

LTC PROPERTIES INC  
Form 424B3  
January 27, 2004

**Table of Contents**

This prospectus supplement relates to an effective registration statement under the Securities Act of 1933, but is not complete and may be changed. This prospectus supplement and the accompanying prospectus are not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED JANUARY 27, 2004

PRELIMINARY PROSPECTUS SUPPLEMENT  
(TO PROSPECTUS DATED SEPTEMBER 12, 2003)

Filed Pursuant to Rule 424 (b)(3) under the Securities Act of 1933  
Registration No 333-106555

**2,000,000 Shares**

---

**LTC Properties, Inc.**  
**% Series F Cumulative Convertible Preferred Stock**  
**(Liquidation Preference \$25.00 Per Share)**

---

We are offering 2,000,000 shares of our % Series F Cumulative Convertible Preferred Stock, or Series F Preferred Stock. We will pay quarterly cumulative dividends, in arrears, on the Series F Preferred stock from the date of original issue. These dividends will be payable on January 15, April 15, July 15 and October 15 of each year, when and as declared, beginning April 15, 2004, at a yearly rate of % of the \$25.00 liquidation preference, or \$ per Series F Preferred Stock per year. We may not redeem the Series F Preferred Stock prior to February , 2009, except as necessary to preserve our status as a real estate investment trust. On or after February , 2009, we may, at our option, redeem the Series F Preferred Stock, in whole or from time to time in part, for \$25.00 per Series F Preferred Stock in cash plus any accrued and unpaid dividends to the date of redemption. The shares of Series F Preferred Stock have no stated maturity, are not subject to any sinking fund and will remain outstanding indefinitely unless we redeem them. Each share of Series F Preferred Stock will be convertible at any time into shares of our Common Stock, at a conversion price of \$ per share of Common Stock, subject to adjustment under certain circumstances.

We have applied to list the Series F Preferred Stock on the New York Stock Exchange under the symbol LTC PrF. If approved, we expect trading of the Series F Preferred Stock on the NYSE to commence within 30 days after it is first issued. Our Common Stock is listed on the NYSE under the symbol LTC . On January 26, 2004, the last reported sale price of our Common Stock on the NYSE was \$14.68 per share.

---

**Investing in our securities involves certain risks. See Risk Factors on page S-10 of this prospectus supplement and beginning on page 9 of the accompanying prospectus.**

---

	Per share	Total
Public offering price(1)	\$	\$
Underwriting discounts and commissions	\$	\$
Proceeds, before expenses, to us	\$	\$

(1) Plus accrued dividends, if any, from February , 2004.

**Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement is truthful or complete. Any representation to the contrary is a criminal offense.**

We have granted the underwriters an option to purchase within 30 days from the date of this prospectus supplement up to an additional 300,000 shares of the Series F Preferred Stock at the public offering price per share, less the underwriting discounts and commissions, to cover over-allotments.

The underwriters expect that the Series F Preferred Stock will be ready for delivery in book-entry form through the facilities of The Depository Trust Company on or about February , 2004

**Stifel, Nicolaus & Company**

**Friedman Billings Ramsey**

**Incorporated**  
**McDonald Investments Inc.**  
, 2004

**Harris Nesbitt Gerard**

---

**TABLE OF CONTENTS**

Forward-looking Statements

PROSPECTUS SUPPLEMENT SUMMARY

RISK FACTORS

USE OF PROCEEDS

CAPITALIZATION

SELECTED CONSOLIDATED FINANCIAL DATA

LEGAL PROCEEDINGS

RATIOS OF EARNINGS TO FIXED CHARGES AND EARNINGS TO COMBINED FIXED

CHARGES AND PREFERRED STOCK DIVIDENDS

DESCRIPTION OF OUR CAPITAL STOCK

ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS

UNDERWRITING

LEGAL MATTERS

EXPERTS

ABOUT THIS PROSPECTUS

FORWARD-LOOKING STATEMENTS

WHERE YOU CAN FIND ADDITIONAL INFORMATION

DOCUMENTS INCORPORATED BY REFERENCE

ABOUT OUR COMPANY

OUR STRATEGY

RISK FACTORS

USE OF PROCEEDS

RATIOS OF EARNINGS TO FIXED CHARGES AND EARNINGS TO COMBINED FIXED

CHARGES AND PREFERRED STOCK DIVIDENDS

GENERAL DESCRIPTION OF THE OFFERED SECURITIES

DESCRIPTION OF DEBT SECURITIES

DESCRIPTION OF OUR COMMON STOCK

DESCRIPTION OF OUR PREFERRED STOCK

RESTRICTIONS ON OWNERSHIP AND TRANSFER

CERTAIN PROVISIONS OF MARYLAND LAW AND OF OUR CHARTER AND BYLAWS

CERTAIN US FEDERAL INCOME TAX CONSIDERATIONS

LEGAL MATTERS

EXPERTS

---

**Table of Contents****TABLE OF CONTENTS**

	<b>Page</b>
<b>Prospectus Supplement</b>	
Forward-looking statements	S-3
Prospectus supplement summary	S-4
Risk factors	S-10
Use of proceeds	S-10
Capitalization	S-11
Selected consolidated financial data	S-12
Legal proceedings	S-13
Ratios of earnings to fixed charges and earnings to combined fixed charges and preferred stock dividends	S-13
Description of our capital stock	S-14
Additional federal income tax considerations	S-24
Underwriting	S-33
Legal matters	S-35
Experts	S-35

	<b>Page</b>
<b>Prospectus</b>	
About this prospectus	2
Forward-looking statements	3
Where you can find additional information	4
Documents incorporated by reference	4
About our company	6
Our strategy	7
Risk factors	9
Use of proceeds	15
Ratios of earnings to fixed charges and earnings to combined fixed charges and preferred stock dividends	15
General description of the offered securities	15
Description of debt securities	16
Description of common stock	22
Description of preferred stock	24
Restrictions on ownership and transfer	29
Certain provisions of Maryland law and of our charter and bylaws	31
Certain US federal income tax considerations	33
Legal matters	49
Experts	49

**Table of Contents**

**Forward-looking Statements**

This prospectus supplement contains or incorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. 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, estimate, 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, compliance with and changes to regulations and payment policies within the healthcare industry, changes in financing terms, competition within the healthcare and senior housing industries, and changes in federal, state and local legislation. 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 prospectus supplement and in other information contained in our publicly available filings with the Securities and Exchange Commission, including our annual report on Form 10-K for the year ended December 31, 2002 and other reports we file under the Securities Exchange Act of 1934. We do not undertake any responsibility to update 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.

**Table of Contents**

**PROSPECTUS SUPPLEMENT SUMMARY**

*The following summary may not contain all of the information that is important to you. You should read this entire prospectus supplement, the accompanying prospectus and the documents incorporated by reference carefully before deciding whether to invest in our Series F Preferred Stock. In this prospectus supplement, unless otherwise indicated, the company, we, us and our refer to LTC Properties, Inc. and our consolidated subsidiaries. Unless otherwise indicated, the information contained in this prospectus supplement assumes no conversion of Series F Preferred Stock into Common Stock by the holders and assumes that the underwriters do not exercise the over-allotment option described in Underwriting.*

**ABOUT OUR COMPANY**

We are a self-administered real estate investment trust that invests primarily in long-term care and other healthcare related properties through mortgage loans, property lease transactions and other investments. As of September 30, 2003, long-term care facilities, which include skilled nursing and assisted living facilities, comprised approximately 98% of our investment portfolio. We have been operating since August 1992.

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 provide sub-acute care services which are paid either by the patient, the patient's family, or through 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.

Our senior management team is comprised of four individuals with a combined 51 years of experience in healthcare and real estate finance.

As of September 30, 2003, we had approximately \$538 million in carrying value of net real estate investments. At that date, our portfolio included 96 assisted living facilities, 92 skilled nursing facilities and one charter school in 30 states. We had approximately \$394 million (73%) invested in owned and leased properties, approximately \$82 million (15%) invested in mortgage loans, and investments in certificates of a real estate mortgage investment conduit (or REMIC) with a carrying value of approximately \$62 million (12%).

**Owned Properties**

At September 30, 2003, we owned 57 skilled nursing facilities with a total of 6,623 beds, 88 assisted living facilities with 4,182 units and one school located in 23 states. The properties are leased pursuant to non-cancelable leases generally with an initial term of 10 to 30 years. The leases provide for a fixed minimum base rent during the initial and renewal periods. Most of the leases provide for annual fixed rent increases or increases based on consumer price indices over the term of the lease. In addition, certain of our leases provide for additional rent through revenue participation (as defined in the lease agreement) in incremental revenues generated by the facilities over a defined base period effective at various times during the term of the lease. Each lease is a triple net lease which requires the lessee to pay additional charges including all taxes, insurance, assessments, maintenance and repair (capital and non-capital expenditures) and other costs necessary in the operation of the facility. Many of the leases contain renewal options and one contains a limited period option that permits the operator to purchase the property.

## **Table of Contents**

### **Mortgage Loans**

At September 30, 2003, we had 38 mortgage loans secured by first mortgages on 35 skilled nursing facilities with a total of 4,190 beds and eight assisted living facilities with a total of 369 units located in 20 states. At September 30, 2003, these mortgage loans had interest rates ranging from 9.5% to 12.9% and maturities ranging from 2003 to 2018. In addition, the loans may contain guarantees, provide for facility fees and generally have 25-year amortization schedules. The majority of the mortgage loans provide for annual increases in the interest rate based upon a specified increase of 10 to 25 basis points.

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 the 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.

### **REMIC Certificates**

As of September 30, 2003, the outstanding certificate principal balance and the weighted average pass-through rate for the senior REMIC certificates (all held by outside third parties) were \$154.7 million and 7.06%. As of September 30, 2003, the carrying value of the subordinated REMIC certificates held by us was \$62 million. The effective yield on the subordinated REMIC certificates held by us, based on expected future cash flows discounted to give effect to potential risks associated with prepayments and credit losses was 15.92% at September 30, 2003.

The REMIC certificates we retain are subordinate in rank and right of payment to the REMIC certificates sold to third-party investors and as such would bear the first risk of loss in the event of an impairment to any of the underlying mortgages. The REMIC certificates are collateralized by three pools consisting of 70 first mortgage loans secured by 104 skilled nursing properties. The mortgage loans underlying the REMIC certificates generally have 25-year amortization schedules with final maturities due from 2003 to 2028, unless prepaid prior thereto. Distributions on any of the REMIC certificates will depend, in large part, on the amount and timing of payments, collections, delinquencies and defaults with respect to mortgage loans represented by the REMIC certificates, including the exercise of certain purchase options under existing property leases or the sale of the mortgaged properties. Each of the mortgage loans securing the REMIC certificates contains similar prepayment and security provisions as our mortgage loans.

As part of the REMIC transactions, we serve as the sub-servicer and, in such capacity, are responsible for performing substantially all of the servicing duties relating to the mortgage loans represented by the REMIC certificates. We receive monthly fees equal to a fixed percentage of the then outstanding mortgage loan balance in the REMIC, which in our opinion, represent currently prevailing terms for similar transactions. In addition, we will act as the special servicer to restructure any mortgage loans in the REMIC that default.



**Table of Contents**

**OUR STRATEGY**

Our primary objectives are to enhance stockholder equity value and provide current income for distribution to stockholders through real estate investments in long-term care properties and other healthcare related properties run by experienced operators providing quality care. To meet these objectives, we attempt to invest in fee simple properties or in mortgages that provide opportunity for additional value and current returns to our stockholders and to diversify our investment portfolio by geographic location, operator and form of investment.

For investments in skilled nursing facilities, we favor low cost per bed opportunities, whether in fee simple properties or in mortgages. Thus, the average per bed cost of our owned skilled nursing facilities is approximately \$26,500 per bed while that of our mortgages is approximately \$13,700 per bed.

For assisted 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.

As skilled nursing facilities reimbursement cuts have created cost and pricing pressures in that industry, we have tended to emphasize fee simple investments in the assisted living sector where we believe facilities tend to be both newer and less dependent, if at all, on any government reimbursement.

**RECENT DEVELOPMENTS**

We announced on October 23, 2003 we had leased to a third party operator two skilled nursing facilities in Washington formerly operated by Sun Healthcare Group, Inc. (or Sun) for \$0.5 million in the initial year beginning October 1, 2003 with 2.0% increases annually for 10 years. Additionally, we leased three skilled nursing facilities in Arizona formerly operated by Sun to a third party operator for \$1.0 million in the initial year beginning September 1, 2003 with annual increases based on the consumer price index beginning in September 2008 and a lease term of 16 years.

On November 12, 2003 we announced a quarterly dividend of \$.25 per share on our common stock. The first three quarterly common dividends per share in fiscal 2003 were \$.10, \$.15 and \$.15, respectively.

On that date we also announced the signing of a 30 year triple-net master lease with Center Healthcare, Inc. covering 19 skilled nursing properties formerly leased to CLC Healthcare, Inc. (or CLC). The lease provides for rental payments of approximately \$4,337,000 in the first year with a 3% escalation each year for the first subsequent 10 years, 2% each year for the second 10 years and 1% each year thereafter. These 19 properties had been managed by a company affiliated with Center Healthcare, Inc. under a month-to-month triple net management agreement with CLC and we have received monthly rental income of approximately \$361,000 since September 2003. At a special meeting of stockholders of CLC on November 12, 2003, the shareholders of CLC approved the merger of CLC with a subsidiary of Center Healthcare, Inc. and as a result CLC ceased to be a publicly traded company and its leases with us were terminated.

We have signed a new unsecured Credit Agreement dated December 26, 2003. The Credit Agreement provides for \$45 million of total commitments and is a revolving line with no scheduled maturities other than the three year term of the Credit Agreement. The pricing varies between LIBOR plus 2.75% and LIBOR plus 3.25% depending on our leverage ratio. Had we drawn on the credit at the time of signing, the pricing would have been LIBOR plus 3.00%. Additionally, the Credit Agreement provides for the inclusion of additional banks and an expansion of the Credit Agreement under certain terms and conditions. Simultaneous with the signing of the Credit Agreement, we cancelled our previous Senior Secured Revolving Credit Agreement which would have expired on October 2, 2004, and all security interests in assets secured under the Senior Secured Revolving Credit were released.

**Table of Contents**

On December 31, 2003, we announced as a result of an announcement by Assisted Living Concepts, Inc. (or ALC) of the redemption of ALC's Senior Secured and Junior Secured Notes, we will receive approximately \$12.3 million, plus accrued interest, on or about January 30, 2004, for the ALC Senior Secured and Junior Secured Notes owned by us. We had purchased and recorded some of these notes at a discount and as a result of ALC's call at the notes' face values, the redemption call will result in a gain of approximately \$2.2 million in our 2003 fourth quarter results.

We also announced that we have sold to an operator who had an option to purchase one skilled nursing facility which resulted in cash proceeds (net of a \$2.0 million deposit previously received) of approximately \$4.2 million and a gain on sale of approximately \$1.1 million.

Also on December 31, 2003, we called for the redemption of 1,225,680 shares of our 9.5% Series A Cumulative Preferred Stock representing 40% of the total number of outstanding shares of Series A Preferred Stock. The redemption date of the Series A Preferred Stock is January 30, 2004, and the redemption price is \$25.00 per share of Series A Preferred Stock, plus accrued and unpaid dividends, up to and including the Redemption Date or a total of \$25.1914 per share. We will use the proceeds from the redemption of the ALC securities and the proceeds from the asset sale mentioned above, together with cash on hand to fund this redemption. After the redemption date, dividends on such Series A Preferred Stock will cease to accrue on such shares and such shares of Series A Preferred Stock shall no longer be deemed outstanding and all rights of the holders in respect of such Series A Preferred Stock being redeemed will terminate, except for the right to receive the redemption price, without interest thereon.

**Recent Medicare and Medicaid Developments**

On December 8, 2003, President Bush signed into law the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (P.L. 108-173). In addition to expanded Medicare prescription drug coverage, the new act modifies Medicare payments to a variety of health care providers. With respect to skilled nursing facilities, the new act provides a temporary 128 percent increase in the per diem resource utilization group payment for a skilled nursing facility resident with acquired immune deficiency syndrome, applicable to services furnished on or after October 1, 2004. There can be no assurances, however, that future legislation will not reduce Medicare reimbursement for nursing facilities.

In addition, budget shortfalls at the state level continue to pressure Medicaid programs. According to a September 2003 report by the Kaiser Commission on Medicaid and the Uninsured, nursing home rates were cut or frozen in 17 states in fiscal year 2003 and in 19 states in fiscal year 2004. On the other hand, nursing homes were the provider group most likely to be given a rate increase in both years, with increases in 33 states in fiscal year 2003 and in 29 states in fiscal year 2004; these increases often are mandated by state statutory funding formulas.

Our principal executive offices are located at 22917 Pacific Coast Hwy, Suite 350, Malibu, California 90265, and our telephone number is (310) 455-6010.

**Table of Contents**

**THE OFFERING**

Securities offered	2,000,000 shares of Series F Preferred Stock (2,300,000 shares if the Underwriters' over-allotment option is exercised in full).
Maturity	The Series F Preferred Stock has no stated maturity and will not be subject to any sinking fund or mandatory redemption.
Rank	<p>The Series F Preferred Stock will, with respect to dividend rights and rights upon our liquidation, dissolution or winding up, rank:</p> <p style="padding-left: 40px;">senior to all classes or series of our Common Stock, our Series D Junior Participating Preferred Stock and to all equity securities ranking junior to the Series F Preferred Stock;</p> <p style="padding-left: 40px;">on parity with our 9.5% Series A Preferred Stock, our 9.0% Series B Preferred Stock, our 8.5% Series C Preferred Stock, and our 8.5% Series E Preferred Stock and all other equity securities to be issued by us, the terms of which specifically provide that such equity securities rank on parity with the Series F Preferred Stock; and</p> <p style="padding-left: 40px;">junior to all our existing and future indebtedness.</p> <p>The term "equity securities" does not include convertible debt securities, which will rank senior to the Series F Preferred Stock prior to conversion. There are currently no convertible debt securities outstanding.</p>
Dividends	<p>Dividends on the Series F Preferred Stock will be cumulative from the date of original issue and are payable quarterly in arrears for the period covering the preceding quarter on or before the 15th day of January, April, July and October of each year, commencing April 15, 2004, at the annual rate of _____% of the \$25.00 liquidation preference per share, equivalent to a fixed annual amount of \$ _____ per share. Dividends on the Series F Preferred Stock will accrue regardless of whether or not we have earnings, whether there are funds legally available for the payment of such dividends and whether or not such dividends are declared.</p>
Liquidation preference	The Series F Preferred Stock will have a liquidation preference of \$25.00 per share, plus an amount equal to any accrued and unpaid dividends thereon.
Optional redemption	The Series F Preferred Stock is not redeemable prior to February _____, 2009, except in limited circumstances to preserve our status as a REIT. On or after February _____, 2009, the Series F Preferred Stock will be redeemable for cash at our option in whole or from time to time in part, at \$25.00 per share, plus accrued and unpaid dividends to the redemption date. See "Description of Series F Preferred Stock - Redemption."
Voting rights	<p>Holders of the Series F Preferred Stock will generally have no voting rights. However, if dividends on the Series F Preferred Stock or the Series E Preferred Stock are in arrears for six or more quarterly periods, or dividends on the Series A Preferred Stock or Series B Preferred Stock are in arrears for eighteen or more months, holders of the Series F Preferred Stock (voting</p>

**Table of Contents**

separately as a class with all other series of preferred stock upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of two additional directors to serve on our Board of Directors until all dividend arrearages have been paid or a sum sufficient for payment thereof is set aside for payment. In addition, some changes that would be materially adverse to the rights of holders of the Series F Preferred Stock outstanding at the time cannot be made without the affirmative vote of the holders of two-thirds of the shares of Series F Preferred Stock, voting as a single class.

**Conversion**

Each share of Series F Preferred Stock will be convertible in whole or in part, at any time at the option of the holders thereof, into shares of Common Stock (equivalent to an initial conversion rate of \_\_\_\_\_ shares of Common Stock per share of Series F Preferred Stock) at a conversion price of \$ \_\_\_\_\_ per share of Common Stock, subject to certain adjustments.

**Listing**

We have applied for approval to list the Series F Preferred Stock on the NYSE under the symbol LTC PrF, and if so approved, trading is expected to commence within a 30-day period after the initial delivery of the Series F Preferred Stock. Our Common Stock is listed on the NYSE under the symbol LTC .

**Use of proceeds**

The net proceeds from the sale of the Series F Preferred Stock offered hereby will be used to redeem all of our outstanding Series A Preferred Stock and for other corporate purposes.

S-9

---

**Table of Contents**

**RISK FACTORS**

You should carefully consider the risks described below and in the accompanying prospectus before making an investment decision in our company. The risks and uncertainties described below are not the only ones facing our company and there may be additional risks that we do not presently know of or that we currently consider immaterial. Other important factors are identified in our annual report on Form 10-K for the year ended December 31, 2002 and other reports we filed under the Securities Exchange Act of 1934, which are incorporated by reference into this prospectus supplement, including factors identified under the headings Business and Management's Discussion and Analysis of Financial Condition and Results of Operations, and in the other documents incorporated by reference into this prospectus supplement. All of these risks could adversely affect our business, financial condition, results of operations and cash flows. As a result, our ability to pay dividends on, and the market price of, our equity securities may be adversely affected if any of such risks are realized.

**We could incur more debt.**

We operate with a policy of incurring debt when, in the opinion of our directors, it is advisable. Accordingly, we could become more highly leveraged. The degree of leverage could have important consequences to stockholders, including affecting our ability to obtain additional financing in the future 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.

Our use of debt financing presents the risk to holders of the Series F Preferred Stock that payments of principal and interest on borrowings will leave us with insufficient cash resources to pay dividends required by the terms of the Series F Preferred Stock or to pay declared dividends on our Common Stock or distributions in respect to capital stock required to be paid in order for us to maintain our qualification as a REIT.

**There is no established trading market for our Series F Preferred Stock, which may negatively affect its market value and your ability to transfer or sell your Series F Preferred Stock.**

We have applied to list the Series F Preferred Stock on the NYSE. There is no assurance that the NYSE will approve our listing application. An active trading market on the NYSE for the shares may not develop or, even if it develops, may not last, in which case the trading price of the Series F Preferred Stock could be adversely affected.

**The market value of our Series F Preferred Stock could be substantially affected by various factors.**

As with other publicly traded securities, the trading price of our Series F Preferred Stock will depend on many factors, which may change from time to time, including:

the market for similar securities;

additional issuance of other classes or series of our preferred shares;

general economic and financial market conditions; and

our financial condition, performance and prospects.

**USE OF PROCEEDS**

The net proceeds from the sale of the 2,000,000 shares of Series F Preferred Stock offered hereby are estimated to be \$48.2 million at a public offering price of \$25.00 per share. No proceeds will be received upon conversion of the Series F Preferred Stock into Common Stock. Of the net proceeds, approximately \$47.4 million will be used to redeem the remaining outstanding shares of our Series A Preferred Stock, including accrued and unpaid dividends through the redemption date, and approximately \$.8 million will be used for other corporate purposes.

**Table of Contents****CAPITALIZATION**

The following table sets forth our capitalization (i) as of September 30, 2003, (ii) as adjusted to give effect to the redemption of 1,225,680 shares of our Series A Preferred Stock on January 30, 2004, and (iii) to give proforma effect of the sale of the Series F Preferred Stock offered hereby at an assumed offering price of \$25.00 per share and to the anticipated redemption of the balance of the outstanding shares of our Series A Preferred Stock with the net proceeds of the offering.

