 per share on our common stock for the months of January, February and March 2012, which is a 3.6% increase from the previous $0.14 per share per month dividend. The monthly cash dividends are payable on January 31, February 29 and March 30, 2012, respectively, to stockholders of record on January 23, February 21 and March 22, 2012, respectively.

During 2011, we granted 6,000 shares of restricted common stock at $28.70 per share. These shares vest ratably over a three-year period from the grant date. We did not grant stock options during 2011. Also, during 2011, a total of 5,000 stock options were exercised at a total option value of $0.1 million and a total market value on the date of exercise of $0.2 million. In January 2012, we granted 14,000 shares of restricted common stock at $31.77 per share. These shares vest ratably over a five-year period from the grant date. Additionally, we granted 30,000 shares of restricted common stock at $31.77 per share. These shares all vest on June 15, 2015. We also granted 12,200 shares of restricted common stock at $31.77 per share in January 2012. These shares all vest on January 10, 2016.

We have one limited partnership. The limited partnership agreement allows the limited partners to convert, on a one-for-one basis, their limited partnership units into shares of common stock or the cash equivalent, at our option. At December 31, 2011, we have reserved 112,588 shares of our common stock under this partnership agreement. Since we exercise control, we consolidate the limited partnership and we carry the non-controlling interests at cost. During 2011, none of our limited partners exercised their conversion rights. At December 31, 2011, the carrying value and market value of the partnership conversion rights was $2.0 million and $3.5 million, respectively.

In January 2012, two of our limited partners exercised their conversion rights. One limited partner exchanged all of its 67,294 partnership units and the other limited partner exchanged 22,000 partnership units in the limited partnership. Upon receipt of the redemption notification of 89,294 limited partnership units, we elected to satisfy the redemption in cash. We paid the limited partners

$2.8 million, which represents the closing price of our common stock on the redemption date plus $0.05 per share multiplied by the number of limited partnership units redeemed. The amount we paid upon redemption exceeded the book value of the limited partnership interest redeemed by $1.2 million. In accordance with FASB accounting guidance, we account for this exchange as an equity transaction because there was no change in control requiring consolidation or deconsolidation and remeasurement. Accordingly, the $1.2 million excess book value of the limited partners' interest in the partnership was reclassified to stockholders' equity. Subsequent to these conversions, we have reserved 23,294 shares of our common stock under this partnership agreement.

Available Shelf Registrations:

During 2010, we filed a Form S-3 "shelf" registration statement which became effective June 16, 2010, to replace our prior shelf registration statement. Our current shelf registration statement provides us with the capacity to offer up to $400.0 million in common stock, preferred stock, warrants, debt, depositary shares, or units. We may from time to time raise capital under our current shelf registration 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. At December 31, 2011, we had availability of $167.6 million under our effective shelf registration.

Commitments:

During 2011, we purchased four skilled nursing properties with 524-beds in Texas. As part of the purchase agreement, we paid cash at closing and committed to provide contingent earn-out payments if certain operational thresholds are met. The contingent earn-out payment arrangements require us to pay two earn-out payments totalling up to $11.0 million upon the properties achieving a sustainable stipulated rent coverage ratio. We estimated the fair value of the contingent earn-out payments using a discounted cash flow analysis. The contingent earn-out payments were recorded at the date of acquisition in the amount of $9.8 million and were included on the consolidated balance sheet line item "earn-out liabilities." During 2011, we recorded non-cash interest expense of $0.5 million related to the earn-out liabilities which represent the accretion of the difference between the current fair value and estimated payment of the contingent earn-out liabilities. During 2011, we paid $4.0 million related to the first contingent earn-out payment. At December 31, 2011, the remaining contingent earn-out payments had a fair value of $6.3 million.

The following table summarizes our capital improvement commitments as of December 31, 2011 *(dollar amounts in thousands)*:

Commitment	Expiration Date	Used Commitment at 12/31/11	Open Commitment at 12/31/11	Estimated Yield	Property Type	Properties	Major Operator
$ 100	8/1/12	$	$ 100	(2)	SNF	1	N/A
730	8/31/13	674	56(7)	9.00%(3)	Other (1)	2	N/A
8,250	10/11/13	50	8,200	9.00%(4)	SNF (8)		N/A
5,000(6)	12/31/14		5,000	(5)	ALF	37	ALC
$ 14,080		$ 724	$ 13,356				

(1) Other senior housing properties consist of independent living properties and properties providing any combination of skilled nursing, assisted living and/or independent living services.

(2) The yield is included in the initial lease rate.

(3) Minimum rent will increase on the 1st of each month by the amount advanced in the previous month multiplied by the estimated yield.

(4) Minimum rent will increase upon final funding and project completion or in some cases, the improvement deadline as defined in each lease agreement.

(5) 9.5% plus the positive difference, if any, between the average yields on the U.S. Treasury 10-year note for the five days prior to funding, minus 420 basis points (expressed as a percentage).

(6) $5,000 per year for the life of the lease.

(7) In January 2012, we funded this $56 commitment.

(8) During 2011, we acquired a vacant parcel of land in Texas and entered into a commitment to fund the construction of a skilled nursing property with 120 beds which will replace an existing 90-bed skilled nursing property.

The following table summarizes our loan commitments as of December 31, 2011 (*dollar amounts in thousands)*:

Commitment	Expiration Date	Used Commitment at 12/31/11	Open Commitment at 12/31/11	Yield	Property Type[(1)]	Properties	Major Operator
$ 50	3/31/12	$ 20	$ 30	10.00%	Other	1	N/A
2,500(2)	12/31/12	232	2,268	8.50%	Other	2	N/A
$ 2,550		$ 252	$ 2,298				

(1) Other senior housing properties consist of independent living properties and properties providing any combination of skilled nursing, assisted living and/or independent living services.

(2) Represents a construction and term loan for capital improvements at two senior housing properties we own and lease to the borrower. Upon the earlier of the full funding of the commitment or December 31, 2012, construction distribution under this loan will cease and this loan will fully amortize to maturity in November 2017.

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, 2011, and excludes the effects of interest (*in thousands*):

	Total	2012	2013	2014	2015	2016	Thereafter
Bank borrowings	$ 56,000(1)	$	$	$	$ 56,000	$	$
Senior unsecured notes	100,000			4,167	29,166	16,667	50,000
Bonds payable	3,200	565	600	635	1,400		
	$ 159,200	$ 565	$ 600	$ 4,802	$ 86,566	$ 16,667	$ 50,000