	As of September 30, 2003		
	Actual	As Adjusted	Proforma as Adjusted
	(In thousands)		
<b>Debt:</b>			
Bank borrowings	\$	\$	\$
Mortgage loans payable	127,617	127,617	127,617
Bonds payable and capital lease obligations	14,776	14,776	14,776
Senior participation payable	29,017	29,017	29,017
<b>Total debt</b>	<b>171,410</b>	<b>171,410</b>	<b>171,410</b>
<b>Stockholders' equity</b>			
Preferred Stock, \$0.01 par value; 15,000,000 shares authorized			
Series A Cumulative Preferred Stock, 3,064,200 shares issued and outstanding, shares issued and outstanding as adjusted(1)	76,703	46,022	
Series B Cumulative Preferred Stock, 1,988,000 shares issued and outstanding, shares issued and outstanding	49,783	49,783	49,783
Series C Cumulative Convertible Preferred Stock, 2,000,000 shares issued and outstanding	38,500	38,500	38,500
Series D Junior Participating Preferred Stock, 0 shares issued and outstanding			
Series E Cumulative Convertible Preferred Stock, 2,200,000 shares issued and outstanding	52,498	52,498	52,498
Series F Convertible Preferred Stock, 2,000,000 shares issued and outstanding as adjusted			48,200
Common Stock, \$0.01 par value; 35,000,000 authorized; 17,806,351 shares issued and outstanding(2)	178	178	178
Capital in excess of par value	251,093	252,373	254,293
Cumulative net income	266,946	266,908	266,908
Other equity	(3,967)	(3,967)	(3,967)
Cumulative distributions	(334,060)	(335,575)	(337,859)
<b>Total stockholders' equity</b>	<b>397,674</b>	<b>366,720</b>	<b>368,534</b>
<b>Total capitalization</b>	<b>\$ 569,084</b>	<b>\$ 538,130</b>	<b>\$ 539,944</b>

(1) On December 31, 2003 we called for the redemption of 1,225,680 shares of our Series A Preferred Stock. The redemption date is January 30, 2004, and the redemption price is \$25.1914 per share, including accrued and unpaid dividends.

(2) Excludes: (i) 345,447 shares reserved under our 1992 Stock Option Plan and our 1998 Equity Participation Plan; (ii) 2,000,000 shares reserved for issuance upon the conversion of our Series C Preferred Stock; (iii) 4,400,000 shares reserved for issuance upon the conversion

Edgar Filing: LTC PROPERTIES INC - Form 424B3

of our Series E Preferred Stock; and (iv) up to  
hereby.

shares of issuable upon conversion of the Series F Preferred Stock offered

S-11

---

**Table of Contents****SELECTED CONSOLIDATED FINANCIAL DATA**

The following selected consolidated financial data for the five years ended December 31, 2002 are derived from our audited consolidated financial statements. The selected consolidated financial data for the nine month periods ended September 30, 2003 and September 30, 2002 are derived from our unaudited financial statements. The unaudited financial statements include all adjustments, which we consider necessary for a fair presentation of our financial position and results of operation for these periods. Operating results for the nine months ended September 30, 2003 are not necessarily indicative of the results that may be expected for the entire year ending December 31, 2003. The data should be read in conjunction with our consolidated financial statements, related notes and other financial information incorporated by reference herein.

	Year Ended December 31,					Nine Months Ended September 30,	
	1998	1999	2000	2001	2002	2002	2003
(In thousands, except per share amounts)							
<b>Consolidated Statement of Operations Data</b>							
Revenues	\$ 86,132	\$ 84,818	\$ 84,364	\$ 68,724	\$ 69,203	\$ 51,690	\$ 48,121
Expenses:							
Interest expense	22,267	21,795	27,183	21,745	21,633	16,153	14,931
Depreciation and amortization	11,723	12,717	14,390	12,987	14,199	10,620	9,605
Provision for loan losses	600						
Impairment charge		14,939	7,620	19,647	7,097	5,097	1,260
Operating and other expenses	5,084	5,863	5,887	9,099	6,827	4,865	5,421
Total expenses	39,674	55,314	55,080	63,478	49,756	36,735	31,217
Income before minority interest and other	46,458	29,504	29,284	5,246	19,447	14,955	16,904
Minority interest	(1,415)	(1,018)	(982)	(973)	(1,308)	(978)	(968)
Other income (loss)	(6,797)	1,304					
Income from continuing operations	38,246	29,790	28,302	4,273	18,139	13,977	15,936
Discontinued operations:							
(Loss) gain from discontinued operations	2,421	2,037	(5,655)	(8,741)	(819)	(819)	45
Gain on sale of assets, net	9,926		8,990	1,560	14,483	13,939	336
Net income (loss) from discontinued operations	12,347	2,037	3,335	(7,181)	13,664	13,120	381
Net income (loss)	50,593	31,827	31,637	(2,908)	31,803	27,097	16,317
Preferred stock dividends	(12,896)	(15,087)	(15,087)	(15,077)	(15,042)	(11,281)	(11,441)
Net income (loss) available to common stockholders	\$ 37,697	\$ 16,740	\$ 16,550	\$ (17,985)	\$ 16,761	\$ 15,816	\$ 4,876
Per share information:							
Basic net income (loss) available to common stockholders	\$ 1.390	\$ 0.61	\$ 0.63	\$ (0.75)	\$ 0.91	\$ 0.86	\$ 0.27
	\$ 1.390	\$ 0.61	\$ 0.63	\$ (0.75)	\$ 0.91	\$ 0.85	\$ 0.27



Edgar Filing: LTC PROPERTIES INC - Form 424B3

Diluted net income (loss) available to common stockholders							
Common stock distributions declared	\$ 1.535	\$ 1.56	\$ 0.87	\$ 0.00	\$ 0.40	\$ 0.30	\$ 0.40

As of December 31,					As of September 30, 2003
1998	1999	2000	2001	2002	

(In thousands)

Consolidated Balance Sheet Data						
Real estate investments, net	\$663,996	\$683,736	\$622,428	\$604,306	\$552,434	\$538,073
Total assets	689,814	721,811	676,585	648,568	599,925	590,057
Total debt	229,695	292,274	262,560	284,634	230,420	171,410
Total liabilities	237,900	303,300	272,546	294,785	239,113	179,228
Minority interest	10,514	9,894	9,912	13,404	13,399	13,155
Total stockholders equity	441,400	408,617	394,127	340,379	347,413	397,674

S-12

**Table of Contents****LEGAL PROCEEDINGS**

We are a party from time to time 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.

**RATIOS OF EARNINGS TO FIXED CHARGES AND EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS**

The following table sets forth our ratios of earnings to fixed charges and earnings to combined fixed charges and preferred stock dividends for the periods indicated. The ratio of earnings to fixed charges was computed by dividing earnings by our fixed charges. The ratio of earnings to combined fixed charges and preferred stock dividends was computed by dividing earnings by our combined fixed charges and preferred stock dividends. For purposes of calculating these ratios, earnings includes income from continuing operations before minority interest plus fixed charges. Fixed charges consists of interest on all indebtedness and the amortization of debt issue costs.

	Year Ended December 31,					Nine Months Ended
	1998	1999	2000	2001	2002	September 30, 2003
Consolidated ratio of earnings to fixed charges (unaudited)	2.90	2.25	2.00	1.19	1.79	2.00
Consolidated ratio of earnings to combined fixed charges and preferred stock dividends (unaudited)	1.88	1.35	1.31	0.71	1.08	1.16

We issued 3,080,000 shares of Series A Preferred Stock in March 1997, 2,000,000 shares of Series B Preferred Stock in December 1997, 2,000,000 shares of Series C Preferred Stock in September 1998 and 2,200,000 shares of Series E Preferred Stock in September 2003. During 2001, the total dollar amount of the deficiency in the consolidated ratio of earnings to combined fixed charges and preferred stock dividends was \$10.9 million.

**Table of Contents**

**DESCRIPTION OF OUR CAPITAL STOCK**

This description of the particular terms of the Series F Preferred Stock supplements, and to the extent inconsistent therewith replaces, the description of the general terms and provisions of the preferred stock set forth in the accompanying prospectus, to which description reference is hereby made.

**GENERAL**

Pursuant to our Articles of Amendment and Restatement, as amended and supplemented to date, and referred to in this prospectus supplement as our Charter, we are authorized to issue 50,000,000 shares of all classes of stock, each share having a par value of \$0.01 of which 35,000,000 shares are Common Stock and 15,000,000 shares are Preferred Stock. Our Board of Directors may issue the Preferred Stock in such one or more series consisting of such numbers of shares and having such preferences, conversion and other rights, voting powers, restrictions and limitations as to dividends, qualifications and terms and conditions of redemption as our Board of Directors may from time to time determine when designating such series. Our Board of Directors also may classify or reclassify any unissued stock from time to time by setting or changing the preferences, conversion and other rights, voting powers, restrictions and limitations as to dividends, qualifications, and terms and conditions of redemption of stock.

Of our preferred stock:

3,080,000 shares have been designated as 9.5% Series A Cumulative Preferred Stock;

2,000,000 shares have been designated as 9.0% Series B Cumulative Preferred Stock;

2,000,000 shares have been designated as 8.5% Series C Cumulative Convertible Preferred Stock;

40,000 shares have been designated as Series D Junior Participating Preferred Stock; and

2,200,000 shares have been designated as 8.5% Series E Cumulative Convertible Preferred Stock.

As of September 30, 2003, 3,064,200, 1,988,000, 2,000,000 and 2,200,000 shares of Series A, Series B, Series C, and Series E Preferred Stock, respectively were outstanding. No shares of Series D Junior Participating Preferred Stock are issued or outstanding. On December 31, 2003, we called for the redemption of 1,225,680 shares of our Series A Preferred Stock, to be redeemed January 30, 2004. Following this partial redemption, there will be 1,838,520 shares of Series A Preferred Stock outstanding.

Of our Common Stock, 17,806,351 shares were issued and outstanding on September 30, 2003.

**SERIES A, SERIES B AND SERIES D AND SERIES E PREFERRED STOCK**

The SEC allows us to incorporate by reference the information we file with the SEC, which means we consider incorporated documents to be part of the prospectus supplement and we may disclose important information to you by referring you to those documents. See the section entitled, Documents incorporated by reference below.

For descriptions of our Series A, Series B and Series D and Series E Preferred Stock, we refer you to

the description of our Series A Preferred Stock contained in our registration statement on Form 8-A;

the description of our Series B Preferred Stock contained in our registration statement on Form 8-A;

the description of our Series D Preferred Stock contained in our registration statement on Form 8-A; and

the description of our Series E Preferred Stock contained in our registration statement on Form 8-A.



**Table of Contents**

**SERIES C CONVERTIBLE PREFERRED STOCK**

**Rank**

The Series C Preferred Stock ranks, with respect to dividend rights and rights upon liquidation, dissolution or winding up, (i) senior to Common Stock, and to all equity securities ranking junior to the Series C Preferred Stock (including the Series D Junior Participating Preferred Stock) with respect to dividend rights or rights on liquidation, dissolution or winding up of our company; (ii) on parity with our Series A Preferred Stock, our Series B Preferred Stock, our Series E Preferred Stock, the Series F Preferred Stock and all equity securities that may be issued in the future which rank on a parity with the Series C Preferred Stock, and (iii) junior to all of our existing and future indebtedness. The term "equity securities" does not include convertible debt securities, which will rank senior to the Series C Preferred Stock prior to conversion.

**Other Terms**

Other than as described below, the material rights, preferences and privileges of the Series C Preferred Stock are substantially the same as those of the Series F Preferred Stock offered hereby.

Holders of the Series C Preferred Stock are entitled to receive preferential cumulative cash dividends at the rate of 8.5% per annum of the liquidation preference per share (equivalent to a fixed annual amount of \$1.63625 per share). Dividends are payable quarterly in arrears on each of March 31, June 30, September 30 and December 31. Accrued but unpaid dividends on the Series C Preferred Stock bear interest from the applicable dividend payment date at the prime rate of interest established from time to time in the Wall Street Journal.

Holders of the Series C Preferred Stock are entitled to be paid a liquidation preference of \$19.25 per share, plus dividends, with interest, before any distribution of assets is made to holders of any junior stock as described above in "Rank."

Except in certain circumstances relating to our maintenance of the ability to qualify as a REIT, the shares of Series C Preferred Stock are not redeemable.

Whenever any dividend payment on any Series C Preferred Stock is in arrears for more than 10 business days after its dividend payment date, the number of directors then constituting the Board of Directors will be increased by two and the two vacancies will be filled by the Series C Preferred Stock holders voting as one class. Such increase and the right to fill such vacancies is separate and apart from any increase in the number of directors which the holders of Series A Preferred Stock, the Series B Preferred Stock, the Series E Preferred Stock, the Series F Preferred Stock or any other class or series of preferred stock may be entitled.

In addition, in the case of a preferred dividend default, the holders of Series C Preferred Stock shall be granted voting rights equivalent to those rights of holders of the Common Stock except that the holders of Series C Preferred Stock will not have the right to vote generally in the election of directors but with respect to the election of directors will only have the voting rights as set forth above to elect Series C directors. In such case, the voting rights of the holders of the Series C Preferred Stock would be determined on an as converted basis, determined pursuant to the conversion provisions as described below. These voting rights shall continue only during a Series C Preferred dividend default, and all such rights shall immediately terminate at such time as the Series C Preferred dividend default ceases to exist.

The Series C Preferred Stock is convertible in whole or in part, at any time at the option of the holders, into shares of Common Stock at a conversion price of \$19.25 per share, subject to adjustments. At June 30, 2003, there was one stockholder of record of our Series C Preferred Stock. This Series C Preferred stockholder has a separate contractual right, outside of the terms of the Series C Preferred Stock, to receive from us should we offer, issue or sell, or enter into any agreement or commitment to issue or sell any debentures, preferred stock or any other equity security convertible into Common Stock at a conversion price of less than \$19.25 per share (as adjusted for stock splits, combinations and similar

## **Table of Contents**

events) an offer in writing to sell to this Series C Preferred stockholder, on the same terms and conditions and at the same equivalent price, up to the same aggregate principal amount (or any \$1,000 incremental principal amount thereof) of such securities.

### **SERIES F PREFERRED STOCK**

The following summary of the terms and provisions of the Series F Preferred Stock does not purport to be complete and is qualified in its entirety by reference to the pertinent sections in the Articles Supplementary creating the Series F Preferred Stock, which have been filed with the Securities and Exchange Commission, and which are available as described under the heading "Where you can find additional information" in the accompanying prospectus.

#### **Maturity**

The Series F Preferred Stock has no stated maturity and will not be subject to any sinking fund or mandatory redemption.

#### **Rank**

The Series F Preferred Stock will, with respect to dividend rights and rights upon liquidation, dissolution or winding up of our company, rank (i) senior to our Common Stock, and to all equity securities ranking junior to the Series F Preferred Stock (including the Series D Junior Participating Preferred Stock) with respect to dividend rights or rights upon liquidation, dissolution or winding up of our company; (ii) on parity with our Series A Preferred Stock, our Series B Preferred Stock, our Series C Preferred Stock and our Series E Preferred Stock and with all equity securities that may be issued by us in the future the terms of which specifically provide that such equity securities rank on a parity with the Series F Preferred Stock with respect to dividend rights or rights upon liquidation, dissolution or winding up of our company, and (iii) junior to all of our existing and future indebtedness. The term "equity securities" does not include convertible debt securities, which will rank senior to the Series F Preferred Stock prior to conversion.

#### **Dividends**

Holders of shares of the Series F Preferred Stock are entitled to receive, when and as declared by the Board of Directors, out of funds legally available for the payment of dividends, preferential cumulative cash dividends at the rate of \_\_\_\_\_ % per annum of the liquidation preference per share, equivalent to a fixed annual amount of \$ \_\_\_\_\_ per share.

Dividends on the Series F Preferred Stock will be cumulative from the date of original issue and will be payable quarterly in arrears for the period covering the preceding quarter on or before the 15th day of January, April, July and October of each year, or, if not a business day, the next succeeding business day. The first dividend, which will be paid on April 15, 2004, will be for less than the full preceding quarter. Such dividend and any dividend payable on the Series F Preferred Stock for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Dividends will be payable to holders of record as they appear in our stock records at the close of business on the applicable record date, which will be the last day of the calendar month first preceding the applicable dividend payment date, or on such other date designated by our Board of Directors for the payment of dividends that is not more than 30 nor less than 10 days prior to such dividend payment date.

No dividends on shares of Series F Preferred Stock will be declared by our Board of Directors or paid or set apart for payment by us at such time as the terms and provisions of any agreement to which we are bound, including any agreement relating to our indebtedness, prohibits such declaration, payment or setting apart for payment or provides that such declaration, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such declaration or payment shall be restricted or prohibited by law.

## **Table of Contents**

Notwithstanding the foregoing, dividends on the Series F Preferred Stock will accrue whether or not we have earnings, whether or not there are funds legally available for the payment of such dividends and whether or not such dividends are declared. Accrued but unpaid dividends on the Series F Preferred Stock will not bear interest and holders of the Series F Preferred Stock will not be entitled to any distributions in excess of full cumulative distributions described above. Except as set forth in the next sentence, no dividends will be declared or paid or set apart for payment on any shares of our capital stock, or any other series of preferred stock ranking, as to dividends, on a parity with or junior to the Series F Preferred Stock (other than a dividend in shares of our Common Stock or in shares of any other class of stock ranking junior to the Series F Preferred Stock as to dividends and upon liquidation) for any period unless full cumulative dividends have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for such payment on the Series F Preferred Stock for all dividend periods ending prior to or on the most recent past dividend payment date. When dividends are not paid in full for all such dividend periods (or a sum sufficient for such full payment is not so set apart) upon the Series F Preferred Stock and the shares of any other series of preferred stock ranking on a parity as to dividends with the Series F Preferred Stock, all dividends declared upon the Series F Preferred Stock and any other series of our preferred stock ranking on a parity as to dividends with the Series F Preferred Stock will be declared pro rata so that the amount of dividends declared per share of Series F Preferred Stock and such other series of preferred stock, will in all cases bear to each other the same ratio that accrued dividends per share on the Series F Preferred Stock, and such other series of our preferred stock (which will not include any accrual in respect of unpaid dividends for prior dividend periods if such preferred stock does not have a cumulative dividend) bear to each other.

Except as provided in the immediately preceding paragraph, unless full cumulative dividends on the Series F Preferred Stock have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof is set apart for payment for all dividend periods ending prior to or on the most recent past dividend payment date, no dividends (other than in shares of Common Stock or other shares of capital stock ranking junior to the Series F Preferred Stock as to dividends and upon liquidation) will be declared or paid or set aside for payment nor will any other distribution be declared or made upon the Common Stock or any other shares of our capital stock ranking junior to or on a parity with the Series F Preferred Stock as to dividends or upon liquidation, nor will any shares of Common Stock or any other shares of our capital stock ranking junior to or on a parity with the Series F Preferred Stock as to dividends or upon liquidation be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any such shares) by us (except by conversion into or exchange for other shares of our capital stock ranking junior to the Series F Preferred Stock as to dividends and upon liquidation or redemptions for the purpose of preserving our qualification as a REIT). Holders of shares of the Series F Preferred Stock will not be entitled to any dividend, whether payable in cash, property or stock, in excess of full cumulative dividends on the Series F Preferred Stock as provided above. Any dividend payment made on shares of the Series F Preferred Stock will first be credited against the earliest accrued but unpaid dividend due with respect to such shares which remains payable.

## **Liquidation Preferences**

Upon any voluntary or involuntary liquidation, dissolution or winding up of the affairs of our company, the holders of shares of Series F Preferred Stock are entitled to be paid out of our assets legally available for distribution to our stockholders a liquidation preference of \$25 per share, plus an amount equal to any accrued and unpaid dividends to the date of payment, but without interest, before any distribution of assets is made to holders of Common Stock or any other class or series of our capital stock that ranks junior to the Series F Preferred Stock as to liquidation rights. Holders of Series F Preferred Stock will be entitled to written notice of any event triggering the right to receive such liquidation preference. After payment of the full amount of this liquidation preference, plus any accrued and unpaid dividends to which they are entitled, the holders of Series F Preferred Stock will have no right or claim to any of our remaining assets. The consolidation or merger of our company with or into any other corporation, trust or entity or of any other corporation with or into our company, or the sale, lease or conveyance of all or substantially all of

## **Table of Contents**

our property or business, will not be deemed to constitute a liquidation, dissolution or winding up of our company.

In determining whether a distribution (other than upon voluntary or involuntary liquidation) by dividend, redemption or other acquisition of shares of our stock or otherwise is permitted under the Maryland General Corporation Law, no effect will be given to amounts that would be needed, if we were to be dissolved at the time of the distribution, to satisfy the preferential rights upon distribution of holders of shares of our stock whose preferential rights upon distribution are superior to those receiving the distribution.

### **Redemption**

On or after February 1, 2009, we, at our option, upon not less than 30 nor more than 60 days' written notice, may redeem shares of the Series F Preferred Stock, in whole or in part, at any time or from time to time, for cash at a redemption price of \$25.00 per share, plus all accrued and unpaid dividends thereon to the date fixed for redemption (except with respect to Excess Shares, See Restrictions on ownership and transfer. ), without interest. We, at our option, may also redeem any outstanding series of preferred stock, other than the Series C Preferred Stock, in whole or in part. We may redeem the Series F Preferred Stock or other such series without redeeming any other of our currently outstanding series of preferred stock. The Series F Preferred Stock is not otherwise redeemable prior to February 1, 2009. However, in order to ensure that we will continue to meet the requirements for qualification as a REIT, the Series F Preferred Stock will be subject to provisions in our Charter pursuant to which our capital stock owned by a stockholder in excess of the applicable ownership limit will be deemed Excess Shares, and we will have the right to purchase such Excess Shares from the holder. See Restrictions on ownership and transfer.

Holders of Series F Preferred Stock to be redeemed will be required to surrender such Series F Preferred Stock at the place designated in such notice and will be entitled to the redemption price and any accrued and unpaid dividends payable upon such redemption following such surrender. If notice of redemption of any shares of Series F Preferred Stock has been given and if the funds necessary for such redemption have been set aside by us in trust for the benefit of the holders of any shares of Series F Preferred Stock so called for redemption, then from and after the redemption date dividends will cease to accrue on such shares of Series F Preferred Stock, such shares of Series F Preferred Stock will no longer be deemed outstanding and all rights of the holders of such shares will terminate, except the right to receive the redemption price. If less than all of the outstanding Series F Preferred Stock is to be redeemed, the Series F Preferred Stock to be redeemed will be selected pro rata (as nearly as may be practicable without creating fractional shares) or by any other equitable method determined by us.

Unless full cumulative dividends on all shares of Series F Preferred Stock shall have been or contemporaneously are declared and paid or declared and a sum sufficient for the payment thereof set apart for payment for all dividend periods ending prior to or on the most recent past dividend payment date, no shares of Series F Preferred Stock will be redeemed unless all outstanding shares of Series F Preferred Stock are simultaneously redeemed and we will not purchase or otherwise acquire directly or indirectly any shares of Series F Preferred Stock (except by exchange for our capital stock ranking junior to the Series F Preferred Stock as to dividends and upon liquidation).

However, the foregoing will not prevent our purchase of Excess Shares in order to ensure that we continue to meet the requirements for qualification as a REIT, or the purchase or acquisition of shares of Series F Preferred Stock pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Series F Preferred Stock. So long as no dividends are in arrears, we will be entitled at any time and from time to time to repurchase shares of Series F Preferred Stock in open-market transactions duly authorized by the Board of Directors and effected in compliance with applicable laws.

Notice of redemption will be given by publication in a newspaper of general circulation in the City of New York, such publication to be made once a week for two successive weeks commencing not less than



## **Table of Contents**

30 nor more than 60 days prior to the redemption date. A similar notice will be mailed by us, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, addressed to the respective holders of record of the Series F Preferred Stock to be redeemed at their respective addresses as they appear on our stock transfer records. No failure to give such notice or any defect therein or in the mailing thereof will affect the validity of the proceedings for the redemption of any shares of Series F Preferred Stock except as to the holder to whom notice was defective or not given.

Each notice will state:

- (i) the redemption date;
- (ii) the redemption price;
- (iii) the number of shares of Series F Preferred Stock to be redeemed;
- (iv) the place or places where the Series F Preferred Stock is to be surrendered for payment of the redemption price; and
- (v) that dividends on the shares to be redeemed will cease to accrue on such redemption date.

If less than all of the Series F Preferred Stock held by any holder is to be redeemed, the notice mailed to such holder will be required to also specify the number of shares of Series F Preferred Stock held by such holder to be redeemed.

Immediately prior to any redemption of Series F Preferred Stock, we will pay, in cash, any accumulated and unpaid dividends to the redemption date, unless a redemption date falls after a dividend record date and prior to the corresponding dividend payment date, in which case each holder of Series F Preferred Stock at the close of business on such dividend record date will be entitled to the dividend payable on such shares on the corresponding dividend payment date notwithstanding the redemption of such shares before such dividend payment date.

The Series F Preferred Stock has no stated maturity and will not be subject to any sinking fund or mandatory redemption. However, in order to ensure that we continue to meet the requirements for qualification as a REIT, Series F Preferred Stock acquired by a stockholder in excess of the ownership limit will automatically become Excess Shares, and we will have the right to purchase such Excess Shares from the holder. In addition, Excess Shares may be redeemed, in whole or in part, at any time when outstanding shares of Series F Preferred Stock are being redeemed, for cash at a redemption price of \$25 per share, but excluding accrued and unpaid dividends on such Excess Shares, without interest. Such Excess Shares will be redeemed in such proportion and in accordance with such procedures as shares of Series F Preferred Stock are being redeemed.

## **Voting Rights**

Holders of the Series F Preferred Stock will not have any voting rights, except as set forth below.

Whenever (i) dividends on the Series F Preferred Stock or the Series E Preferred Stock are in arrears for six or more quarterly periods, or (ii) dividends on any Series A Preferred Stock or Series B Preferred Stock are in arrears for eighteen or more months, the number of directors then constituting the Board of Directors will be increased by two if not already increased by reason of a similar arrearage with respect to the Series A Preferred Stock, the Series B Preferred Stock, the Series E Preferred Stock or any series of preferred stock ranking on parity with the Series F Preferred Stock as to dividends or upon liquidation and upon which like voting rights have been conferred and are exercisable (for convenience the Series A Preferred Stock, the Series B Preferred Stock, the Series E Preferred Stock and such other series of preferred stock are sometimes referred to as voting parity preferred). The holders of such shares of Series F Preferred Stock (voting separately as a class with the voting parity preferred) will then be entitled to vote separately as a class, in order to fill the vacancies thereby created, for the election of a total of two additional directors of our company at a special meeting called by the holders of record of at least 20% of the Series F Preferred Stock or the holders of record of at least 20% of any other series of

**Table of Contents**

voting parity preferred so in arrears (unless such request is received less than 90 days before the date fixed for the next annual or special meeting of stockholders) or at the next annual meeting of stockholders, and at each subsequent annual meeting until all dividends accumulated on such shares of Series F Preferred Stock and Series A Preferred Stock and Series B Preferred Stock, and Series E Preferred Stock for the past dividend periods and the dividend for the then current dividend period have been fully paid or declared and a sum sufficient for the payment thereof set aside for payment. In the event our directors are divided into classes, each such vacancy will be apportioned among the classes of directors to prevent stacking in any one class and to insure that the number of directors in each of the classes of directors, are as equal as possible.

Each director so elected by the holders of the voting parity preferred, as a qualification for election (and regardless of how elected) will be required to submit to our Board of Directors a duly executed, valid, binding and enforceable letter of resignation from the Board of Directors, to be effective upon the date upon which all dividends accumulated on such shares of Series F Preferred Stock and other voting parity preferred in arrears for the past dividend periods and the dividend for the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment set aside for payment. At that time, the terms of office of all persons elected as directors by the holders of the Series F Preferred Stock and the voting parity preferred will terminate, and the number of directors then constituting the Board of Directors shall be reduced accordingly. A quorum for any such meeting will exist if at least a majority of the outstanding shares of Series F Preferred Stock and each other series of voting parity preferred are represented in person or by proxy at such meetings. The directors to be elected by the holders of preferred stock will be elected by the affirmative vote of a plurality of the shares of Series F Preferred Stock (together with such other voting parity preferred) present and voting in person or by proxy at a duly called and held meeting at which a quorum is present.

If and when all accumulated dividends and the dividend for the then current dividend period on the Series F Preferred Stock, the Series A Preferred Stock and Series B Preferred Stock and Series E Preferred Stock shall have been paid in full or declared and set aside for payment in full, the holders of Series F Preferred Stock will be divested of the foregoing voting rights (subject to revesting in the event of another preferred dividend default allowing for the election of directors by the holders of Series F Preferred Stock). If all accumulated dividends and the dividend for the then current dividend period have been paid in full or declared and set aside for payment in full on all series of preferred stock upon which like voting rights have been conferred and are exercisable, the term of office of each director so elected by the holders of preferred stock shall terminate. Any director elected by the holders of preferred stock may be removed at any time with or without cause by, and cannot be removed otherwise than by the vote of, the holders of record of a majority of the outstanding shares of the Series F Preferred Stock when they have the voting rights described above (voting separately as a class with the voting parity preferred). So long as a default on the preferred stock dividend continues, any vacancy in the office of a director elected by the holders of preferred stock may be filled by written consent of the director remaining in office previously elected by the holders of preferred stock, or if none remains in office, by a vote of the holders of record of a majority of the outstanding shares of Series F Preferred Stock when they have the voting rights described above (voting separately as a class with the voting parity preferred). The directors elected by the holders of the preferred stock shall each be entitled to one vote per director on any matter.

So long as any shares of Series F Preferred Stock remain outstanding, we will not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of the Series F Preferred Stock outstanding at the time, given in person or by proxy, either in writing or at a meeting (voting separately as a class) amend, alter or repeal the provisions of the Charter or the Articles Supplementary creating the Series F Preferred Stock, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of the Series F Preferred Stock or the holders thereof.

However, with respect to the occurrence of any such event set forth in the paragraph above, so long as the Series F Preferred Stock (or any equivalent class or series of stock issued in exchange for the Series F Preferred Stock by the surviving corporation in any merger or consolidation to which we became

## **Table of Contents**

a party) remains outstanding with the terms thereof materially unchanged, the occurrence of any such event will not be deemed to materially and adversely affect such rights, preferences, privileges or voting power of holders of the Series F Preferred Stock. In addition,

any increase in the amount of the authorized preferred stock or the creation or issuance of any other series of preferred stock, or

any increase in the amount of authorized shares of such series, in each case ranking on a parity with or junior to the Series F Preferred Stock with respect to payment of dividends or the distribution of assets upon liquidation dissolution or winding up, will not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers of the Series F Preferred Stock.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required to be effected, all outstanding shares of Series F Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds have been deposited in trust to effect such redemption.

Except as expressly stated in the Articles Supplementary creating the Series F Preferred Stock, the Series F Preferred Stock will not have any relative, participating, optional or other special voting rights and powers, and the consent of the holders thereof will not be required for the taking of any corporate action, including but not limited to, any merger or consolidation involving our company or a sale of all or substantially all of our assets, irrespective of the effect that such merger, consolidation or sale may have upon the rights, preferences or voting power of the holders of the Series F Preferred Stock.

## **Conversion**

Each share of Series F Preferred Stock will be convertible in whole or in part, at any time at the option of the holders thereof, into shares of Common Stock at a conversion price of \$        per share of Common Stock, subject to adjustment as described below.

Conversion of shares of Series F Preferred Stock, or a specified portion thereof, may be effected by delivering certificates evidencing such shares, together with written notice of conversion and a proper assignment of such certificates in blank to the office or agency to be maintained by us for that purpose. Each conversion will be deemed to have been effected immediately prior to the close of business on the date on which the certificates for shares of Series F Preferred Stock shall have been surrendered and notice shall have been received by us or the conversion agent as aforesaid and the conversion shall be at the conversion price in effect at such time and on such date.

Holders of shares of Series F Preferred Stock who convert and whose conversion is deemed effective before the close of business on a dividend payment record date will not be entitled to receive any portion of the dividend payable on such shares of Series F Preferred Stock on the corresponding dividend payment date notwithstanding the conversion of such shares on the dividend payment record date and prior to such dividend payment date but will, however, be entitled to receive the entire corresponding dividend payable, if any, on the shares of Common Stock issuable upon conversion provided that any conversion of Series F Preferred Stock becomes effective prior to the close of business on the record date for such dividend payable on such shares of Common Stock. A holder of shares of Series F Preferred Stock on a dividend payment record date who (or whose transferee) tenders any such shares for conversion into shares of Common Stock after such dividend payment record date will receive the dividend payable by us on such shares of Series F Preferred Stock on the dividend payment date. Except as provided for above, we will make no payment for accrued and unpaid dividends, whether or not in arrears, on converted shares or for dividends on the shares of Common Stock issued upon such conversion.

If any holder of Series F Preferred Stock exercises such holder's conversion rights as provided above with respect to any shares of Series F Preferred Stock subsequent to our issuing a notice of redemption with respect to such shares, such conversion must be deemed effective at least 10 days prior to the

## **Table of Contents**

redemption date set forth in our notice of redemption, or such exercise will be of no effect and the shares in question will be redeemed pursuant to the notice of redemption.

Fractional shares of Common Stock are not to be issued upon conversion but, in lieu thereof, we will pay a cash adjustment based on the current market price of our Common Stock on the trading day prior to the conversion date.

Fractional shares of Common Stock are not to be issued upon conversion but, in lieu thereof, we will pay a cash adjustment based on the current market price of the Common Stock on the day prior to the conversion date.

## **Conversion Price Adjustments**

The conversion price is subject to adjustment upon certain events, including (i) dividends (and other distributions) on our Common Stock, payable in shares of Common Stock or any class of our capital stock, (ii) the issuance to all or substantially all holders of Common Stock of certain rights or warrants entitling them to subscribe for or purchase Common Stock at a price per share less than the fair market value per share of Common Stock, (iii) subdivisions, combinations and reclassifications of Common Stock and (iv) distributions to all or substantially all holders of Common Stock of cash, evidences of our indebtedness or assets (including securities, but excluding those dividends, rights, warrants and distributions referred to above and excluding any cash dividend or distribution to the holders of Common Stock in the ordinary course of our business as determined in good faith by our Board of Directors and not in excess of our stockholders' equity. In addition to the foregoing adjustments, we will be permitted to make such reductions in the applicable conversion price as we consider to be advisable in order that any event treated for federal income tax purposes as a dividend of stock or stock rights will not be taxable to the holders of the Common Stock.

In the event we (x) effect any capital reorganization or reclassification of our shares or (y) consolidate or merge with or into any other corporation (other than a consolidation or merger in which we are the surviving corporation and each share of Common Stock outstanding immediately prior to such consolidation or merger is to remain outstanding immediately after such consolidation or merger) or (z) sell, lease or transfer substantially all of our assets to any other person or entity for a consideration consisting in whole or in part of equity securities of such other corporation, the holders of shares of Series F Preferred Stock shall receive upon conversion thereof, in lieu of each share of Common Stock into which the Series F Preferred Stock would have been convertible prior to such transaction, the same kind and amount of stock and other securities, cash or property as such holder would have been entitled to received upon such transaction if such holder had held the Common Stock issuable upon conversion of the Series F Preferred Stock immediately prior to such transaction.

No adjustment of the conversion price will be required to be made in any case until cumulative adjustments amount to 1% or more of the applicable conversion price. Any adjustments not so required to be made will be carried forward and taken into account in subsequent adjustments.

A conversion price adjustment made according to the provisions of the Series F Preferred Stock (or the absence of provision for such an adjustment) might result in a constructive distribution to the holders of Series F Preferred Stock or holders of Common Stock that would be subject to taxation as a dividend. See **Federal Income Tax Considerations** Tax Considerations of Preferred Holders.

## **Restrictions on Ownership and Transfer**

In addition to other qualifications, for us to qualify as a REIT, (1) not more than 50% in value of our outstanding capital stock may be owned, actually or constructively, by five or fewer individuals during the last half of our taxable year, and (2) such capital stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year.

**Table of Contents**

To ensure that we continue to meet the requirements for qualification as a REIT, our Charter and the Articles Supplementary creating this Series F Preferred Stock, subject to some exceptions, provide that no holder may own, or be deemed to own by virtue of the attribution provisions of the Code, shares of our Series F Preferred Stock in excess of 9.8% (ownership limit) of the number of then outstanding shares of our Series F Preferred Stock or, if fewer, the number of shares of our Series F Preferred Stock that, if then converted by the holder into shares of Common Stock, would make such holder, or any other person, the owner of a number of shares of Common Stock in excess of 9.8% of the number of then outstanding shares of Common Stock. Our Board of Directors may waive the ownership limit with respect to a stockholder if evidence satisfactory to the Board of Directors and our tax counsel is presented that the changes in ownership will not then or in the future jeopardize our status as a REIT. Any transfer of capital stock or any security convertible into capital stock that would result in actual or constructive ownership of capital stock by a stockholder in excess of the ownership limit or that would result in our failure to meet the requirements for qualification as a REIT, including any transfer that results in the capital stock being owned by fewer than 100 persons or results in our company being closely held within the meaning of section 856(h) of the Internal Revenue Code, notwithstanding any provisions of our Charter to the contrary, will be null and void, and the intended transferee will acquire no rights to the capital stock. The foregoing restrictions on transferability and ownership will not apply if the Board of Directors determines that it is no longer in our best interest to attempt to qualify, or to continue to qualify, as a REIT.

Any shares of our capital stock held by a stockholder in excess of the applicable ownership limit become Excess Shares. Upon shares of any class or series of capital stock becoming Excess Shares, such shares will be deemed automatically to have been converted into a class separate and distinct from their original class and from any other class of Excess Shares. Upon any outstanding Excess Shares ceasing to be Excess Shares, such shares will be automatically reconverted back into shares of their original class or series of capital stock.

The holder of Excess Shares will not be entitled to vote the Excess Shares nor will such Excess Shares be considered issued and outstanding for purposes of any stockholder vote or the determination of a quorum for such vote. The Board of Directors, in its sole discretion, may choose to accumulate all distributions and dividends payable upon the Excess Shares of any particular holder in a non-interest bearing escrow account payable to the holder of the Excess Shares upon such Excess Shares ceasing to be Excess Shares.

In addition, we will have the right to redeem all or any portion of the Excess Shares from the holder at the redemption price, which will be the average market price (as determined in the manner set forth in the Charter) of the capital stock for the prior 30 days from the date we give notice of our intent to redeem such Excess Shares, or as determined by the Board of Directors in good faith. The redemption price will only be payable upon the liquidation of our company and will not exceed the sum of the per share distributions designated as liquidating distributions declared subsequent to the redemption date with respect to unredeemed shares of record of the class from which such Excess Shares were converted. We will rescind the redemption of the Excess Shares in the event that within 30 days of the redemption date, due to a sale of shares by the holder, such holder would not be the holder of Excess Shares, unless such rescission would jeopardize our tax status as a REIT or would be unlawful in any regard.

Each stockholder will upon demand be required to disclose to us in writing any information with respect to the actual and constructive ownership of shares of our capital stock as our Board of Directors deems necessary to comply with the provisions of the Internal Revenue Code applicable to REITs, to comply with the requirements of any taxing authority or governmental agency or to determine any such compliance.

The ownership limit may have the effect of precluding the acquisition of control of our company unless the Board of Directors determines that maintenance of REIT status is no longer in our best interests.

## **Table of Contents**

### **Transfer and Dividend Paying Agent**

Computershare Investor Services, LLC will act as the transfer, dividend payment agent and conversion agent for the Series F Preferred Stock and acts as transfer agent and dividend paying agent for the Common Stock.

## **ADDITIONAL FEDERAL INCOME TAX CONSIDERATIONS**

### **GENERAL**

The following is a summary of the additional material federal income tax considerations related to the acquisition, ownership, conversion and disposition of our Series F Preferred Stock and to our REIT election which we anticipate may be material to purchasers of our securities offered in this prospectus supplement, and that are not discussed in our annual report on Form 10-K for the year ended December 31, 2002 under the heading "Taxation of Our Company". This summary is limited to the tax consequences of those persons who are original owners of the Series F Preferred Stock, who purchase Series F Preferred Stock at its issue price and who hold such Series F Preferred Stock as capital assets within the meaning of Section 1221 of the Code. This summary does not purport to deal with all aspects of US federal income taxation that might be relevant to particular stockholders in light of their particular investment circumstances or status, nor does it address specific tax consequences that may be relevant to particular persons (including, for example, financial institutions, broker-dealers, insurance companies, tax-exempt organizations and persons that have a functional currency other than the US dollar or persons in special situations, such as those who have elected to mark securities to market, or those who hold Series F Preferred Stock as part of a straddle, hedge, conversion transaction, or other integrated investment). In addition, this summary does not address US federal alternative minimum tax consequences or consequences under the tax laws of any state, local or foreign jurisdiction. This summary is based upon the Code, the Treasury Department regulations promulgated or proposed thereunder and administrative and judicial interpretations thereof, all as of the date hereof and all of which are subject to change, possibly on a retroactive basis. We have not sought any ruling from the Internal Revenue Service with respect to the statements made and the conclusions reached in this summary, and we cannot assure you that the IRS will agree with such statements and conclusions.

This summary is for general information only. Prospective purchasers of the Series F Preferred Stock are urged to consult their tax advisors concerning the US federal income and other tax consequences to them of acquiring, owning, and disposing of the Series F Preferred Stock, as well as the application of state, local and foreign income and other tax laws.

### **CERTAIN FEDERAL INCOME TAX CONSIDERATIONS RELATING TO BUYING, OWNING AND SELLING OUR SERIES F PREFERRED STOCK**

#### **Basis**

A stockholder's tax basis in our Series F Preferred Stock will be the amount that the stockholder pays for the Series F Preferred Stock at the time of purchase adjusted to the extent that our distributions are determined to be part or all a return of capital. A stockholder's tax basis will be reduced, but not below zero, for the portion of our distributions deemed to be a return of capital.

#### **Holding Periods**

A stockholder's holding period for the Series F Preferred Stock will begin on the day after the stockholder buys the Series F Preferred Stock.

#### **Taxation of Disposition of Our Series F Preferred Stock**

Upon the sale, exchange or other disposition of our Series F Preferred Stock, a stockholder generally will recognize taxable gain or loss equal to the difference between (i) the sum of cash plus the fair market

## **Table of Contents**

value of all other property received in on such disposition and (ii) such stockholder's adjusted tax basis in the Series F Preferred Stock.

Gain or loss recognized on the disposition of our Series F Preferred Stock generally will be capital gain or loss, and will be long-term capital gain or loss if, at the time of such disposition, the stockholder's holding period is more than 12 months. However, any loss upon sale or exchange of Series F Preferred Stock by a stockholder who has held such stock for six months or less will be treated as a long-term capital loss to the extent our distributions are required to be treated by such stockholder as long-term capital gain. The maximum federal long-term capital gain rate is 15% for non-corporate stockholders for taxable years ending on or before December 31, 2008, and 20% thereafter and 35% for corporate stockholders. The deductibility of capital losses by stockholders is subject to limitations.

### **Taxation of Conversion of Series F Preferred Stock into Common Stock**

The conversion of Series F Preferred Stock into Common Stock should constitute a recapitalization for federal income tax purposes. Accordingly, income, gain or loss generally should not be recognized by you upon the conversion of Series F Preferred Stock into Common Stock (except with respect to Common Stock received in discharge of accrued dividends or with respect to cash received in lieu of a fractional share interest of Common Stock). Your tax basis in Common Stock received pursuant to the conversion generally should equal your tax basis in the Series F Preferred Stock surrendered in exchange therefore. Similarly, the holding period for Common Stock received pursuant to the conversion generally should include the period for which the Series F Preferred Stock surrendered in exchange therefore was held.

Common stock received by you pursuant to a conversion in discharge of accrued dividends on the Series F Preferred Stock should be treated as a distribution on the Series F Preferred Stock to the extent of such accrued dividends. Such distribution would be taxed as a dividend to the extent of our current or accumulated earnings and profits. The basis of Common Stock received in discharge of accrued dividends on the Series F Preferred Stock will be its fair market value on the date received by you and the holding period of such Common Stock will commence on the day after its receipt by you.

If you receive cash in lieu of a fractional share of Series F Preferred Stock upon conversion of your Series F Preferred Stock into Common Stock, you will be treated as having first received such fractional share and as having then exchanged such fractional share for cash in a taxable transaction. Gain or loss will be recognized, measured by the difference between the amount of cash received and the portion of the basis of the Series F Preferred Stock allocable to such fractional interest. In general, such gain or loss will constitute a capital gain or loss and will be a long-term capital gain or loss if the Series F Preferred Stock has been held for more than one year as of the date of such conversion.

Future adjustments, if any, of the conversion rate of Series F Preferred Stock may result in constructive distributions taxable as dividends to you (to the extent that we have current or accumulated earnings and profits).

### **Taxation of Cash Redemption of Series F Preferred Stock**

A cash redemption of shares of the Series F Preferred Stock will be treated under Section 302 of the Code as a distribution taxable as a dividend (to the extent of our current and accumulated earnings and profits) at ordinary income rates unless the redemption satisfies one of the tests set forth in Section 302(b) of the Code and is therefore treated as a sale or exchange of the redeemed stock. The cash redemption will be treated as a sale or exchange if it (i) is substantially disproportionate with respect to the holder, (ii) results in a complete termination of the holder's stock interest in our company, or (iii) is not essentially equivalent to a dividend with respect to the holder, all within the meaning of Section 302(b) of the Code. In determining whether any of these tests have been met, shares of capital stock (including Common Stock and other equity interests in our company) considered to be owned by the holder by reason of constructive ownership rules set forth in the Code, as well as shares of capital stock actually owned by the holder, must generally be taken into account. Because the determination as to whether any of the alternative tests of Section 302(b) of the Code will be satisfied with respect to any

## **Table of Contents**

particular holder of the Series F Preferred Stock depends upon the facts and circumstances at the time that the determination must be made, prospective holders of the Series F Preferred Stock are advised to consult their own tax advisors to determine such tax treatment.

If a cash redemption of shares of the Series F Preferred Stock is not treated as a distribution taxable as a dividend to a particular holder, it will be treated, as to that holder, as a taxable sale or exchange. As a result, such holder will recognize gain or loss for federal income tax purposes in an amount equal to the difference between (i) the amount of cash and the fair market value of any property received (less any portion thereof attributable to accumulated but unpaid dividends, which will be taxable as a dividend to the extent of our current and accumulated earnings and profits), and (ii) the holder's adjusted basis in the shares of the Series F Preferred Stock for tax purposes. Such gain or loss will be capital gain or loss if the shares of the Series F Preferred Stock have been held as a capital asset, and, with respect to a non-corporate US stockholder, such gain or loss will be long-term capital gain or loss if at the time of redemption, the shares were held for more than 12 months. However, any loss recognized by a stockholder who has held our Series F Preferred Stock for six months or less will be treated as a long term loss to the extent our distributions are required to be treated by such stockholder as long term capital gain.

If a cash redemption of shares of the Series F Preferred Stock is treated as a distribution taxable as a dividend, the amount of the distribution will be measured by the amount of cash and the fair market value of any property received by the holder. The holder's adjusted basis in the redeemed shares of the Series F Preferred Stock for tax purposes will be transferred to the holder's remaining shares of our capital stock, if any. If the holder owns no other shares of our capital stock, such basis may, under some circumstances, be transferred to a related person or it may be lost entirely.

### **Redemption Premium**

Under Section 305(c) of the Code and applicable Treasury Regulations, if the redemption price of the Series F Preferred Stock exceeds its issue price the difference known as a redemption premium may be taxable as a constructive distribution on the Series F Preferred Stock to the holder (treated as a dividend to the extent of our current and accumulated earnings and profits and otherwise subject to the treatment described above for distributions) over a certain period. Because Series F Preferred Stock provides for an optional right of redemption by us at a price that may exceed the issue price, stockholders could be required to recognize such redemption premium under a constant interest rate method similar to that for accruing original issue discount if, based on all of the facts and circumstances, the optional redemption is more likely than not to occur. If stock may be redeemed at more than one time, the time and price at which such redemption is most likely to occur must be determined based on all of the facts and circumstances. Applicable Treasury Regulations provide a safe harbor under which a right to redeem will not be treated as more likely than not to occur if (i) the issuer and the stockholder are not related within the meaning of such regulations; (ii) there are no plans, arrangements, or agreements that effectively require or are intended to compel the issuer to redeem the stock (disregarding, for this purpose, a separate mandatory redemption), and (iii) exercise of the right to redeem would not reduce the yield of the stock, as determined under the regulations. Regardless of whether the optional redemption is more than likely not to occur, constructive dividend treatment will not result if the redemption premium does not exceed a de minimis amount. We intend to take the position that the existence of our optional redemption right does not result in a constructive distribution to the holders of Series F Preferred Stock.

## **CERTAIN INCOME TAX CONSIDERATIONS RELATING TO OUR REIT ELECTION**

### **Taxation of a REIT**

We have elected to be taxed as a REIT under Sections 856 through 860 of 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.



**Table of Contents**

The sections of the Code and corresponding Treasury Regulations that relate to qualification, operation, and taxation of REITs and their stockholders are highly technical and complex. Our annual report on Form 10-K for the year ended December 31, 2002 under the heading Taxation of Our Company sets forth the material aspects of the sections that govern the federal income tax treatment of a REIT.

In the opinion of Reed Smith, LLP, our legal tax counsel, we have been organized in conformity with the requirements for qualification as a REIT, and our method of operation will enable us to meet the requirements for continued qualification and taxation as a REIT under the Code. This opinion is based on various factual assumptions relating to our organization and operation, and is conditioned upon certain representations made by us as to factual matters. In addition, this opinion is based upon our factual representations concerning our business and properties as set forth in this prospectus supplement and will assume that the actions described in this prospectus supplement have been completed as described. Moreover, our qualification and taxation as a REIT depends upon our ability to meet, through actual annual operating results, distribution levels, diversity of share ownership and the various qualification tests imposed under the Code, the results of which have not been and will not be reviewed by our tax counsel. Accordingly, no assurance can be given that our actual results of operation for any particular taxable year will satisfy such requirements. Further, the anticipated income tax treatment described in our annual report on Form 10-K for the year ended December 31, 2002 and this prospectus supplement may be changed, perhaps retroactively, by legislative or administrative action at any time.

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 (which are, in general, certain sales or other dispositions of property (other than foreclosure property) held primarily for sale to customers in the ordinary course of business), 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, 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

## **Table of Contents**

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.

Pursuant to 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. We intend to comply with these requirements.

## **Qualifying Rents**

Rents that we receive will qualify as rents from real property in satisfying the gross income requirements for a REIT described in our annual report Form 10-K for the year ended December 31, 2002, only if several conditions are met. First, the amount of rent must not be based in whole or in part on the income or profits of any person. However, an amount received or accrued generally will not be excluded from the term rents from real property solely by reason of being based on a fixed percentage or percentages of receipts or sales. Second, the Code provides that rents received from a tenant will not qualify as rents from real property in satisfying the gross income tests if we, or an actual or constructive owner of 10% or more of us, actually or constructively owns 10% or more of a tenant. Third, 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 such personal property will not qualify as rents from real property. Rent attributable to personal property is the amount which bears the same ratio to the total rent under the lease as the fair market values of personal property bears to the fair market values of both the real and personal property under the lease. Finally, for rents received to qualify as rents from real property, we generally must not operate or manage the property or furnish or render services to the tenants of such property, other than through a taxable REIT subsidiary or TRS or an independent contractor from whom we derive no revenue. We may, however, directly perform certain services that are usually or customarily rendered in connection with the rental of space for occupancy only and are not otherwise considered rendered to the occupant of the property. In addition we may render a de minimus amount of impermissible services to tenants, or in connection with the management of property and treat amounts received as gross income from the real property, if such amount does not exceed 1% of the gross income from the property and the services are valued at not less than 150% of our costs to provide the services. We have not and will not (i) charge rent for any property that is based in whole or in part on the income or profits of any person (except by reason of being based on a percentage of receipts or sales, as described above or unless our Board of Directors determines in its discretion that the rent received on such property is not material and will not jeopardize our status as a REIT), (ii) rent any property to a related party tenant (unless our Board of Directors determines in its discretion that the rent received from a related party tenant is not material and will not jeopardize our status as a REIT) or (iii) directly perform services considered to be rendered to the occupant of property unless provided by our TRS or unless subject to classification as de minimus.

## **LEGISLATIVE DEVELOPMENTS**

On May 28, 2003, President Bush signed into law the Jobs and Growth Tax Relief Reconciliation Act of 2003. The Jobs and Growth Tax Relief Reconciliation Act of 2003 generally will reduce the maximum tax rate applicable to non-corporate stockholders on capital gains recognized on the sale or other disposition of shares of the Series F Preferred Stock from 20% to 15%.

The Jobs and Growth Tax Relief Reconciliation Act of 2003 also generally will reduce the maximum marginal rate of tax payable by individuals on dividends received from corporations that are subject to a corporate level of tax. Except in limited circumstances, this reduced tax rate will not apply to dividends paid to you by us on shares of the Series F Preferred Stock, because generally we are not subject to federal income tax on the portion of our REIT taxable income or capital gains distributed to our stockholders. The reduced maximum federal income tax rate will apply to that portion, if any, of dividends received by you with respect to the Series F Preferred Stock that are attributable to (1) dividends received

## **Table of Contents**

by us from non-REIT corporations or other taxable REIT subsidiaries, (2) income from the prior year with respect to which we were required to pay federal corporate income tax during the prior year (if, for example, we did not distribute 100% of our REIT taxable income for the prior year) and (3) distributions by us that we designate as long-term capital gains dividends (except for some distributions taxable to you at a maximum rate of 25%).

The dividend and capital gains tax rate reductions provided in the Jobs and Growth Tax Relief Reconciliation Act of 2003 generally are effective for taxable years ending on or after May 6, 2003 through December 31, 2008. Without future legislative changes, the maximum long-term capital gains and dividend rates discussed above will increase in 2009.

These legislative changes affect the discussion in our annual report on Form 10-K for the fiscal year ended December 31, 2002 under the heading "Taxation of Our Company" to the extent that section describes applicable long-term capital gains tax rates, the taxation of dividends and then-recent legislation.

## **TAXATION OF TAXABLE DOMESTIC STOCKHOLDERS**

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

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

In general, gain or loss recognized on the disposition of our Series F Preferred Stock will be a capital gain or loss and will be long-term capital gain or loss, if at the time of such disposition, the stockholder's holding period (after applying certain holding period rules) is more than 12 months. However, any loss upon a sale or exchange of our Series F Preferred Stock by a stockholder who has held such stock for six months or less will be treated as a long-term capital loss to the extent our distributions are required to be treated by such stockholder as long-term capital gain.

## **Backup Withholding**

We will report to our US stockholders and the IRS the amount of distributions paid during each calendar year, and the amount of tax withheld, if any. Under the backup withholding rules, a stockholder may be subject to backup withholding with respect to distributions paid unless such holder (a) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact, or (b) provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding, and otherwise complies with applicable requirements of the backup withholding rules. The amount of such withholding will be equal to the product of the fourth lowest rate applicable to single filers and the amount of the distribution. This rate is 28% for tax years beginning in 2003. Any amount paid to the IRS as backup withholding will be creditable against the stockholder's income tax liability. In addition,

## **Table of Contents**

we may be required to withhold a portion of capital gain distributions to any stockholders who fail to certify their non-foreign status to us. See Taxation of foreign stockholders. A stockholder that does not provide us with his correct taxpayer identification number may also be subject to penalties imposed by the IRS.

### **TAXATION OF TAX-EXEMPT STOCKHOLDERS**

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

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

### **TAXATION OF FOREIGN STOCKHOLDERS**

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

Distributions that are not attributable to gain from our sales or exchanges of US real property interests and not designated by us as capital gains dividends will be treated as dividends of ordinary income to the extent that they are made out of our current or accumulated earnings and profits. Such distributions will ordinarily be subject to a withholding tax equal to 30% of the gross amount of the distribution unless an applicable tax treaty reduces or eliminates that tax. However, if income from the investment in the stock is treated as effectively connected with the non-US stockholder's conduct of a US trade or business, the non-US stockholder generally will be subject to a tax at graduated rates, in the same manner as US stockholders are taxed with respect to such distributions and may also be subject to the 30% branch profits tax in the case of a stockholder that is a foreign corporation. We expect to withhold US income tax at the rate of 30% on the gross amount of any such distributions made to a non-US stockholder unless (i) a lower treaty rate applies and the holder provides us with a properly executed IRS Form W-8BEN (or successor form) or (ii) the non-US stockholder provides us with a properly

**Table of Contents**

executed IRS Form W-8ECI (or successor form) claiming that the distribution is effectively connected income.

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

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

Gain recognized by a non-US stockholder upon a sale of our Series F Preferred Stock generally will not be taxed under FIRPTA if we are a domestically controlled real estate investment trust, defined generally as a real estate investment trust in which at all times during a specified testing period less than 50% in value of the stock were held directly or indirectly by foreign persons. We currently anticipate that we will be a domestically controlled real estate investment trust, and therefore the sale of stock will not be subject to taxation under FIRPTA. Additionally, the sale of our Series F Preferred Stock will not be taxed under FIRPTA if the class of stock is regularly traded on an established securities market and the selling non-US stockholder has not held more than 5% of the class of stock at any time during the preceding five-year period. However, gain not subject to FIRPTA will be taxable to a non-US stockholder if the investment in the stock is effectively connected with the non-US stockholder's US trade or business, in which case the non-US stockholder will be subject to the same treatment as US stockholders with respect to such gain. Also, if the non-US stockholder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and has a tax home in the United States, the nonresident alien individual will be subject to a 30% tax (unless reduced by treaty) on the individual's capital gains. A non-resident alien individual could, however, elect to treat such gain as effectively connected income and pay tax as a US stockholder would. If the gain on the sale of stock were to be subject to taxation under FIRPTA, the non-US stockholder will be subject to the same treatment as US stockholders with respect to such gain.

If the proceeds of a disposition of our Series F Preferred Stock are paid by or through a US office of a broker, the payment is subject to information reporting and to backup withholding unless the disposing non-US stockholder certifies as to his name, address and non-US status or otherwise establishes an exemption. Generally, US information reporting and backup withholding will not apply to a payment of disposition proceeds if the payment is made outside the United States through a non-US office of a non-US broker. US information reporting requirements (but not backup withholding) will apply, however, to a payment of disposition proceeds outside the United States if (i) the payment is made through an office outside the United States of a broker that is either (a) a US person, (b) a foreign person that derives 50%

**Table of Contents**

or more of its gross income for certain periods from the conduct of a trade or business in the United States, (c) a controlled foreign corporation for US federal income tax purposes, or (d) a foreign partnership more than 50% of the capital or profits of which is owned by one or more US persons or which engages in a US trade or business and (ii) the broker fails to initiate documentary evidence that the stockholder is a non-US stockholder and that certain conditions are met or that the non-US stockholder otherwise is entitled to an exemption.

**OTHER TAX CONSEQUENCES**

We and our stockholders may be subject to state or local taxation in various state or local jurisdictions, including those in which we or they transact business or reside. Our state and local tax treatment and the state and local tax treatment of our stockholders may not conform to the federal income tax consequences discussed above. Consequently, prospective stockholders should consult their own tax advisors regarding the effect of state and local tax laws on an investment in us.

**STATEMENT OF SHARE OWNERSHIP**

We must obtain annual written statements from any of our record holders who hold certain percentages of our stock disclosing the actual owners of our stock. Any record holder who fails to provide us with this information must include certain specified information relating to ownership of our share in his federal income tax return. We must also maintain permanent records with the Internal Revenue Service showing the information we receive relating to the actual ownership of our stock and a list of holders who fail to provide us with this information.

**Table of Contents**

**UNDERWRITING**

Subject to the terms and conditions of the underwriting agreement among LTC Properties, Inc. and the underwriters named below, for whom Stifel, Nicolaus & Company, Incorporated is acting as Representative, have severally agreed to purchase from us, and we have agreed to sell to them, an aggregate of 2,000,000 Series F Preferred Stock, in the amounts set forth below opposite their respective names.

Underwriters	Number of Convertible Preferred Securities
Stifel, Nicolaus & Company, Incorporated	
Friedman, Billings, Ramsey & Co., Inc.	
McDonald Investments Inc.	
Harris Nesbitt Corp.	
Total	2,000,000

Under the terms and conditions of the underwriting agreement, the underwriters are committed to accept and pay for all of the Series F Preferred Stock if any are taken. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the non-defaulting underwriters may be increased or, in certain cases, the underwriting agreement may be terminated. In the underwriting agreement, the obligations of the underwriters are subject to approval of certain legal matters by their counsel, including the authorization and validity of the Series F Preferred Stock, and to other conditions contained in the underwriting agreement, such as receipt by the underwriters of officers' certificates and legal opinions.

The underwriters propose to offer the Series F Preferred Stock directly to the public at the public offering price set forth on the cover page of this prospectus supplement, and to certain securities dealers (who may include the underwriters) at this price, less a concession not in excess of \$ \_\_\_\_\_ per convertible preferred security. The underwriters may allow, and the selected dealers may reallow, a concession not in excess of \$ \_\_\_\_\_ per convertible preferred security to certain brokers and dealers. After the Series F Preferred Stock are released for sale to the public, the offering price and other selling terms may from time to time be changed by the underwriter.

We have granted to the underwriters an option, exercisable within 30 days after the date of this prospectus supplement, to purchase up to 300,000 additional Series F Preferred Stock at the same price per security to be paid by the underwriters for the other securities being offered. If the underwriters purchase any of the additional securities under the applicable option, each underwriter will be committed to purchase the additional securities in approximately the same proportion allocated to them in the table above. The underwriters may exercise the option only for the purpose of covering over-allotments, if any, made in connection with the distribution of the Series F Preferred Stock being offered.

The table below shows the price and proceeds on a per security and aggregate basis. The proceeds to be received by us, as shown in the table below, do not reflect estimated expenses of \$ \_\_\_\_\_ by LTC Properties, Inc.

	Per Convertible Preferred Security	Total
Public Offering Price	\$	\$
Proceeds to LTC Properties, Inc.	\$	\$

We have agreed to pay the underwriter \$ \_\_\_\_\_ per convertible preferred security, or a total of \$ \_\_\_\_\_, as compensation for arranging the investment in the convertible securities. Should the underwriters exercise the over-allotment option, an aggregate of \$ \_\_\_\_\_ will be paid to the underwriters for arranging the investment in the convertible securities.

**Table of Contents**

The offering of the Series F Preferred Stock is made for delivery when, as and if accepted by the underwriters and subject to prior sale and to withdrawal, cancellation or modification of the offering without notice. The underwriters reserve the right to reject any order for the purchase of the Series F Preferred Stock.

We have agreed to indemnify the several underwriters against several liabilities, including liabilities under the Securities Act of 1933.

The Series F Preferred Stock is expected to be approved for listing on the New York Stock Exchange subject to notice of issuance. The Representative has advised us that it presently intends to make a market in the Series F Preferred Stock prior to the commencement of trading on the New York Stock Exchange but is not obligated to do so and may discontinue market making at any time without notice. However, we cannot assure you as to the liquidity of the securities or that an active and liquid market will develop or, if developed, that the market will continue. The offering price and distribution rate have been determined by negotiations among our representatives and the underwriters, and the offering price of the securities may not be indicative of the market price following the offering.

In connection with the offering, the underwriters may engage in transactions that are intended to stabilize, maintain or otherwise affect the price of the securities during and after the offering, such as the following:

the underwriters may over-allot or otherwise create a short position in the securities for their own account by selling more securities than have been sold to them;

the underwriters may elect to cover any short position by purchasing securities in the open market or by exercising the over-allotment option;

the underwriters may stabilize or maintain the price of the securities by bidding; and

the underwriters may impose penalty bids, under which selling concessions allowed to syndicate members or other broker-dealers participating in the offering are reclaimed if securities previously distributed in the offering are repurchased in connection with stabilization transactions or otherwise.

The effect of these transactions may be to stabilize or maintain the market price at a level above that which might otherwise prevail in the open market. The imposition of a penalty bid may also affect the price of the securities to the extent that it discourages resales. No representation is made as to the magnitude or effect of any such stabilization or other transactions. Such transactions may be effected on the New York Stock Exchange or otherwise and, if commenced, may be discontinued at any time.

Subject to certain exceptions, we and our executive officers and directors have agreed not to sell or otherwise dispose of any securities similar to those offered by this prospectus supplement, or any of our shares of common stock or our other securities convertible into common stock, or permit the registration of any shares of our common stock, for a period of 90 days after the date of this prospectus supplement (other than securities sold pursuant to this prospectus supplement) without the prior written consent of Stifel, Nicolaus & Company, Incorporated.

In connection with this offering, certain of the underwriters or securities dealers may distribute this prospectus supplement and the accompanying prospectus electronically. A prospectus supplement and the accompanying prospectus in electronic format may be made available on Internet Web sites maintained by one or more of the lead underwriters of this offering and may be made available on Web sites maintained by other underwriters. Other than the prospectus supplement and the accompanying prospectus in electronic format, the information on any underwriter's Web site and any information contained in any other Web site maintained by an underwriter is not part of the prospectus supplement and the accompanying prospectus or the registration statement of which the prospectus supplement and the accompanying prospectus forms a part.

Certain of the underwriters and their affiliates have, from time to time, performed investment banking and other services for us and our affiliates in the ordinary course of business and have received fees from us for their services.



**Table of Contents**

**LEGAL MATTERS**

Certain legal matters relating to this offering will be passed upon for us by Reed Smith, LLP, New York, New York, and certain matters with respect to Maryland law, including the validity of the shares of the securities offered hereby, will be passed upon for us by Ballard Spahr Andrews & Ingersoll, LLP, Baltimore, Maryland. Dewey Ballantine LLP, East Palo Alto, California is counsel to the underwriters in connection with this offering. Reed Smith, LLP and Dewey Ballantine LLP will rely upon the opinion of Ballard Spahr Andrews & Ingersoll, LLP as to matters of Maryland law.

**EXPERTS**

The consolidated financial statements and schedules of LTC Properties, Inc. appearing in our annual report on Form 10-K for the year ended December 31, 2002 have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon included therein and which is incorporated herein by reference. Such consolidated financial statements and schedules are incorporated herein by reference in reliance on such report given on the authority of such firm as experts in accounting and auditing.

S-35

---

**Table of Contents**

**PROSPECTUS**

**\$200,000,000**

**LTC PROPERTIES, INC.  
DEBT SECURITIES, PREFERRED STOCK  
AND COMMON STOCK**

---

LTC Properties, Inc. may from time to time offer in one or more series (i) our debt securities, (ii) shares of our Preferred Stock, \$0.01 par value per share and (iii) shares of our Common Stock, \$0.01 par value per share, with an aggregate public offering price of up to \$200,000,000 on terms to be determined at the time of the offering. Our debt securities, our Preferred Stock and our Common Stock (collectively referred to as our securities), may be offered, separately or together, in separate series, in amounts, at prices and on terms that will be set forth in one or more prospectus supplements to this prospectus.

The specific terms of the securities with respect to which this prospectus is being delivered will be set forth in the applicable prospectus supplement and will include, where applicable:

in the case of our debt securities, the specific title, aggregate principal amount, currency, form (which may be registered, bearer, certificated or global), authorized denominations, maturity, rate (or manner of calculating the rate) and time of payment of interest, terms for redemption at our option or repayment at the holder's option, terms for sinking fund payments, terms for conversion into shares of our Preferred Stock or Common Stock, covenants and any initial public offering price;

in the case of our Preferred Stock, the specific designation, preferences, conversion and other rights, voting powers, restrictions, limitations as to transferability, dividends and other distributions and terms and conditions of redemption and any initial public offering price; and

in the case of our Preferred Stock, the specific designation, preferences, conversion and other rights, voting powers, restrictions, limitations as to transferability, dividends and other distributions and terms and conditions of redemption and any initial public offering price; and

in the case of our Common Stock, any initial public offering price.

In addition, the specific terms may include limitations on actual, beneficial or constructive ownership and restrictions on transfer of the securities, in each case as may be appropriate to preserve our status as a real estate investment trust, or REIT, for federal income tax purposes. The applicable prospectus supplement will also contain information, where applicable, about United States federal income tax considerations, and any exchange listing of the securities covered by the prospectus supplement.

Our stock Common Stock is traded on the New York Stock Exchange under the symbol LTC.

Our securities may be offered directly, through agents designated from time to time by us, or to or through underwriters or dealers. If any agents or underwriters are involved in the sale of any of our securities, their names, and any applicable purchase price, fee, commission or discount arrangement between or among them and us, will be set forth in the applicable prospectus supplement. None of our securities may be sold without delivery of the applicable prospectus supplement describing the method and terms of the offering of those securities.

Investing in our securities involves certain risks. See Risk Factors beginning on page 9.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

---

The date of this prospectus is September 12, 2003

---

**Table of Contents****TABLE OF CONTENTS**

	<b>Page</b>
ABOUT THIS PROSPECTUS	2
FORWARD-LOOKING STATEMENTS	3
WHERE YOU CAN FIND ADDITIONAL INFORMATION	4
DOCUMENTS INCORPORATED BY REFERENCE	4
ABOUT OUR COMPANY	6
OUR STRATEGY	7
RISK FACTORS	9
USE OF PROCEEDS	15
RATIOS OF EARNINGS TO FIXED CHARGES AND EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS	15
GENERAL DESCRIPTION OF THE OFFERED SECURITIES	15
DESCRIPTION OF DEBT SECURITIES	16
DESCRIPTION OF COMMON STOCK	22
DESCRIPTION OF PREFERRED STOCK	24
RESTRICTIONS ON OWNERSHIP AND TRANSFER	29
CERTAIN PROVISIONS OF MARYLAND LAW AND OF OUR CHARTER AND BYLAWS	31
CERTAIN US FEDERAL INCOME TAX CONSIDERATIONS	33
LEGAL MATTERS	49
EXPERTS	49

In this prospectus, unless otherwise indicated, the company, we, us and our refer to LTC Properties, Inc. and our consolidated subsidiaries.

**ABOUT THIS PROSPECTUS**

This prospectus is part of a registration statement that we filed with the SEC utilizing a shelf registration process. Under this shelf registration process, we may sell any combination of the securities described in this prospectus in one or more offerings up to a total dollar amount of \$200,000,000. This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read both this prospectus and any prospectus supplement together with additional information described under the heading **Where You Can Find Additional Information**.

As allowed by SEC rules, this prospectus does not contain all the information you can find in the registration statement or the exhibits to the registration statement. For further information, we refer you to the registration statement, including its exhibits and schedules. Statements contained in this prospectus about the provisions or contents of any contract, agreement or any other document referred to are not necessarily complete. For each of these contracts, agreements or documents filed as an exhibit to the registration statement, we refer you to the actual exhibit for a more complete description of the matters involved. You should not assume that the information in this prospectus or any applicable prospectus supplement is accurate as of any date other than the date on the front of those documents. For further information about us or the securities offered under this prospectus, you should refer to the registration statement, which you can obtain from the SEC as described below under the heading **Where You Can Find Additional Information**.

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

This prospectus contains or incorporates by reference forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. 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, and 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, compliance with and changes to regulations and payment policies within the healthcare industry, changes in financing terms, competition within the healthcare and senior housing industries, and changes in federal, state and local legislation. 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 prospectus and in other information contained in our publicly available filings with the Securities and Exchange Commission, including our annual report on Form 10-K for the year ended December 31, 2002. We do not undertake any responsibility to update 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.

**Table of Contents**

**WHERE YOU CAN FIND ADDITIONAL INFORMATION**

This prospectus is part of a registration statement on Form S-3 we have filed with the SEC covering the securities that may be offered under this prospectus. The registration statement, including the attached exhibits and schedules, contains additional relevant information about the securities.

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy the registration statement and any reports, statements or other information on file at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. You can request copies of those documents upon payment of a duplicating fee to the SEC. You may also review a copy of the registration statement at the SEC's regional offices in Chicago, Illinois and New York, New York. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. You can review our SEC filings and the registration statement by accessing the SEC's Internet site at <http://www.sec.gov>.

You can also inspect our reports, proxy statements and other information about us at the offices of the New York Stock Exchange, 20 Broad Street, New York, New York 10005.

**DOCUMENTS INCORPORATED BY REFERENCE**

The SEC allows us to incorporate by reference the information we file with the SEC, which means:

we consider incorporated documents to be part of the prospectus;

we may disclose important information to you by referring you to those documents; and

information we subsequently file with the SEC will automatically update and supersede the information in this prospectus.

This prospectus incorporates by reference the following documents:

Annual report on Form 10-K for the year ended December 31, 2002.

Quarterly reports on Form 10-Q for the quarterly periods ended March 31, 2003 and June 30, 2003.

Definitive proxy statement for the annual meeting of stockholders to be held on July 28, 2003.

All subsequent documents filed by us under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934 after the date of this prospectus and before the termination of the offering.

The description of our Common Stock contained in our registration statement on Form 8-A, including any amendment or report for the purpose of updating such description.

The description of our Series A Cumulative Preferred Stock contained in our registration statement on Form 8-A, including any amendment or report for the purpose of updating such description.

The description of our Series B Cumulative Preferred Stock contained in our registration statement on Form 8-A, including any amendment or report for the purpose of updating such description.

The description of our Series D Junior Participating Preferred Stock contained in our registration statement on Form 8-A, including any amendment or report for the purpose of updating such description.

**Table of Contents**

This prospectus and the documents incorporated by reference summarize certain material provisions of contracts and other documents to which we refer. Since this prospectus may not contain all the information that you may find important, you should review the full text of those documents. Upon request, we will provide each person receiving this prospectus a free copy, without exhibits, of any or all documents incorporated by reference into this prospectus. You may direct such requests to:

Alex J. Chavez

Senior Vice President and Corporate Secretary  
LTC Properties, Inc.  
22917 Pacific Coast Hwy, Suite 350  
Malibu, California 90265  
Telephone Number: (310) 455-6010

**Table of Contents**

**ABOUT OUR COMPANY**

We are a self-administered real estate investment trust that invests primarily in long-term care and other healthcare related properties through mortgage loans, property lease transactions and other investments. As of June 30, 2003, long-term care facilities, which include skilled nursing and assisted living facilities, comprised approximately 98% of our investment portfolio. We have been operating since August 1992.

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 provide sub-acute care services which are paid either by the patient, the patient's family, or through 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.

Our senior management team is comprised of four individuals with a combined 51 years of experience in healthcare and real estate finance.

As of June 30, 2003, we had approximately \$545 million in carrying value of net real estate investments. At that date, our portfolio included 96 assisted living facilities, 94 skilled nursing facilities and one charter school in 30 states. We had approximately \$398 million (73%) invested in owned and leased properties, approximately \$84 million (15%) invested in mortgage loans, and investments in certificates of a real estate mortgage investment conduit (or REMIC) with a carrying value of approximately \$63 million (12%).

**Owned Properties**

At June 30, 2003, we owned 58 skilled nursing facilities with a total of 6,723 beds, 88 assisted living facilities with 4,182 units and one school located in 23 states. The properties are leased pursuant to non-cancelable leases generally with an initial term of 6 to 20 years. The leases provide for a fixed minimum base rent during the initial and renewal periods. Most of the leases provide for annual fixed rent increases or increases based on consumer price indices over the term of the lease. In addition, certain of our leases provide for additional rent through revenue participation (as defined in the lease agreement) in incremental revenues generated by the facilities over a defined base period effective at various times during the term of the lease. Each lease is a triple net lease which requires the lessee to pay additional charges including all taxes, insurance, assessments, maintenance and repair (capital and non-capital expenditures) and other costs necessary in the operation of the facility. Many of the leases contain renewal options and one contains a limited period option that permits the operator to purchase the property.

**Mortgage Loans**

At June 30, 2003, we had 39 mortgage loans secured by first mortgages on 36 skilled nursing facilities with a total of 4,264 beds and eight assisted living facilities with a total of 369 units located in 20 states. At June 30, 2003, these mortgage loans had interest rates ranging from 9.4% to 12.9% and maturities ranging from 2003 to 2018. In addition, the loans may contain guarantees, provide for facility fees and generally have 25-year amortization schedules. The majority of the mortgage loans provide for annual increases in the interest rate based upon a specified increase of 10 to 25 basis points.

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 the sale of one or more, but not all, of the collateral properties to a third party which is not

## **Table of Contents**

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.

### **REMIC Certificates**

As of June 30, 2003, the outstanding certificate principal balance and the weighted average pass-through rate for the senior REMIC certificates (all held by outside third parties) were \$165,133,000 and 7.16%. As of June 30, 2003, the carrying value of the subordinated REMIC certificates held by us was \$62,933,000. The effective yield on the subordinated REMIC certificates held by us, based on expected future cash flows discounted to give effect to potential risks associated with prepayments and credit losses was 16.18% at June 30, 2003. As of June 30, 2003, the outstanding certificate principal balance and the weighted average pass-through rate for the senior REMIC certificates (all held by outside third parties) was \$165,133,000 and 7.16%.

The REMIC certificates we retain are subordinate in rank and right of payment to the REMIC certificates sold to third-party investors and as such would bear the first risk of loss in the event of an impairment to any of the underlying mortgages. The REMIC certificates are collateralized by three pools consisting of 76 first mortgage loans secured by 107 skilled nursing properties. The mortgage loans underlying the REMIC certificates generally have 25-year amortization schedules with final maturities due from 2003 to 2028, unless prepaid prior thereto. Distributions on any of the REMIC certificates will depend, in large part, on the amount and timing of payments, collections, delinquencies and defaults with respect to mortgage loans represented by the REMIC certificates, including the exercise of certain purchase options under existing property leases or the sale of the mortgaged properties. Each of the mortgage loans securing the REMIC certificates contains similar prepayment and security provisions as our mortgage loans.

As part of the REMIC transactions, we serve as the sub-servicer and, in such capacity, are responsible for performing substantially all of the servicing duties relating to the mortgage loans represented by the REMIC certificates. We receive monthly fees equal to a fixed percentage of the then outstanding mortgage loan balance in the REMIC, which in our opinion, represent currently prevailing terms for similar transactions. In addition, we will act as the special servicer to restructure any mortgage loans in the REMIC that default.

### **OUR STRATEGY**

Our primary objectives are to enhance stockholder equity value and provide current income for distribution to stockholders through real estate investments in long-term care properties and other healthcare related properties run by experienced operators providing quality care. To meet these objectives, we attempt to invest in fee simple properties or in mortgages that provide opportunity for additional value and current returns to our stockholders and to diversify our investment portfolio by geographic location, operator and form of investment.

For investments in skilled nursing facilities, we favor low cost per bed opportunities, whether in fee simple properties or in mortgages. Thus, the average per bed cost of our owned skilled nursing facilities is approximately \$26,000 per bed while that of our mortgages is approximately \$15,800 per bed.



**Table of Contents**

For assisted 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.

As skilled nursing facilities reimbursement cuts have created cost and pricing pressures in that industry, we have tended to emphasize fee simple investments in the assisted living sector where we believe facilities tend to be both newer and less dependent, if at all, on any government reimbursement.

---

Our principal executive offices are located at 22917 Pacific Coast Hwy, Suite 350, Malibu, California 90265, and our telephone number is (310) 455-6010.

**Table of Contents**

**RISK FACTORS**

You should carefully consider the risks described below before making an investment decision in our company. The risks and uncertainties described below are not the only ones facing our company and there may be additional risks that we do not presently know of or that we currently consider immaterial. Other important factors are identified in our annual report on Form 10-K for the year ended December 31, 2002, which is incorporated by reference into this prospectus, including factors identified under the headings *Business* and *Management's Discussion and Analysis of Financial Condition and Results of Operations*, and in the other documents incorporated by reference into this prospectus. All of these risks could adversely affect our business, financial condition, results of operations and cash flows. As a result, our ability to pay dividends on, and the market price of, our equity securities may be adversely affected if any of such risks are realized.

Our expected results may not be achieved, and actual results may differ materially from our expectations.

Our failure to achieve expected results 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 healthcare industry;

changes in financing terms;

competition within the healthcare and senior housing industries; and

changes in federal, state and local legislation.

**Recently enacted tax legislation could have an adverse effect on the market price of our equity securities.**

On May 28, 2003, President Bush signed into law legislation that, for individual taxpayers, will generally reduce the tax rate on corporate dividends to a maximum of 15% for tax years from 2003 to 2008. REIT dividends generally will not qualify for this reduced tax rate because a REIT's income generally is not subject to corporate level tax. This new law could cause stock in non-REIT corporations to be a more attractive investment to individual investors than stock in REITs and could have an adverse effect on the market price of our equity securities.

**Income and returns from healthcare facilities can be volatile.**

The possibility that the healthcare 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 healthcare 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 earthquakes and floods) or similar factors.

**We depend on lease income and mortgage payments from real property.**

Since a substantial portion of our income is derived from mortgage payments and lease income from real property, our income 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

## **Table of Contents**

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.**

Assisted Living Concepts, Inc., or ALC, leases 37 assisted living properties with a total of 1,434 units owned by us representing approximately 12.5%, or \$73,599,000, of our total assets as of June 30, 2003. In October 2001, ALC filed for reorganization under Chapter 11 of the federal bankruptcy laws. The filing was pre-negotiated with sufficient debt holders to allow ALC to reorganize its debt and equity and emerge from bankruptcy as of 12:01 a.m. on January 1, 2002. We agreed to reduce total rents under the 37 leases by \$875,000 a year, beginning January 1, 2002. Our Chairman, CEO and President, Mr. Andre C. Dimitriadis, became a Board Member of ALC as of January 1, 2002.

Alterra Healthcare Corporation, or Alterra, leases 35 assisted living properties with a total of 1,416 units owned by us representing approximately 12.3%, or \$72,350,000, of our total assets as of June 30, 2003. Alterra announced on January 22, 2003 that it had filed a voluntary petition with the US Bankruptcy Court for the District of Delaware to reorganize under Chapter 11 of the US Bankruptcy Code. On July 17, 2003, Alterra conducted an auction to obtain a new equity investor. The auction process was completed on July 23, 2003, and the Bankruptcy Court approved the winning bidder as the new investor in Alterra, subject to the Merger Agreement and Plan of Reorganization filed with the Bankruptcy Court. The Plan of Reorganization on file with the Bankruptcy Court contemplates that our leases with Alterra will be affirmed. While there can be no certainty that our leases with Alterra will be assumed pursuant to Alterra's Plan of Reorganization, we expect such leases will be assumed consistent with Alterra management's representations to us. Such affirmation would have no adverse impact on us. Alterra is current on all rents due to us through August 2003.

These companies are publicly traded companies, and as such are subject to the filing requirements of the Securities and Exchange Commission. Our financial position and our ability to make distributions may be adversely affected by further financial difficulties experienced by ALC and Alterra or any of our other lessees and borrowers, including additional 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 company's borrowers when it expires.

### **Our borrowers and lessees face competition in the healthcare 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 healthcare industry is heavily regulated by the government.**

Our borrowers and lessees who operate healthcare facilities are subject to heavy 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

**Table of Contents**

action 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.

**Our borrowers and lessees rely on government and third-party reimbursement.**

The ability of our borrowers and lessees to generate revenue and profit determines the underlying value of that property to us. Revenues of our borrowers and lessees 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, healthcare service plans, health maintenance organizations, preferred provider arrangements, self-insured employers, as well as the patients themselves.

A significant portion of the revenue of our skilled nursing facility borrowers and lessees is derived from governmentally-funded reimbursement programs, such as Medicare and Medicaid. Because of significant healthcare costs paid by such government programs, both federal and state governments have adopted and continue to consider various healthcare reform proposals to control healthcare costs. In recent years, there have been fundamental changes in the Medicare program that resulted in reduced levels of payment for a substantial portion of healthcare services. In many instances, revenues from Medicaid programs are already insufficient to cover the actual costs incurred in providing care to those patients. According to a report issued by Kaiser Family Foundation in January 2003, 19 states have reduced, or are considering reducing, nursing facility payment rates. Moreover, healthcare facilities have experienced increasing pressures from private payors attempting to control healthcare costs, and reimbursement from private payors has in many cases effectively been reduced to levels approaching those of government payors.

Governmental and public concern regarding healthcare costs may result in significant reductions in payment to healthcare 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 facility borrowers and lessees and to a much lesser extent our assisted living facilities 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.

On August 4, 2003, Centers for Medicare & Medicaid Services, commonly known as CMS, published a final rule announcing that it will implement a 3.0% market basket increase in skilled nursing facility prospective payment system rates for fiscal year 2004, which begins October 1, 2003. In addition, the rule will adjust fiscal year 2004 rates by an additional 3.26% to reflect cumulative forecast errors since the start of the skilled nursing facility prospective payment system on July 1, 1998.

**Congress and the states have enacted healthcare reform measures.**

The healthcare industry is facing various challenges, including increased government and private payor pressure on healthcare providers to control costs. While the Bush Administration has proposed expanded funding for Medicare prescription drug coverage, it has stated that it intends to offset the cost of this benefit in part from savings from overpayments to other Medicare providers. In addition, the Medicare Payment Advisory Commission, known as the MedPAC, an independent federal body established to advise Congress on issues affecting the Medicare program, recommended in a March 2003 report that Congress adopt additional reductions in skilled nursing facility reimbursement. While the MedPAC recommendations are not binding on Congress, they may affect congressional consideration of future Medicare reimbursement legislation. In June 2003, the US House of Representatives and Senate adopted separate Medicare reform bills, neither of which would reduce Medicare skilled nursing facility rates. Nevertheless, no assurances can be given that legislation ultimately enacted by Congress, if any, would not reduce Medicare reimbursement to skilled nursing facilities or result in additional costs for operators of skilled nursing facilities.

## **Table of Contents**

The Balanced Budget Act enacted significant changes to the Medicare and Medicaid programs designed to modernize payment and healthcare delivery systems while achieving substantial budgetary savings. In seeking to limit Medicare reimbursement for long term care services, Congress established the prospective payment system for skilled nursing facility services to replace the cost-based reimbursement system. Skilled nursing facilities needed to restructure their operations to accommodate the new Medicare prospective payment system reimbursement. Since the skilled nursing facility prospective payment system was enacted, several publicly held operators of long-term care facilities and at least two publicly held operators of assisted living facilities have filed for reorganization under Chapter 11 of the federal bankruptcy laws. While at least two of the long-term care operators and an assisted living operator have emerged from bankruptcy, there can be no assurances given that the remainder of 2003 and future years will not include additional bankruptcies of skilled nursing and assisted living operators. While the Balanced Budget Refinement Act and the Benefits Improvement and Protection Act of 2000 contained provisions that mitigated, to a certain extent, the effects of the Balanced Budget Act, many of these changes expired in October 2002. If Congress fails to provide additional relief, or if it actually decreases Medicare reimbursement in the future, skilled nursing facilities could experience significant losses in revenue.

In addition, comprehensive reforms affecting the payment for and availability of healthcare services have been proposed at the federal and state levels and major reform proposals have been adopted by certain states. Congress and state legislatures can be expected to continue to review and assess alternative healthcare delivery systems and payment methodologies. Changes in the law, new interpretations of existing laws, or changes in payment methodology 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.

Moreover, many states are facing significant budget shortfalls, and most states are taking steps to implement cost controls within their Medicaid programs. On May 28, 2003, President Bush signed into law legislation providing \$20 billion in temporary assistance to the states, \$10 billion of which is earmarked for state Medicaid programs. However, in light of forthcoming regulations and continuing state Medicaid program reform and budget cuts, no assurance can be given that the implementation of such regulations and reform will not have a material adverse effect on our financial condition or results of operations.

### **We could incur more debt.**

We operate with a policy of incurring debt when, in the opinion of our directors, it is advisable. We may incur additional debt by issuing debt securities under a prospectus supplement hereto 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 additional financing in the future 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.

### **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

## **Table of Contents**

REIT or the federal income tax consequences of such qualification. However, we are not aware of any pending tax legislation that would adversely affect our ability to operate as a REIT.

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.

### **Certain provisions of Maryland law and our Charter and Bylaws as well as stockholder rights plan could hinder, delay or prevent changes in control.**

Certain provisions of Maryland law, our Charter and our bylaws, as well as our stockholder rights plan have the effect of discouraging, delaying or preventing transactions that involve an actual or threatened change in control. These provisions include the following:

*Classified Board of Directors, Number of Directors, Board Vacancies, and Term of Office.* We may, in the future, elect by resolution of our Board of Directors or an amendment to our bylaws, to be subject to certain provisions of Maryland law which divide the board of directors into three classes with staggered terms of office of three years each, vest in the board of directors the exclusive right to determine the number of directors and the exclusive right, by the affirmative vote of a majority of the remaining directors, even if the remaining directors do not constitute a quorum, to fill vacancies on the board. These provisions of Maryland law, which are applicable even if other provisions of Maryland law or the charter or bylaws provide to the contrary, also provide that any director elected to fill a vacancy shall hold office for the remainder of the full term of the class of directors in which the vacancy occurred, rather than the next annual meeting of stockholders as would otherwise be the case, and until his or her successor is elected and qualifies. The classification and staggered terms of office of directors make it more difficult for a third party to gain control of a board of directors. At least two annual meetings of stockholders, instead of one, generally would be required to affect a change in a majority of the board of directors.

*Stockholder Requested Special Meetings.* Our bylaws provide that our stockholders have the right to call a special meeting only upon the written request of the stockholders entitled to cast not less than 25% of all the votes entitled to be cast by the stockholders at such meeting. However, we may in the future, elect by resolution of our Board of Directors or an amendment to our bylaws, to be subject to certain provisions of Maryland law which require that special meetings of stockholders may only be called by the stockholders upon the written request of stockholders entitled to cast at least a majority of all the votes entitled to be cast at the meeting. These provisions of Maryland law, like those referred to above, are applicable even if other provisions of Maryland law or the charter or bylaws provide to the contrary.

*Advance Notice Provisions for Stockholder Nominations and Proposals.* Our bylaws require advance written notice for stockholders to nominate persons for election as directors at, or to bring other business before, any annual meeting of stockholders. These bylaw provisions limit the ability of stockholders to make nominations of persons for election as directors or to introduce other proposals unless we are notified in a timely manner prior to the meeting. See *Certain Provisions of Maryland Law and of Our Charter and Bylaws* *Advance Notice of Director Nominations and New Business.*

*Preferred Stock.* Under our Charter, our Board of Directors has authority to issue Preferred Stock from time to time in one or more series and to establish the terms, preferences and rights of any such series of Preferred Stock, all without approval of our stockholders. The issuance of additional shares of Preferred Stock could adversely impact the voting power of the holders of the Common Stock and could have the effect of delaying or preventing a change in control or other corporate action.

*Duties of Directors with Respect to Unsolicited Takeovers.* Maryland law provides protection for Maryland corporations against unsolicited takeovers by limiting, among other things, the duties of the

**Table of Contents**

directors in unsolicited takeover situations. The duties of directors of Maryland corporations do not require them to (a) accept, recommend or respond to any proposal by a person seeking to acquire control of the corporation, (b) authorize the corporation to redeem any rights under, or modify or render inapplicable, any stockholders rights plan, (c) make a determination under the Maryland Business Combination Act or the Maryland Control Share Acquisition Act, or (d) act or fail to act solely because of the effect of the act or failure to act may have on an acquisition or potential acquisition of control of the corporation or the amount or type of consideration that may be offered or paid to the stockholders in an acquisition. Moreover, under Maryland law the act of directors of a Maryland corporation relating to or affecting an acquisition or potential acquisition of control is not subject to any higher duty or greater scrutiny than is applied to any other act of a director. Maryland law also contains a statutory presumption that an act of a director of a Maryland corporation satisfies the applicable standards of conduct for directors under Maryland law.

*Ownership Limit.* In order to preserve our status as a REIT under the Code, our Charter generally prohibits any single stockholder from constructively or beneficially owning more than 9.8% of our outstanding Common Stock, or more than 9.8% of the outstanding shares of any class or series of our stock other than our Common Stock, unless and to the extent which our Board of Directors decides to waive or modify this ownership limit with respect to any stockholder.

*Maryland Business Combination Act.* The Maryland Business Combination Act provides that unless exempted, a Maryland corporation may not engage in business combinations, including mergers, dispositions of 10% or more of its assets, issuances of shares of stock and other specified transactions, with an interested stockholder or an affiliate of an interested stockholder for five years after the most recent date on which the interested stockholder became an interested stockholder, and thereafter unless specified criteria are met. An interested stockholder is generally a person owning or controlling, directly or indirectly, 10% or more of the voting power of the outstanding stock of Maryland corporation. Our Board of Directors has not exempted us from this statute. Consequently, unless our Board of Directors adopts an exemption from this statute in the future, the Maryland Business Combination Act will be applicable to business combinations between our company and other persons. See Certain Provisions of Maryland Law and of Our Charter and Bylaws Business Combinations.

*Maryland Control Share Acquisition Act.* Maryland law provides that control shares of a corporation acquired in a control share acquisition shall have no voting rights except to the extent approved by a vote of two-thirds of the vote eligible to cast on the matter under the Maryland Control Share Acquisition Act. Control Shares means shares of stock that, if aggregated with all other shares of stock previously acquired by the acquiror, would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of the voting power: one-tenth or more but less than one-third, one-third or more but less than a majority or a majority or more of all voting power. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

If voting rights or control shares acquired in a control share acquisition are not approved at a stockholder's meeting, then subject to certain conditions and limitations, the issuer may redeem any or all of the control shares for fair value. If voting rights of such control shares are approved at a stockholder's meeting and the acquiror becomes entitled to vote a majority of the shares of stock entitled to vote, all other stockholders may exercise appraisal rights. See Certain Provisions of Maryland Law and of Our Charter and Bylaws Control Share Acquisitions.

*Stockholder Rights Plan.* We have adopted a stockholder rights plan that may discourage any potential acquiror from acquiring more than 15% of our outstanding Common Stock since, upon this type of acquisition without approval of our Board of Directors, all other common stockholders will have the right to purchase a specified amount of Common Stock at a substantial discount from market price. Our stockholder rights plan is an exhibit to the registration statement for our Series D Junior Participating Preferred Stock, and therefore is incorporated by reference as an exhibit to the registration statement of which this prospectus is a part.

**Table of Contents****USE OF PROCEEDS**

Unless otherwise described in the applicable prospectus supplement, we intend to use the net proceeds from the sale of our securities for general business purposes, which may include, among other things, the repayment of indebtedness, the redemption of our Series A Preferred Stock, Series B Preferred Stock, and/or Series C Preferred Convertible Stock, the development and acquisition of additional properties and other acquisition transactions, and the expansion and improvement of certain properties in our portfolio.

**RATIOS OF EARNINGS TO FIXED CHARGES AND EARNINGS TO  
COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS**

The following table sets forth our ratios of earnings to fixed charges and earnings to combined fixed charges and Preferred Stock dividends for the periods indicated. The ratio of earnings to fixed charges was computed by dividing earnings by our fixed charges. The ratio of earnings to combined fixed charges and Preferred Stock dividends was computed by dividing earnings by our combined fixed charges and Preferred Stock dividends. For purposes of calculating these ratios, earnings includes income from continuing operations before minority interest plus fixed charges. Fixed charges consists of interest on all indebtedness and the amortization of debt issue costs.

	Year Ended December 31,					Six Months Ended June 30,
	1998	1999	2000	2001	2002	2003
Consolidated ratio of earnings to fixed charges (unaudited)	2.90	2.25	2.00	1.19	1.79	1.88
Consolidated ratio of earnings to combined fixed charges and Preferred Stock dividends (unaudited)	1.88	1.35	1.31	0.71	1.08	1.11

We issued 3,080,000 shares of 9.5% Series A Cumulative Preferred Stock in March 1997, 2,000,000 shares of 9.0% Series B Cumulative Preferred Stock in December 1997 and 2,000,000 shares of 8.5% Series C Cumulative Convertible Preferred Stock in September 1998. During 2001, the total dollar amount of the deficiency in the consolidated ratio of earnings to combined fixed charges and stock Preferred Stock dividends was \$10.9 million.

**GENERAL DESCRIPTION OF THE OFFERED SECURITIES**

We may offer under this prospectus one or more of the following categories of our securities:

debt securities, in one or more series;

shares of our Preferred Stock, par value \$0.01 per share, in one or more series;

shares of our Common Stock, par value \$0.01 per share; and

units consisting of any combination of the foregoing securities.

The terms of any specific offering of securities, including the terms of any units offered, will be set forth in a prospectus supplement relating to such offering.

Pursuant to our Articles of Amendment and Restatement, as amended and supplemented to date, and referred to in this prospectus as our Charter, we are authorized to issue 50,000,000 shares of all classes of stock, each share having a par value of \$0.01 of which 35,000,000 shares are Common Stock and 15,000,000 shares are Preferred Stock. Of our Preferred Stock, we have designated 3,080,000 shares as 9.5% Series A Cumulative Preferred Stock (or Series A Preferred Stock), 2,000,000 shares as 9.0% Series B Cumulative Preferred Stock (or Series B Preferred Stock), 2,000,000 shares as 8.5% Series C Cumulative Convertible Preferred Stock and 40,000 shares of Series D Junior Participating Preferred



Stock.

**Table of Contents**

As of June 30, 2003, 17,794,851 shares of Common Stock and 3,064,200, 1,988,000 and 2,000,000 shares of Series A, Series B and Series C Preferred Stock, respectively were outstanding. There were no shares of Series D Junior Participating Preferred Stock outstanding.

Our Common Stock is listed on the New York Stock Exchange under the symbol LTC. Our Series A Preferred Stock is listed on the New York Stock Exchange under the symbol LTC PrA and our Series B Preferred Stock is listed on the New York Stock Exchange under the symbol LTC PrB. Our Series C Cumulative Convertible Preferred Stock is owned by one holder and is not listed on any exchange. We may apply to list the securities which are offered and sold hereunder, as described in the prospectus supplement relating to such securities.

**DESCRIPTION OF DEBT SECURITIES**

The debt securities sold under this prospectus will be our direct obligations, which may be secured or unsecured, and which may be senior or subordinated indebtedness. The debt securities may be guaranteed on a secured or unsecured, senior or subordinated basis, by one or more of our subsidiaries. The debt securities may be issued under one or more indentures between us and a specified trustee. Any indenture will be subject to and governed by the Trust Indenture Act of 1939, as amended. We currently have no debt securities outstanding. The statements made in this prospectus relating to any indentures and the debt securities to be issued under any indentures are summaries of certain anticipated provisions of the indentures and are not complete.

**GENERAL**

We may issue debt securities that rank senior, senior subordinated or junior subordinated. The debt securities that we refer to as senior will be our direct obligations and will rank equally and ratably in right of payment with our other indebtedness not subordinated. We may issue debt securities that will be subordinated in right of payment to the prior payment in full of senior debt, as defined in the applicable prospectus supplement, and may rank equally and ratably with other senior subordinated indebtedness. We refer to these as senior subordinated securities. We may also issue debt securities that may be subordinated in right of payment to the senior subordinated securities. These would be junior subordinated securities.

We may issue the debt securities without limit as to aggregate principal amount, in one or more series, in each case as we establish in one or more supplemental indentures. We need not issue all debt securities of one series at the same time. Unless we otherwise provide, we may reopen a series, without the consent of the holders of the series, for issuances of additional securities of that series.

We anticipate that any indenture will provide that we may, but need not, designate more than one trustee under an indenture, each with respect to one or more series of debt securities. Any trustee under any indenture may resign or be removed with respect to one or more series of debt securities, and we may appoint a successor trustee to act with respect to that series. The applicable prospectus supplement will describe the specific terms relating to the series of debt securities we will offer, including, where applicable, the following:

the title and series designation and whether they are senior securities, senior subordinated securities or subordinated securities;

the aggregate principal amount of the securities;

the percentage of the principal amount at which we will issue the debt securities and, if other than the principal amount of the debt securities, the portion of the principal amount of the debt securities payable upon maturity of the debt securities;

if convertible, the securities into which they are convertible, the initial conversion price, the conversion period and any other terms governing such conversion;

**Table of Contents**

the stated maturity date;

any fixed or variable interest rate or rates per annum;

the place where principal, premium, if any, and interest will be payable and where the debt securities can be surrendered for transfer, exchange or conversion;

the date from which interest may accrue and any interest payment dates;

any sinking fund requirements;

any provisions for redemption, including the redemption price and any remarketing arrangements;

whether the securities are denominated or payable in United States dollars or a foreign currency or units of two or more foreign currencies;

the events of default and covenants of such securities, to the extent different from or in addition to those described in this prospectus;

whether we will issue the debt securities in certificated or book-entry form;

whether the debt securities will be in registered or bearer form and, if in registered form, the denominations if other than in even multiples of \$1,000 and, if in bearer form, the denominations and terms and conditions relating thereto;

whether we will issue any of the debt securities in permanent global form and, if so, the terms and conditions, if any, upon which interests in the global security may be exchanged, in whole or in part, for the individual debt securities represented by the global security;

the applicability, if any, of the defeasance and covenant defeasance provisions described in this prospectus or any prospectus supplement;

whether we will pay additional amounts on the securities in respect of any tax, assessment or governmental charge and, if so, whether we will have the option to redeem the debt securities instead of making this payment;

the subordination provisions, if any, relating to the debt securities;

if the debt securities are to be issued upon the exercise of debt warrants, the time, manner and place for them to be authenticated and delivered;

whether any of our subsidiaries will be bound by the terms of the indenture, in particular any restrictive covenants;

the provisions relating to any security provided for the debt securities; and

the provisions relating to any guarantee of the debt securities.

We may issue debt securities at less than the principal amount payable at maturity. We refer to these securities as original issue discount securities. If material or applicable, we will describe in the applicable prospectus supplement special US federal income tax, accounting and other considerations applicable to original issue discount securities.

Except as may be described in any prospectus supplement, an indenture will not contain any other provisions that would limit our ability to incur indebtedness or that would afford holders of the debt securities protection in the event of a highly leveraged or similar transaction involving us or in the event of a change of control. You should review carefully the applicable prospectus supplement for information with respect to events of default and covenants applicable to the securities being offered.

## **Table of Contents**

### **DENOMINATIONS, INTEREST, REGISTRATION AND TRANSFER**

Unless otherwise described in the applicable prospectus supplement, we will issue the debt securities of any series that are registered securities in denominations that are even multiples of \$1,000, other than global securities, which may be of any denomination.

Unless otherwise specified in the applicable prospectus supplement, we will pay the interest, principal and any premium at the corporate trust office of the trustee. At our option, however, we may make payment of interest by check mailed to the address of the person entitled to the payment as it appears in the applicable register or by wire transfer of funds to that person at an account maintained within the United States.

If we do not punctually pay or otherwise provide for interest on any interest payment date, the defaulted interest will be paid either:

to the person in whose name the debt security is registered at the close of business on a special record date the trustee will fix; or

in any other lawful manner, all as the applicable indenture describes.

You may have your debt securities divided into more debt securities of smaller denominations or combined into fewer debt securities of larger denominations, as long as the total principal amount is not changed. We call this an exchange. You may exchange or transfer debt securities at the office of the applicable trustee. The trustee acts as our agent for registering debt securities in the names of holders and transferring debt securities. We may change this appointment to another entity or perform it ourselves.

The entity performing the role of maintaining the list of registered holders is called the registrar. It will also perform transfers. You will not be required to pay a service charge to transfer or exchange debt securities, but you may be required to pay for any tax or other governmental charge associated with the exchange or transfer. The security registrar will make the transfer or exchange only if it is satisfied with your proof of ownership.

### **MERGER, CONSOLIDATION OR SALE OF ASSETS**

Under any indenture, we would be generally permitted to consolidate or merge with another company. We would be also permitted to sell substantially all of our assets to another company, or to buy substantially all of the assets of another company. However, we would not be able to take any of these actions unless the following conditions are met:

if we merge out of existence or sell our assets, the other company must be an entity organized under the laws of one of the states of the United States or the District of Columbia or under United States federal law and must agree to be legally responsible for our debt securities; and

immediately after the merger, sale of assets or other transaction, we may not be in default on the debt securities. A default for this purpose would include any event that would be an event of default if the requirements for giving us default notice or our default having to exist for a specific period of time were disregarded.

### **CERTAIN COVENANTS**

*Existence.* Except as permitted as described above under Merger, Consolidation or Sale of Assets, we will agree to do all things necessary to preserve and keep our existence, rights and franchises, provided that it is in our best interests for the conduct of business.

*Provisions of Financial Information.* Whether or not we remain required to do so under the Exchange Act, to the extent permitted by law, we will agree to file all annual, quarterly and other reports and financial statements with the SEC and an indenture trustee on or before the applicable SEC filing dates as if we were required to do so.

**Table of Contents**

*Additional Covenants.* Any additional or different covenants or modifications to the foregoing covenants with respect to any series of debt securities will be described in the applicable prospectus supplement.

**EVENTS OF DEFAULT AND RELATED MATTERS**

*Events of Default.* The term event of default for any series of debt securities may mean any of the following:

We do not pay the principal or any premium on a debt security of that series within 30 days after its maturity date.

We do not pay interest on a debt security of that series within 30 days after its due date.

We do not deposit any sinking fund payment for that series within 30 days after its due date.

We remain in breach of any other term of the applicable indenture (other than a term added to the indenture solely for the benefit of another series) for 60 days after we receive a notice of default stating we are in breach. Either the trustee or holders of more than 50% in principal amount of debt securities of the affected series may send the notice.

We default under any of our other indebtedness in specified amounts after the expiration of any applicable grace period, which default results in the acceleration of the maturity of such indebtedness. Such default is not an event of default if the other indebtedness is discharged, or the acceleration is rescinded or annulled, within a period of 10 days after we receive notice specifying the default and requiring that we discharge the other indebtedness or cause the acceleration to be rescinded or annulled. Either the trustee or the holders of more than 50% in principal amount of debt securities of the affected series may send the notice.

We or one of our significant subsidiaries, if any, files for bankruptcy or certain other events in bankruptcy, insolvency or reorganization occur. The term significant subsidiary means each of our significant subsidiaries, if any, as defined in Regulation S-X under the Securities Act.

Any other event of default described in the applicable prospectus supplement occurs.

*Remedies if an Event of Default Occurs.* If an event of default has occurred and has not been cured, the trustee or the holders of at least a majority in principal amount of the debt securities of the affected series may declare the entire principal amount of all the debt securities of that series to be due and immediately payable. If an event of default occurs because of certain events in bankruptcy, insolvency or reorganization, the principal amount of all the debt securities of that series will be automatically accelerated, without any action by the trustee or any holder. At any time after the trustee or the holders have accelerated any series of debt securities, but before a judgment or decree for payment of the money due has been obtained, the holders of at least a majority in principal amount of the debt securities of the affected series may, under certain circumstances, rescind and annul such acceleration.

The trustee will be required to give notice to the holders of debt securities within 90 days after a default under the applicable indenture unless the default has been cured or waived. The trustee may withhold notice to the holders of any series of debt securities of any default with respect to that series, except a default in the payment of the principal of or interest on any debt security of that series, if specified responsible officers of the trustee in good faith determine that withholding the notice is in the interest of the holders.

Except in cases of default, where the trustee has some special duties, the trustee would not be required to take any action under the applicable indenture at the request of any holders unless the holders offer the trustee reasonable protection from expenses and liability. We refer to this as an indemnity. If reasonable indemnity is provided, the holders of a majority in principal amount of the outstanding securities of the relevant series may direct the time, method and place of conducting any lawsuit or other

## **Table of Contents**

formal legal action seeking any remedy available to the trustee. These majority holders may also direct the trustee in performing any other action under the applicable indenture, subject to certain limitations.

Before you bypass the trustee and bring your own lawsuit or other formal legal action or take other steps to enforce your rights or protect your interests relating to the debt securities, the following must occur:

you must give the trustee written notice that an event of default has occurred and remains uncured;

the holders of at least a majority in principal amount of all outstanding securities of the relevant series must make a written request that the trustee take action because of the default, and must offer reasonable indemnity to the trustee against the cost and other liabilities of taking that action; and

the trustee must have not taken action for 60 days after receipt of the notice and offer of indemnity.

However, you would be entitled at any time to bring a lawsuit for the payment of money due on your security after its due date.

Every year we would furnish to the trustee a written statement by certain of our officers certifying that to their knowledge we are in compliance with the applicable indenture and the debt securities, or else specifying any default.

## **MODIFICATION OF AN INDENTURE**

There are three types of changes we may be able to make to the indentures and the debt securities:

*Changes Requiring Your Approval.* First, there are changes we could not make to your debt securities without your specific approval. The following is a list of those types of changes:

change the stated maturity of the principal or interest on a debt security;

reduce any amounts due on a debt security;

reduce the amount of principal payable upon acceleration of the maturity of a debt security following a default;

change the currency of payment on a debt security;

impair your right to sue for payment;

modify the subordination provisions, if any, in a manner that is adverse to you;

reduce the percentage of holders of debt securities whose consent is needed to modify or amend an indenture or to waive compliance with certain provisions of an indenture;

reduce the percentage of holders of debt securities whose consent is needed to waive past defaults or change certain provisions of the indenture relating to waivers of default;

waive a default or event of default in the payment of principal of or premium, if any, or interest on the debt securities; or

modify any of the foregoing provisions.

*Changes Requiring A Majority Vote.* The second type of change to an indenture and the debt securities is the kind that would require a vote in favor by holders of debt securities owning a majority of the principal amount of the particular series affected. Most changes fall into this category, except for clarifying changes and certain other changes that would not materially adversely affect holders of the debt securities. We would require the same vote to obtain a waiver of a past default. However, we could not obtain a waiver of a payment default or any other aspect of an indenture or the debt securities listed in the



**Table of Contents**

first category described above under Changes Requiring Your Approval unless we obtained your individual consent to the waiver.

*Changes Not Requiring Approval.* The third type of change would not require any vote by holders of debt securities. This type would be limited to clarifications and certain other changes that would not materially adversely affect holders of the debt securities.

*Further Details Concerning Voting.* Debt securities are not considered outstanding, and therefore the holders thereof are not eligible to vote if we have deposited or set aside in trust for you money for their payment or redemption or if we or one of our affiliates own them. The holders of debt securities are also not eligible to vote if they have been fully defeased as described immediately below under Discharge, Defeasance and Covenant Defeasance Full Defeasance. For original issue discount securities, we would use the principal amount that would be due and payable on the voting date if the maturity of the debt securities were accelerated to that date because of a default.

**DISCHARGE, DEFEASANCE AND COVENANT DEFEASANCE**

*Discharge.* We may be able to discharge some obligations to holders of any series of debt securities that either have become due and payable or will become due and payable within one year, or scheduled for redemption within one year, by irrevocably depositing with the trustee, in trust, funds in the applicable currency in an amount sufficient to pay the debt securities, including any premium and interest.

*Full Defeasance.* We may, under particular circumstances, effect a full defeasance of your series of debt securities. By this we mean we could legally release ourselves from any payment or other obligations on the debt securities if, among other things, we put in place the arrangements described below to repay you and deliver certain certificates and opinions to the trustee:

we must deposit in trust for your benefit and the benefit of all other direct holders of the debt securities a combination of money or US government or US government agency notes or bonds or, in some circumstances, depository receipts representing these notes or bonds, that will generate enough cash to make interest, principal and any other payments on the debt securities on their various due dates;

the current federal tax law must be changed or an IRS ruling must be issued permitting the above deposit without causing you to be taxed on the debt securities any differently than if we did not make the deposit and just repaid the debt securities ourselves. Under current federal income tax law, the deposit and our legal release from the debt securities would be treated as though we took back your debt securities and gave you your share of the cash and notes or bonds deposited in trust. In that event, you could recognize gain or loss on the debt securities you give back to us; and

we must deliver to the trustee a legal opinion confirming the tax law change described above.

If we did accomplish full defeasance, you would have to rely solely on the trust deposit for repayment on the debt securities. You could not look to us for repayment in the unlikely event of any shortfall. Conversely, the trust deposit would most likely be protected from claims of our lenders and other creditors if we ever became bankrupt or insolvent. You would also be released from any subordination provisions.

*Covenant Defeasance.* Under current federal income tax law, we could make the same type of deposit described above and be released from some of the restrictive covenants in the debt securities. This is called covenant defeasance. In that event, you would lose the protection of those restrictive covenants but would gain the protection of having money and securities set aside in trust to repay the securities and you would be released from any subordination provisions.

If we accomplish covenant defeasance, the following provisions of an indenture and the debt securities would no longer apply:

any covenants applicable to the series of debt securities and described in the applicable prospectus supplement;



## **Table of Contents**

any subordination provisions; and

certain events of default relating to breach of covenants and acceleration of the maturity of other debt set forth in any prospectus supplement.

If we accomplish covenant defeasance, you could still look to us for repayment of the debt securities if a shortfall in the trust deposit occurred. If one of the remaining events of default occurs, for example, our bankruptcy, and the debt securities become immediately due and payable, there may be a shortfall. Depending on the event causing the default, you may not be able to obtain payment of the shortfall.

## **SUBORDINATION**

We will describe in the applicable prospectus supplement the terms and conditions, if any, upon which any series of senior subordinated securities or subordinated securities is subordinated to debt securities of another series or to our other indebtedness. The terms will include a description of:

the indebtedness ranking senior to the debt securities being offered;

the restrictions, if any, on payments to the holders of the debt securities being offered while a default with respect to the senior indebtedness is continuing;

the restrictions, if any, on payments to the holders of the debt securities being offered following an event of default; and

provisions requiring holders of the debt securities being offered to remit some payments to holders of senior indebtedness.

## **GUARANTEES**

Our payment obligations under any series of our debt securities may be guaranteed by some or all of our subsidiaries. The guarantees may be secured or unsecured and may be senior or subordinated obligations. The guarantors will be identified and the terms of the guarantees will be described in the applicable prospectus supplement.

## **GLOBAL SECURITIES**

If so set forth in the applicable prospectus supplement, we may issue the debt securities of a series in whole or in part in the form of one or more global securities that will be deposited with a depository identified in the prospectus supplement. We may issue global securities in either registered or bearer form and in either temporary or permanent form. The specific terms of the depository arrangement with respect to any series of debt securities will be described in the prospectus supplement.

## **DESCRIPTION OF OUR COMMON STOCK**

### **GENERAL**

The following description of our Common Stock sets forth certain general terms and provisions of the Common Stock to which any prospectus supplement may relate, including a prospectus supplement providing that Common Stock will be issuable upon conversion of our debt securities or our Preferred Stock or upon the exercise of Common Stock warrants issued by us. The statements below describing our Common Stock are in all respects subject to and qualified in their entirety by reference to the applicable provisions of our Charter and bylaws.

Holders of our Common Stock will be entitled to receive dividends when, as and if authorized by our Board of Directors and declared by us, out of assets legally available therefore. Payment and declaration of dividends on the Common Stock and purchases of shares thereof by us will be subject to certain restrictions if we fail to pay dividends on our Preferred Stock. Upon our liquidation, dissolution or winding up, holders of Common Stock will be entitled to share equally and ratably in any assets available for

## **Table of Contents**

distribution to them, after payment or provision for payment of our debts and other liabilities and the preferential amounts owing with respect to any of our outstanding Preferred Stock.

Our Common Stock will possess voting rights for the election of directors and in respect of other corporate matters, with each share entitling the holder thereof to one vote. Holders of Common Stock will not have cumulative voting rights in the election of directors, which means that holders of more than 50% of all of the shares of our Common Stock voting for the election of directors will be able to elect all of the directors if they choose to do so and, accordingly, the holders of the remaining shares will be unable to elect any directors. Holders of shares of Common Stock will not have preemptive rights, which means they have no right to acquire any additional shares of Common Stock that may be issued by us at a subsequent date. Our Common Stock will, when issued, be fully paid and nonassessable and will not be subject to preemptive or similar rights.

Under Maryland law and our Charter, a distribution (whether by dividend, redemption or other acquisition of shares) to holders of shares of our Common Stock may be made only if, after giving effect to the distribution, we are able to pay our indebtedness as it becomes due in the usual course of business and our total assets are greater than our total liabilities plus the amount necessary to satisfy the preferential rights upon dissolution of stockholders whose preferential rights on dissolution are superior to the holders of our Common Stock and we can pay our debts as they become due. We have complied with these requirements in all of our prior distributions to holders of our Common Stock.

Each outstanding share of our Common Stock is accompanied by a right to purchase one one-thousandth of a share of our Series D Junior Participation Preferred Stock, at the price of \$16, subject to certain anti-dilution adjustments. We have designated and reserved 40,000 shares of our Preferred Stock as Series D Junior Participating Preferred Stock for issuance upon exercise of the rights. The existence of such rights could have the effect of delaying, deterring or preventing a change in our control. The purchase rights and the Series D Preferred Stock are more fully discussed below under the caption Share Purchase Rights. For a description of other provisions of our Charter and by-laws that could have the effect of delaying, deterring or preventing a change in our control, please see Certain Provisions of Maryland Law and Our Charter and Bylaws below.

The rights, preferences and privileges of holders of our Common Stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of our Preferred Stock which are outstanding or which we may designate and issue in the future. See Description of Our Preferred Stock below.

## **SHARE PURCHASE RIGHTS**

On May 2, 2000, our Board of Directors adopted a shareholder rights plan, commonly referred to as a poison pill, which authorized the issuance of one preferred share purchase right for each outstanding share of Common Stock. Under certain conditions, each right may be exercised to purchase one one-thousandth of a share of our Series D Junior Participating Preferred Stock, (or Series D Preferred Stock), for \$16, subject to certain antidilution adjustments. The number of rights outstanding and Series D Preferred Stock issuable upon exercise, as well as the Series D Preferred Stock purchase price, are subject to customary antidilution adjustments.

The rights are evidenced by the certificates for shares of our Common Stock, and in general are not transferable apart from our Common Stock or exercisable until after a party has acquired beneficial ownership of, or made a tender offer for 15% or more of our outstanding Common Stock, or the occurrence of other events as specified in a rights agreement between us and Harris Trust & Savings Bank, as rights agent. Under certain conditions as specified in the rights agreement, including but not limited to, the acquisition by a party of 15% or more of our outstanding Common Stock, or the acquisition of us in a merger or other business combination, each holder of a right (other than an acquiring person, whose rights will be void) will receive upon its exercise and payment of the exercise price that number of shares of our Common Stock, or the Common Stock of the other party, as applicable, having a market value of \$32 based on the market price of the other party's stock prior to such merger.

## **Table of Contents**

The rights expire on May 24, 2010, and until they are exercised, their holder will have no rights as a stockholder. At our option, the rights may be redeemed in whole at a price of \$.001 per right any time prior to becoming exercisable. In general, we may also exchange the rights at a ratio of one share of our Common Stock per right after becoming exercisable but prior to any party acquiring 50% or more of the outstanding shares of our Common Stock.

Series D Preferred Stock issuable upon exercise of the rights will not be redeemable. Each share of Series D Preferred Stock if issued:

will entitle holders to quarterly dividend payments of \$.001 per share, or an amount equal to the dividend paid on one share of our Common Stock, whichever is greater;

will entitle holders to, upon liquidation either to receive \$.10 per share or an amount equal to the payment made on one share of our Common Stock, whichever is greater;

will have the same voting power as one share of our Common Stock; and

if shares of our Common Stock are exchanged via merger, consolidation, or a similar transaction, will entitle holder to a per share payment equal to the payment made on one share of our Common Stock.

The purchase rights have an anti-takeover effect that is intended to discourage coercive or unfair takeover tactics and to encourage any potential acquirer to negotiate a fair price for all of our shareholders. The purchase rights may cause substantial dilution to any party that may attempt to acquire us on terms not approved by our Board of Directors. However, the purchase rights are structured in a way so as not to interfere with any negotiated merger or other business combination.

### **DESCRIPTION OF OUR PREFERRED STOCK**

Under our Charter, our Board of Directors may from time to time establish and issue one or more classes or series of Preferred Stock and fix the designations, powers, preferences and rights of the shares of such classes or series and the qualifications, limitations or restrictions thereon, including, but not limited to, the fixing of the dividend rights, dividend rate or rates, conversion rights, voting rights, rights and terms of redemption (including sinking fund provisions) and the liquidation preferences.

The following description of our Preferred Stock sets forth certain general terms and provisions of our Preferred Stock to which any prospectus supplement may relate. The statements below describing the Preferred Stock are in all respects subject to and qualified in their entirety by reference to the applicable provisions of our Charter (including the applicable articles supplementary) and bylaws.

#### **GENERAL**

Subject to limitations prescribed by Maryland law and our Charter, our Board of Directors is authorized to fix the number of shares constituting each class or series of Preferred Stock and the designations and powers, preferences and relative, participating, optional or other special rights and qualifications, limitations or restrictions thereof, including those provisions as may be desired concerning voting, redemption, dividends, dissolution or the distribution of assets, conversion or exchange, and those other subjects or matters as may be fixed by resolution of our Board of Directors or duly authorized committee thereof. Our Preferred Stock will, when issued, be fully paid and non-assessable and will not have, or be subject to, any preemptive or similar rights.

You should refer to the prospectus supplement relating to the class or series of Preferred Stock offered thereby for specific terms, including:

- (1) The class or series, title and stated value of that Preferred Stock;
- (2) The number of shares of that Preferred Stock offered, the liquidation preference per share and the offering price of that Preferred Stock;

**Table of Contents**

- (3) The dividend rate(s), period(s) and/or payment date(s) or method(s) of calculation thereof applicable to that Preferred Stock;
- (4) Whether dividends on that Preferred Stock shall be cumulative or not and, if cumulative, the date from which dividends on that Preferred Stock shall accumulate;
- (5) The procedures for any auction and remarketing, if any, for that Preferred Stock;
- (6) Provisions for a sinking fund, if any, for that Preferred Stock;
- (7) Provisions for redemption, if applicable, of that Preferred Stock;
- (8) Any listing of that Preferred Stock on any securities exchange;
- (9) The terms and conditions, if applicable, upon which that Preferred Stock will be convertible into our Common Stock, including the conversion price (or manner of calculation thereof);
- (10) Any voting rights;
- (11) The relative ranking and preference of the Preferred Stock as to distribution rights and rights upon our liquidation, dissolution or winding up if other than as described in this prospectus;
- (12) Any limitations on issuance of any other series of Preferred Stock ranking senior to or on a parity with the Preferred Stock as to distribution rights and rights upon our liquidation, dissolution or winding up;
- (13) A discussion of certain federal income tax considerations applicable to that Preferred Stock;
- (14) Any limitations on actual, beneficial or constructive ownership and restrictions on transfer of that Preferred Stock and, if convertible, the related Common Stock, in each case as may be appropriate to preserve our status as a REIT; and
- (15) Any other material terms, preferences, rights, limitations or restrictions of that Preferred Stock.

**RANK**

Unless otherwise specified in the applicable prospectus supplement, the Preferred Stock will, with respect to rights to the payment of dividends and distribution of our assets and rights upon our liquidation, dissolution or winding up, rank:

- (1) senior to all classes or series of our Common Stock and excess stock and to all of our equity securities the terms of which provide that those equity securities are junior to the Preferred Stock;
- (2) on a parity with all of our equity securities other than those referred to in clauses (1) and (3); and
- (3) junior to all of our equity securities the terms of which provide that those equity securities will rank senior to it.

For these purposes, the term "equity securities" does not include convertible debt securities.

**DIVIDENDS**

Holders of shares of our Preferred Stock of each class or series shall be entitled to receive, when, as and if authorized by our Board of Directors and declared by us, out of our assets legally available for payment, cash dividends at rates and on dates as will be set forth in the applicable prospectus supplement. Each dividend shall be payable to holders of record as they appear on our stock transfer books on the record dates as shall be fixed by our Board of Directors.

Dividends on any class or series of our Preferred Stock may be cumulative or non-cumulative, as provided in the applicable prospectus supplement. Dividends, if cumulative, will accumulate from and after



**Table of Contents**

the date set forth in the applicable prospectus supplement. If our Board of Directors fails to authorize a dividend payable on a dividend payment date on any class or series of our Preferred Stock for which dividends are non-cumulative, then the holders of that class or series of our Preferred Stock will have no right to receive a dividend in respect of the dividend period ending on that dividend payment date, and we will have no obligation to pay the dividend accrued for that period, whether or not dividends on that class or series are declared payable on any future dividend payment date.

Unless otherwise specified in the applicable prospectus supplement, if any shares of our Preferred Stock of any class or series are outstanding, no full dividends shall be authorized or paid or set apart for payment on our Preferred Stock of any other class or series ranking, as to dividends, on a parity with or junior to the Preferred Stock of that class or series for any period unless:

- (1) if that class or series of Preferred Stock has a cumulative dividend, full cumulative dividends have been or contemporaneously are authorized and paid or authorized and a sum sufficient for the payment thereof set apart for that payment on the Preferred Stock of that class or series for all past dividend periods and the then current dividend period, or
- (2) if that class or series of Preferred Stock does not have a cumulative dividend, full dividends for the then current dividend period have been or contemporaneously are authorized and paid or authorized and a sum sufficient for the payment thereof set apart for that payment on the Preferred Stock of that class or series.

Unless otherwise specified in the applicable prospectus supplement, when dividends are not paid in full (or a sum sufficient for their full payment is not so set apart) upon the shares of Preferred Stock of any class or series and the shares of any other class or series of Preferred Stock ranking on a parity as to dividends with the Preferred Stock of that class or series, all dividends declared upon shares of Preferred Stock of that class or series and any other class or series of Preferred Stock ranking on a parity as to dividends with that Preferred Stock shall be authorized pro rata so that the amount of dividends authorized per share on the Preferred Stock of that class or series and that other class or series of Preferred Stock shall in all cases bear to each other the same ratio that accrued and unpaid dividends per share on the shares of Preferred Stock of that class or series (which shall not include any accumulation in respect of unpaid dividends for prior dividend periods if that Preferred Stock does not have a cumulative dividend) and that other class or series of Preferred Stock bear to each other. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on Preferred Stock of that series that may be in arrears.

Except as provided in the immediately preceding paragraph or as otherwise provided in the applicable prospectus supplement, unless: (1) if that class or series of Preferred Stock has a cumulative dividend, full cumulative dividends on the Preferred Stock of that class or series have been or contemporaneously are authorized and paid or authorized and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period; and (2) if that class or series of Preferred Stock does not have a cumulative dividend, full dividends on the Preferred Stock of that class or series have been or contemporaneously are authorized and paid or authorized and a sum sufficient for the payment thereof set aside for payment for the then current dividend period, then no dividends (other than in our Common Stock or other stock ranking junior to the Preferred Stock of that class or series as to dividends and upon our liquidation, dissolution or winding up) shall be authorized or paid or set aside for payment or other distribution shall be authorized or made upon our Common Stock, excess stock or any of our other stock ranking junior to or on a parity with the Preferred Stock of that class or series as to dividends or upon liquidation, nor shall any Common Stock, excess stock or any of our other stock ranking junior to or on a parity with the Preferred Stock of such class or series as to dividends or upon our liquidation, dissolution or winding up be redeemed, purchased or otherwise acquired for any consideration (or any moneys be paid to or made available for a sinking fund for the redemption of any shares of that stock) by us (except by conversion into or exchange for other of our stock ranking junior to the Preferred Stock of that class or series as to dividends and upon our liquidation, dissolution or winding up).

**Table of Contents**

Any dividend payment made on shares of a class or series of Preferred Stock shall first be credited against the earliest accrued but unpaid dividend due with respect to shares of that class or series which remains payable.

**REDEMPTION**

If the applicable prospectus supplement so states, the shares of Preferred Stock will be subject to mandatory redemption or redemption at our option, in whole or in part, in each case on the terms, at the times and at the redemption prices set forth in that prospectus supplement.

The prospectus supplement relating to a class or series of Preferred Stock that is subject to mandatory redemption will specify the number of shares of that Preferred Stock that shall be redeemed by us in each year commencing after a date to be specified, at a redemption price per share to be specified, together with an amount equal to all accrued and unpaid dividends thereon (which shall not, if that Preferred Stock does not have a cumulative dividend, include any accumulation in respect of unpaid dividends for prior dividend periods) to the date of redemption. The redemption price may be payable in cash or other property, as specified in the applicable prospectus supplement. If the redemption price for Preferred Stock of any series is payable only from the net proceeds of the issuance of our stock, the terms of that Preferred Stock may provide that, if no such stock shall have been issued or to the extent the net proceeds from any issuance are insufficient to pay in full the aggregate redemption price then due, that Preferred Stock shall automatically and mandatorily be converted into shares of our applicable stock pursuant to conversion provisions specified in the applicable prospectus supplement.

Notwithstanding the foregoing and except as otherwise specified in the applicable prospectus supplement, unless:

- (1) if that class or series of Preferred Stock has a cumulative dividend, full cumulative dividends on all shares of any class or series of Preferred Stock shall have been or contemporaneously are authorized and paid or authorized and a sum sufficient for the payment thereof set apart for payment for all past dividend periods and the then current dividend period; and
- (2) if that class or series of Preferred Stock does not have a cumulative dividend, full dividends on the Preferred Stock of any class or series have been or contemporaneously are authorized and paid or authorized and a sum sufficient for the payment thereof set apart for payment for the then current dividend period;

no shares of any class or series of Preferred Stock shall be redeemed unless all outstanding shares of Preferred Stock of that class or series are simultaneously redeemed; provided, however, that the foregoing shall not prevent the purchase or acquisition of shares of Preferred Stock of that class or series pursuant to a purchase or exchange offer made on the same terms to holders of all outstanding shares of Preferred Stock of that class or series.

If fewer than all of the outstanding shares of Preferred Stock of any class or series are to be redeemed, the number of shares to be redeemed will be determined by us and those shares may be redeemed pro rata from the holders of record of those shares in proportion to the number of those shares held by those holders (with adjustments to avoid redemption of fractional shares) or any other equitable method determined by us that will not result in the issuance of any excess Preferred Stock.

Notice of redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each holder of record of a share of Preferred Stock of any class or series to be redeemed at the address shown on our stock transfer books. Each notice shall state:

- (1) the redemption date;
- (2) the number of shares and class or series of the Preferred Stock to be redeemed;
- (3) the redemption price;

## **Table of Contents**

- (4) the place or places where certificates for that Preferred Stock are to be surrendered for payment of the redemption price;
- (5) that dividends on the shares to be redeemed will cease to accrue on that redemption date; and
- (6) the date upon which the holder's conversion rights, if any, as to those shares shall terminate.

If fewer than all the shares of Preferred Stock of any class or series are to be redeemed, the notice mailed to each holder thereof shall also specify the number of shares of Preferred Stock to be redeemed from each holder. If notice of redemption of any shares of Preferred Stock has been given and if the funds necessary for that redemption have been set apart by us in trust for the benefit of the holders of any shares of Preferred Stock so called for redemption, then from and after the redemption date dividends will cease to accrue on those shares of Preferred Stock, those shares of Preferred Stock shall no longer be deemed outstanding and all rights of the holders of those shares will terminate, except the right to receive the redemption price.

## **LIQUIDATION PREFERENCE**

Upon our voluntary or involuntary liquidation, dissolution or winding up, then, before any distribution or payment shall be made to the holders of any Common Stock, excess stock or any other class or series of our stock ranking junior to that class or series of Preferred Stock in the distribution of assets upon our liquidation, dissolution or winding up, the holders of each class or series of Preferred Stock shall be entitled to receive out of our assets legally available for distribution to stockholders liquidating distributions in the amount of the liquidation preference per share (set forth in the applicable prospectus supplement), plus an amount equal to all dividends accrued and unpaid thereon (which shall not include any accumulation in respect of unpaid dividends for prior dividend periods if that class or series of Preferred Stock does not have a cumulative dividend). After payment of the full amount of the liquidating distributions to which they are entitled, the holders of that class or series of Preferred Stock will have no right or claim to any of our remaining assets. If, upon our voluntary or involuntary liquidation, dissolution or winding up, our legally available assets are insufficient to pay the amount of the liquidating distributions on all outstanding shares of that class or series of Preferred Stock and the corresponding amounts payable on all shares of other classes or series of our stock ranking on a parity with that class or series of Preferred Stock in the distribution of assets upon our liquidation, dissolution or winding up, then the holders of that class or series of Preferred Stock and all other classes or series of stock shall share ratably in that distribution of assets in proportion to the full liquidating distributions to which they would otherwise be respectively entitled.

If liquidating distributions shall have been made in full to all holders of shares of that class or series of Preferred Stock, our remaining assets shall be distributed among the holders of any other classes or series of stock ranking junior to that class or series of Preferred Stock upon our liquidation, dissolution or winding up, according to their respective rights and preferences and in each case according to their respective number of shares. For those purposes, neither our consolidation or merger with or into any other corporation, trust or other entity nor the sale, lease, transfer or conveyance of all or substantially all of our property or business shall be deemed to constitute our liquidation, dissolution or winding up.

## **VOTING RIGHTS**

Except as set forth below or as otherwise indicated in the applicable prospectus supplement, holders of Preferred Stock will not have any voting rights.

Whenever dividends on any shares of that class or series of Preferred Stock shall be in arrears for 18 months or six or more quarterly periods, the holders of those shares of that class or series of Preferred Stock (voting separately as a class with all other classes or series of Preferred Stock upon which like voting rights have been conferred and are exercisable) will be entitled to vote for the election of two additional directors to our Board of Directors (and our entire Board of Directors will be increased by two directors) at a special meeting called by one of our officers at the request of a holder of that class or series



## **Table of Contents**

of Preferred Stock or, if that special meeting is not called by that officer within 30 days, at a special meeting called by a holder of that class or series of Preferred Stock designated by the holders of record of at least 10% of the shares of any of those classes or series of Preferred Stock (unless that request is received less than 90 days before the date fixed for the next annual or special meeting of the stockholders), or at the next annual meeting of stockholders, and at each subsequent annual meeting until:

- (1) if that class or series of Preferred Stock has a cumulative dividend, then all dividends accumulated on those shares of Preferred Stock for the past dividend periods and the then current dividend period shall have been fully paid or declared and a sum sufficient for the payment thereof set apart for payment, or
- (2) if that class or series of Preferred Stock does not have a cumulative dividend, then four consecutive quarterly periods of dividends shall have been fully paid or declared and a sum sufficient for the payment thereof set apart for payment.

Unless provided otherwise for any series of Preferred Stock, so long as any shares of Preferred Stock remain outstanding, we shall not, without the affirmative vote or consent of the holders of at least two-thirds of the shares of each class or series of Preferred Stock outstanding at the time, given in person or by proxy, either in writing or at a meeting (that class or series voting separately as a class),

- (1) authorize or create, or increase the authorized or issued amount of, any class or series of stock ranking senior to that class or series of Preferred Stock with respect to payment of dividends or the distribution of assets upon our liquidation, dissolution or winding up or reclassify any of our authorized stock into those shares, or create, authorize or issue any obligation or security convertible into or evidencing the right to purchase those shares; or
- (2) amend, alter or repeal the provisions of the charter in respect of that class or series of Preferred Stock, whether by merger, consolidation or otherwise, so as to materially and adversely affect any right, preference, privilege or voting power of that class or series of Preferred Stock; provided, however, that any increase in the amount of the authorized Preferred Stock or the creation or issuance of any other class or series of Preferred Stock, or any increase in the number of authorized shares of that class or series, in each case ranking on a parity with or junior to the Preferred Stock of that class or series with respect to payment of dividends and the distribution of assets upon liquidation, dissolution or winding up, shall not be deemed to materially and adversely affect those rights, preferences, privileges or voting powers.

The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which that vote would otherwise be required shall be effected, all outstanding shares of that class or series of Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been irrevocably deposited in trust to effect that redemption.

## **CONVERSION RIGHTS**

The terms and conditions, if any, upon which shares of any class or series of Preferred Stock are convertible into Common Stock, debt securities or another series of Preferred Stock will be set forth in the applicable prospectus supplement relating thereto. Such terms will include the number of shares of Common Stock or those other series of Preferred Stock or the principal amount of debt securities into which the Preferred Stock is convertible, the conversion price (or manner of calculation thereof), the conversion period, provisions as to whether conversion will be at our option or at the option of the holders of that class or series of Preferred Stock, the events requiring an adjustment of the conversion price and provisions affecting conversion in the event of the redemption of that class or series of Preferred Stock.

## **RESTRICTIONS ON OWNERSHIP AND TRANSFER**

In addition to other qualifications, for us to qualify as a REIT, (1) not more than 50% in value of our outstanding capital stock may be owned, actually or constructively, by five or fewer individuals during the

**Table of Contents**

last half of our taxable year, and (2) such capital stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months or during a proportionate part of a shorter taxable year.

To ensure that we continue to meet the requirements for qualification as a REIT, our Charter, subject to some exceptions, provides that no holder may own, or be deemed to own by virtue of the attribution provisions of the Code, shares of our capital stock in excess of 9.8% (ownership limit) of the number of then outstanding shares of capital stock. Our Board of Directors may waive the ownership limit with respect to a stockholder if evidence satisfactory to the Board of Directors and our tax counsel is presented that the changes in ownership will not then or in the future jeopardize our status as a REIT. Any transfer of capital stock or any security convertible into capital stock that would result in actual or constructive ownership of capital stock by a stockholder in excess of the ownership limit or that would result in our failure to meet the requirements for qualification as a REIT, including any transfer that results in the capital stock being owned by fewer than 100 persons or results in our company being closely held within the meaning of section 856(h) of the Code, notwithstanding any provisions of our Charter to the contrary, will be null and void, and the intended transferee will acquire no rights to the capital stock. The foregoing restrictions on transferability and ownership will not apply if the Board of Directors determines that it is no longer in our best interest to attempt to qualify, or to continue to qualify, as a REIT.

Any shares of our capital stock held by a stockholder in excess of the applicable ownership limit become Excess Shares. Upon shares of any class or series of capital stock becoming Excess Shares, such shares will be deemed automatically to have been converted into a class separate and distinct from their original class and from any other class of Excess Shares. Upon any outstanding Excess Shares ceasing to be Excess Shares, such shares will be automatically reconverted back into shares of their original class or series of capital stock.

The holder of Excess Shares will not be entitled to vote the Excess Shares nor will such Excess Shares be considered issued and outstanding for purposes of any stockholder vote or the determination of a quorum for such vote. The Board of Directors, in its sole discretion, may choose to accumulate all distributions and dividends payable upon the Excess Shares of any particular holder in a non-interest bearing escrow account payable to the holder of the Excess Shares upon such Excess Shares ceasing to be Excess Shares.

In addition, we will have the right to redeem all or any portion of the Excess Shares from the holder at the redemption price, which will be the average market price (as determined in the manner set forth in the Charter) of the capital stock for the prior 30 days from the date we give notice of our intent to redeem such Excess Shares, or as determined by the Board of Directors in good faith. The redemption price will only be payable upon the liquidation of our company and will not exceed the sum of the per share distributions designated as liquidating distributions declared subsequent to the redemption date with respect to unredeemed shares of record of the class from which such Excess Shares were converted. We will rescind the redemption of the Excess Shares in the event that within 30 days of the redemption date, due to a sale of shares by the holder, such holder would not be the holder of Excess Shares, unless such rescission would jeopardize our tax status as a REIT or would be unlawful in any regard.

Each stockholder will upon demand be required to disclose to us in writing any information with respect to the actual and constructive ownership of shares of our capital stock as our Board of Directors deems necessary to comply with the provisions of the Code applicable to REITs, to comply with the requirements of any taxing authority or governmental agency or to determine any such compliance.

The ownership limit may have the effect of precluding the acquisition of control of our company unless the Board of Directors determines that maintenance of REIT status is no longer in our best interests.

**Table of Contents**

**CERTAIN PROVISIONS OF MARYLAND LAW AND OF OUR CHARTER AND BYLAWS**

The following description of certain provisions of Maryland law and of our Charter and bylaws is only a summary. For a complete description, we refer you to Maryland law, our Charter and our bylaws. We have incorporated by reference our Charter and bylaws as exhibits to the registration statement of which this prospectus is a part.

**BOARD OF DIRECTORS NUMBER AND VACANCIES**

Our bylaws provide that the number of our directors shall be six unless a majority of the members of our Board of Directors establishes some other number not less than three and not more than nine. Our Board of Directors is currently comprised of five directors. Our bylaws also provide, that notwithstanding the preceding sentence, upon the occurrence of a default in the payment of dividends on any class or series of our Preferred Stock, or any other event, which would entitle the holders of any class or series of our Preferred Stock to elect additional directors to our Board of Directors, the number of our directors will thereupon be increased by the number of additional directors to be elected by the holders of such class or series of our Preferred Stock (even if the resulting number of directors is more than nine), and such increase in the number of directors shall remain in effect for so long as the holders of such class or series of our Preferred Stock are entitled to elect such additional directors.

Our bylaws provide that a vacancy on our Board of Directors which arises through the death, resignation or removal of a director or as a result of an increase by our Board of Directors in the number of directors may be filled by the vote of a majority of the remaining directors even if such majority is less than a quorum, and a director so elected by our Board of Directors to fill a vacancy shall serve until the next annual meeting of our stockholders and until his successor shall be duly elected and qualified. Our stockholders may elect a successor to fill a vacancy on our Board of Directors which results from the removal of a director.

**REMOVAL OF DIRECTORS**

Under Maryland law, our stockholders may remove any director, with or without cause, by the affirmative vote of a majority of all the votes entitled to be cast generally for the election of our directors except in certain circumstances specified in the statute which do not apply.

**BUSINESS COMBINATIONS**

Under Maryland law, business combinations between a Maryland corporation and an interested stockholder or an affiliate of an interested stockholder are prohibited for five years after the most recent date on which the interested stockholder becomes an interested stockholder. These business combinations include a merger, consolidation, share exchange, or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities. An interested stockholder is defined as:

any person who beneficially owns ten percent or more of the voting power of the corporation's shares; or

an affiliate or associate of the corporation who, at any time within the two-year period prior to the date in question, was the beneficial owner of ten percent or more of the voting power of the then outstanding voting stock of the corporation.

A person is not an interested stockholder under the statute if the board of directors approved in advance the transaction by which such person otherwise would have become an interested stockholder. In approving such a transaction, however, the board of directors may provide that its approval is subject to compliance, at or after the time of approval, with any terms and conditions determined by the board.

## **Table of Contents**

After the five-year prohibition, any business combination between the Maryland corporation and an interested stockholder generally must be recommended by the board of directors of the corporation and approved by the affirmative vote of at least:

80% of the votes entitled to be cast by holders of outstanding shares of voting stock of the corporation, voting together as a single voting group; and

two-thirds of the votes entitled to be cast by holders of voting stock of the corporation other than voting stock held by the interested stockholder with whom or with whose affiliate the business combination is to be effected or held by an affiliate or associate of the interested stockholder.

These super-majority vote requirements do not apply if the corporation's common stockholders receive a minimum price, as defined under Maryland law, for their shares in the form of cash or other consideration in the same form as previously paid by the interested stockholder for its shares.

The statute permits various exemptions from its provisions, including business combinations that are exempted by the board of directors before the time that the interested stockholder becomes an interested stockholder.

The business combination statute may discourage others from trying to acquire control of us and increase the difficulty of consummating any offer.

## **CONTROL SHARE ACQUISITIONS**

Maryland law provides that control shares of a Maryland corporation acquired in a control share acquisition have no voting rights except to the extent approved by a vote of two-thirds of the votes entitled to be cast on the matter. Shares owned by the acquiror, by officers or by directors who are employees of the corporation are excluded from shares entitled to vote on the matter. Control shares are voting shares of stock which, if aggregated with all other shares of stock owned by the acquiror or in respect of which the acquiror is able to exercise or direct the exercise of voting power (except solely by virtue of a revocable proxy), would entitle the acquiror to exercise voting power in electing directors within one of the following ranges of voting power:

one-tenth or more but less than one-third,

one-third or more but less than a majority, or

a majority or more of all voting power.

Control shares do not include shares the acquiring person is then entitled to vote as a result of having previously obtained stockholder approval. A control share acquisition means the acquisition of control shares, subject to certain exceptions.

A person who has made or proposes to make a control share acquisition may compel the board of directors of the corporation to call a special meeting of stockholders to be held within 50 days of demand to consider the voting rights of the shares. The right to compel the calling of a special meeting is subject to the satisfaction of certain conditions, including an undertaking to pay the expenses of the meeting. If no request for a meeting is made, the corporation may itself present the question at any stockholders meeting.

If voting rights are not approved at the meeting or if the acquiring person does not deliver an acquiring person statement as required by the statute, then the corporation may redeem for fair value any or all of the control shares, except those for which voting rights have previously been approved. The right of the corporation to redeem control shares is subject to certain conditions and limitations. Fair value is determined, without regard to the absence of voting rights for the control shares, as of the date of the last control share acquisition by the acquiror or of any meeting of stockholders at which the voting rights of the shares are considered and not approved. If voting rights for control shares are approved at a stockholders meeting and the acquiror becomes entitled to vote a majority of the shares entitled to vote, all other stockholders may exercise appraisal rights. The fair value of the shares as determined for purposes of

**Table of Contents**

appraisal rights may not be less than the highest price per share paid by the acquiror in the control share acquisition.

The control share acquisition statute does not apply (a) to shares acquired in a merger, consolidation or share exchange if the corporation is a party to the transaction, or (b) to acquisitions approved or exempted by the charter or bylaws of the corporation.

**AMENDMENT TO THE CHARTER**

Subject to the provisions of any class or series of our capital stock at the time outstanding, any amendment to our Charter must be approved by our stockholders by the affirmative vote of not less than two thirds of all of the votes entitled to be cast on the matter.

**DISSOLUTION OF LTC PROPERTIES, INC.**

The dissolution of our company must be approved by our stockholders by the affirmative vote of not less than two thirds of all of the votes entitled to be cast on the matter.

**ADVANCE NOTICE OF DIRECTOR NOMINATIONS AND NEW BUSINESS**

Our bylaws provide that with respect to an annual meeting of stockholders, nominations of persons for election to the Board of Directors and the proposal of business to be considered by stockholders may be made only (i) by, or at the direction of, a majority of the Board of Directors or a duly authorized committee thereof or (ii) by any holder of record (both as of the time notice of such nomination or matter is given by the stockholder as set forth in our bylaws and as of the record date for the annual meeting in question) of any shares of our capital stock entitled to vote at such annual meeting who complies with the notice procedures set forth in our bylaws. Any stockholder who seeks to make such a nomination or to bring any matter before an annual meeting, or his representative, must be present in person at the annual meeting.

**ANTI-TAKEOVER EFFECT OF CERTAIN PROVISIONS OF MARYLAND LAW AND OF THE CHARTER AND BYLAWS**

The business combination provisions and the control share acquisition provisions of Maryland law, the advance notice provisions of our bylaws, our stockholder rights plan and certain other provisions of Maryland law and our Charter and bylaws could delay, defer or prevent a transaction or a change in control of our company that might involve a premium price for holders of our Common Stock or otherwise be in their best interest. See Risk Factors Certain Provisions of Maryland Law and our Charter and Bylaws as well as Stockholder Rights Plan Could Hinder, Delay Or Prevent Changes in Control.

**CERTAIN US FEDERAL INCOME TAX CONSIDERATIONS**

**GENERAL**

The following is a summary of the federal income tax considerations to us which are anticipated to be material to purchasers of the securities to which any prospectus supplement may relate. In addition this summary does not discuss any state or local income taxation or foreign income taxation or other tax consequences. This summary is based on current law, is for general information only and is not tax advice. Your tax treatment will vary depending upon the terms of the specific securities that you acquire, as well as your particular situation. The material federal income tax considerations relevant to your ownership of the securities to which any prospectus supplement may relate will be provided in the applicable prospectus supplement relating to the particular securities being offered.

## **Table of Contents**

The information in this section is based on:

the Internal Revenue Code (or the Code);

current, temporary and proposed Treasury regulations promulgated under the Code;

the legislative history of the Code;

current administrative interpretations and practices of the Internal Revenue Service; and

court decisions,

in each case, as of the date of this prospectus. Future legislation, Treasury regulations, administrative interpretations and practices and/or court decisions may adversely affect the tax considerations contained in this discussion or the desirability of an investment in a REIT relative to other investments. Any change could apply retroactively to transactions preceding the date of the change. Except as described below, we have not requested, and do not plan to request, any rulings from the Internal Revenue Service concerning our tax treatment, and the statements in this prospectus are not binding on the Internal Revenue Service or any court. Thus, we can provide no assurance that the tax considerations contained in this discussion will not be challenged by the Internal Revenue Service or if challenged, will not be sustained by a court.

You are advised to consult any applicable prospectus supplement, as well as your own tax advisor, regarding the tax consequences to you of the acquisition, ownership and sale of the securities to which any applicable prospectus supplement may relate, including the federal, state, local, foreign and other tax consequences.

## **CERTAIN INCOME TAX CONSIDERATIONS RELATING TO OUR REIT ELECTION**

### **Taxation of a REIT**

We have elected to be taxed as a REIT under Sections 856 through 860 of 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.

As a condition to the closing of each offering of any securities specified in any prospectus supplement, our tax counsel will render an opinion to the underwriters of that offering to the effect that, commencing with our taxable year beginning January 1, 1992, we have been organized in conformity with the requirements for qualification as a REIT, and our method of operation will enable us to meet the requirements for continued qualification and taxation as a REIT under the Code. It must be emphasized that this opinion will be based on various factual assumptions relating to our organization and operation, and is conditioned upon certain representations which will be made by us as to factual matters. Our tax counsel will have no obligation to update its opinion subsequent to its date. In addition, this opinion will be based upon our factual representations concerning our business and properties as set forth in this prospectus and any applicable prospectus supplement. Moreover, our qualification and taxation as a REIT depends upon our ability to meet, through actual annual operating results, distribution levels, diversity of share ownership and the various qualification tests imposed under the Code, the results of which have not been and will not be reviewed by our tax counsel. Accordingly, no assurance can be given that our actual results of operation for any particular taxable year will satisfy such requirements. Further, the anticipated income tax treatment as discussed in our annual report on Form 10-K for the year ended December 31, 2002 and this prospectus may be changed, perhaps retroactively, by legislative or administrative action at any time.

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.

**Table of Contents**

On May 28, 2003, President Bush signed into law the Jobs and Growth Tax Relief Reconciliation Act of 2003. The Jobs and Growth Tax Relief Reconciliation Act of 2003 generally will reduce the maximum tax rate applicable to you on capital gains recognized on the sale or other disposition of shares of our stock from 20% to 15%.

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

The dividend and capital gains tax rate reductions provided in the Jobs and Growth Tax Relief Reconciliation Act of 2003 generally are effective for taxable years ending on or after May 6, 2003 through December 31, 2008. Without future legislative changes, the maximum long-term capital gains and dividend rates discussed above will increase in 2009.

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 (which are, in general, certain sales or other dispositions of property (other than foreclosure property) held primarily for sale to customers in the ordinary course of business), 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

**Table of Contents**

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, 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.

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

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. For purposes of conditions (5) and (6), pension funds and certain other tax-exempt entities are treated as individuals, subject to a look-through exception in the case of condition (6). Pursuant to 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 (5) and (6) above. In addition, Sections 9.2 and 9.3 of our Charter provides for restrictions regarding transfer and ownership of shares. These restrictions are intended to assist us in continuing to satisfy the share ownership requirements described in (5) and (6) above. These restrictions, however, may not ensure that we will, in all cases, be able to satisfy the share ownership requirements described in (5) and (6) above.

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 meet the Five or Fewer Requirement, we will be treated as having met the Five or Fewer Requirement. 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.



**Table of Contents**

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 or from dividends (including dividends from taxable REIT subsidiaries), interest and gain from the sale or other disposition of stock or securities and payments to us under an interest rate swap, cap agreement, option, futures contract, forward rate agreement or any similar financial instrument entered into by us to hedge indebtedness incurred or to be incurred.

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.

For rents to 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 minimis amount of impermissible services to tenants and still treat amounts received with respect to that property as rent 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. The amount received for any service or management operation for this purpose shall be deemed to be not less than 150% of the direct cost of the REIT in furnishing or rendering the service or providing the management or operation. Furthermore, impermissible services may be furnished to tenants by a taxable REIT subsidiary subject to certain conditions, and we may still treat rents received with respect to the property as rent from real property.

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

If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we may nevertheless qualify as a REIT for the year if we are eligible for relief. These relief provisions will be generally available if:

Our failure to meet the tests was due to reasonable cause and not due to willful neglect,

We attach a schedule of the sources of our income to our return; and

Any incorrect information on the schedule was not due to fraud with intent to evade tax.

**Table of Contents**

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 determined in accordance with generally accepted accounting principles. 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), 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% or 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 20% of our total assets may be represented by securities of one or more taxable REIT subsidiaries 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. Each of the 10% vote and value test and the 20% 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% or the voting power and value of securities in taxable REIT subsidiaries. At this time, we do not have any taxable REIT subsidiaries.

*Ownership of a Partnership Interest or Stock in a Corporation.* We own interests in various partnerships. In the case of a REIT that is a partner in a partnership, Treasury regulations provide that for purposes of the REIT income and asset tests the REIT will be deemed to own its proportionate share of the assets of the partnership, and will be deemed to be entitled to the income of the partnership attributable to such share. The ownership of an interest in a partnership by a REIT may involve special tax risks, including the challenge by the Internal Revenue Service of the allocations of income and expense items of the partnership, which would affect the computation of taxable income of the REIT, and the status of the partnership as a partnership (as opposed to an association taxable as a corporation) for federal income tax purposes.

We also own interests in a number of subsidiaries which are intended to be treated as qualified real estate investment trust subsidiaries. The Code provides that such subsidiaries will be ignored for federal income tax purposes and 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 real estate investment trust subsidiary, respectively, although no assurance can be given that the Internal Revenue Service will not successfully challenge the status of any such entity.

*Real Estate Mortgage Investment Conduits (or 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 REMIC Certificates are secured by real estate assets, therefore we believe that our REMIC interests fully qualify for purposes of the REIT income and asset tests.

**Table of Contents**

*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.

We must pay these annual distributions in the taxable year to which they relate or in the following year if (1) we pay during January to stockholders of record in either October, November, or December of the prior year or (2) if we elect, 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, it 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) any undistributed taxable income 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.

*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 taxation as a REIT for the four taxable years following the year during which qualification was lost. It is not possible to state whether in all circumstances we would be entitled to the statutory relief. Failure to qualify 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.

**Table of Contents**

**TAXATION OF TAXABLE DOMESTIC STOCKHOLDERS**

The following summary applies to you only if you are a US stockholder. A US stockholder is a stockholder of our shares of stock who, for United States federal income tax purposes, is:

a citizen or resident alien of the United States;

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

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

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

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

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

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

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

## **Table of Contents**

held for six months or less (after application of certain holding period rules) will generally be treated as a long-term capital loss to the extent you previously received capital gain distributions with respect to these shares of our stock.

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

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

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

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

Gain from the sale or exchange of our shares held for more than one year is taxed at a maximum long-term capital gain rate, which is currently 15% (prior to the effective date of the Jobs and Growth Tax Relief Reconciliation Act of 2003, described below, the maximum long-term capital gain rate was 20%). Pursuant to Internal Revenue Service guidance, we may classify portions of our capital gain dividends as gains eligible for the long-term capital gains rate or as gain taxable to individual stockholders at a maximum rate of 25%.

## **Backup withholding**

We will report to our US stockholders and the IRS the amount of distributions paid during each calendar year, and the amount of tax withheld, if any. Under the backup withholding rules, a stockholder may be subject to backup withholding with respect to distributions paid unless such holder (a) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact, or (b) provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding, and otherwise complies with applicable requirements of the backup withholding rules. The amount of such withholding will be equal to the product of the fourth lowest rate applicable to single filers and the amount of the distribution. This rate is 28% for tax years beginning in 2003. Any amount paid to the IRS as backup withholding will be creditable against the stockholder's income tax liability. In addition, we may be required to withhold a portion of capital gain distributions to any stockholders who fail to certify their non-foreign status to us. See Taxation of Foreign Stockholders. A stockholder that does not provide us with his correct taxpayer identification number may also be subject to penalties imposed by the IRS.

**Table of Contents**

**TAXATION OF TAX-EXEMPT STOCKHOLDERS**

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

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

**TAXATION OF FOREIGN STOCKHOLDERS**

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

Distributions that are not attributable to gain from our sales or exchanges of US real property interests and not designated by us as capital gains dividends will be treated as dividends of ordinary income to the extent that they are made out of our current or accumulated earnings and profits. Such distributions will ordinarily be subject to a withholding tax equal to 30% of the gross amount of the distribution unless an applicable tax treaty reduces or eliminates that tax. However, if income from the investment in the stock is treated as effectively connected with the non-US stockholder's conduct of a US trade or business, the non-US stockholder generally will be subject to a tax at graduated rates, in the same manner as US stockholders are taxed with respect to such distributions and may also be subject to the 30% branch profits tax in the case of a stockholder that is a foreign corporation. We expect to withhold US income tax at the rate of 30% on the gross amount of any such distributions made to a non-US stockholder unless (i) a lower treaty rate applies and the holder provides us with a properly executed IRS Form W-8BEN (or successor form) or (ii) the non-US stockholder provides us with a properly executed IRS Form W-8ECI (or successor form) claiming that the distribution is effectively connected income.

Distributions in excess of our current and accumulated earnings and profits will not be taxable to a stockholder to the extent that such distributions do not exceed the adjusted basis of the stockholder's stock, but rather will reduce the adjusted basis of such stock. To the extent that distributions in excess of

**Table of Contents**

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

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

Gain recognized by a non-US stockholder upon a sale of our equity securities generally will not be taxed under FIRPTA if we are a domestically controlled real estate investment trust, defined generally as a real estate investment trust in which at all times during a specified testing period less than 50% in value of the stock were held directly or indirectly by foreign persons. We currently anticipate that we will be a domestically controlled real estate investment trust, and therefore the sale of equity securities will not be subject to taxation under FIRPTA. Additionally, the sale of our equity securities will not be taxed under FIRPTA if the class of stock is regularly traded on an established securities market and the selling non-US stockholder has not held more than 5% of the class of stock at any time during the preceding five-year period. However, gain not subject to FIRPTA will be taxable to a non-US stockholder if the investment in the stock is effectively connected with the non-US stockholder's US trade or business, in which case the non-US stockholder will be subject to the same treatment as US stockholders with respect to such gain. Also, if the non-US stockholder is a nonresident alien individual who was present in the United States for 183 days or more during the taxable year and has a tax home in the United States, the nonresident alien individual will be subject to a 30% tax (unless reduced by treaty) on the individual's capital gains. A non-resident alien individual could, however, elect to treat such gain as effectively connected income and pay tax as a US stockholder would. If the gain on the sale of stock were to be subject to taxation under FIRPTA, the non-US stockholder will be subject to the same treatment as US stockholders with respect to such gain.

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

**Table of Contents**

non-US stockholder and that certain conditions are met or that the non-US stockholder otherwise is entitled to an exemption.

**US FEDERAL INCOME AND ESTATE TAXATION OF HOLDERS OF OUR DEBT SECURITIES**

The following is a general summary of the United States federal income tax consequences and, in the case that you are a holder that is a non-US holder, as defined below, the United States federal estate tax consequences, of purchasing, owning and disposing of debt securities periodically offered under one or more indentures, (the notes) and offered pursuant to an applicable prospectus supplement. This summary assumes that you hold the notes as capital assets. This summary applies to you only if you are the initial holder of the notes and you acquire the notes for a price equal to the issue price of the notes. The issue price of the notes is the first price at which a substantial amount of the notes is sold other than to bond houses, brokers or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers. In addition, this summary does not consider any foreign, state, local or other tax laws that may be applicable to us or a purchaser of the notes.

**US HOLDERS**

The following summary applies to you only if you are a US holder, as defined below.

*Definition of a US Holder.* A US holder is a beneficial owner of a note or notes that is for United States federal income tax purposes:

an individual citizen or resident alien of the United States;

a corporation or partnership, or other entity classified as a corporation or partnership for these purposes, created or organized in or under the laws of the United States or of any political subdivision of the United States, including any state;

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

a trust, if, in general, a US court is able to exercise primary supervision over the trust's administration and one or more US persons, within the meaning of the Internal Revenue Code, has the authority to control all of the trust's substantial decisions.

*Payments of Interest.* Stated interest on the notes generally will be taxed as ordinary interest income from domestic sources at the time it is paid or accrues in accordance with your method of accounting for tax purposes.

*Sale, Exchange or Other Disposition of Notes.* The adjusted tax basis in your note acquired at a premium will generally be your cost. You generally will recognize taxable gain or loss when you sell or otherwise dispose of your notes equal to the difference, if any, between:

the amount realized on the sale or other disposition, less any amount attributable to any accrued interest, which will be taxable in the manner described under *Payments of Interest* above; and

your adjusted tax basis in the notes.

*Your gain or loss generally will be capital gain or loss.* This capital gain or loss will be long-term capital gain or loss if at the time of the sale or other disposition you have held the notes for more than one year. Subject to limited exceptions, your capital losses cannot be used to offset your ordinary income.

*Backup Withholding and Information Reporting.* In general, backup withholding may apply:

to any payments made to you of principal and interest on your note, and

to payment of the proceeds of a sale or other disposition of your note before maturity,

if you are a non-corporate US holder and (1) fail to provide a correct taxpayer identification number, which if you are an individual, is ordinarily your social security number; (2) furnish an



**Table of Contents**

incorrect taxpayer identification number; (3) are notified by the Internal Revenue Service that you have failed to properly report payments of interest or dividends; or (4) fail to certify, under penalties of perjury, that you have furnished a correct taxpayer identification number and that the Internal Revenue Service has not notified you that you are subject to backup withholding.

The amount of any reportable payments, including interest, made to you (unless you are an exempt recipient) and the amount of tax withheld, if any, with respect to such payments will be reported to you and to the Internal Revenue Service for each calendar year. You should consult your tax advisor regarding your qualification for an exemption from backup withholding and the procedures for obtaining such an exemption, if applicable. The backup withholding tax is not an additional tax and will be credited against your US federal income tax liability, provided that correct information is provided to the Internal Revenue Service.

**NON-US HOLDERS**

The following summary applies to you if you are a beneficial owner of a note and are not a US holder, as defined above (a non-US holder ).

Special rules may apply to certain non-US holders such as controlled foreign corporations, passive foreign investment companies and foreign personal holding companies. Such entities are encouraged to consult their tax advisors to determine the United States federal, state, local and other tax consequences that may be relevant to them.

*US Federal Withholding Tax.* Subject to the discussion below, US federal withholding tax will not apply to payments by us or our paying agent, in its capacity as such, of principal and interest on your notes under the portfolio interest exception of the Internal Revenue Code, provided that:

you do not, directly or indirectly, actually or constructively, own ten percent or more of the total combined voting power of all classes of our stock entitled to vote;

you are not (1) a controlled foreign corporation for US federal income tax purposes that is related, directly or indirectly, to us through sufficient stock ownership, as provided in the Internal Revenue Code, or (2) a bank receiving interest described in Section 881(c)(3)(A) of the Internal Revenue Code;

such interest is not effectively connected with your conduct of a US trade or business; and

you provide a signed written statement, under penalties of perjury, which can reliably be related to you, certifying that you are not a US person within the meaning of the Internal Revenue Code and providing your name and address to:

us or our paying agent; or

a securities clearing organization, bank or other financial institution that holds customers securities in the ordinary course of its trade or business and holds your notes on your behalf and that certifies to us or our paying agent under penalties of perjury that it, or the bank or financial institution between it and you, has received from you your signed, written statement and provides us or our paying agent with a copy of such statement.

Treasury regulations provide that:

if you are a foreign partnership, the certification requirement will generally apply to your partners, and you will be required to provide certain information;

if you are a foreign trust, the certification requirement will generally be applied to you or your beneficial owners depending on whether you are a foreign complex trust, foreign simple trust, or foreign grantor trust as defined in the Treasury regulations; and

look-through rules will apply for tiered partnerships, foreign simple trusts and foreign grantor trusts.

**Table of Contents**

If you are a foreign partnership or a foreign trust, you should consult your own tax advisor regarding your status under these Treasury regulations and the certification requirements applicable to you.

If you cannot satisfy the portfolio interest requirements described above, payments of interest will be subject to the 30% United States withholding tax, unless you provide us with a properly executed (1) Internal Revenue Service Form W-8BEN claiming an exemption from or reduction in withholding under the benefit of an applicable treaty or (2) Internal Revenue Service Form W-8ECI stating that interest paid on the note is not subject to withholding tax because it is effectively connected with your conduct of a trade or business in the United States. Alternative documentation may be applicable in certain circumstances.

If you are engaged in a trade or business in the United States and interest on a note is effectively connected with the conduct of that trade or business, you will be required to pay United States federal income tax on that interest on a net income basis (although you will be exempt from the 30% withholding tax provided the certification requirement described above is met) in the same manner as if you were a US person, except as otherwise provided by an applicable tax treaty. If you are a foreign corporation, you may be required to pay a branch profits tax on the earnings and profits that are effectively connected to the conduct of your trade or business in the United States.

*Sale, Exchange or other Disposition of Notes.* You generally will not have to pay US federal income tax on any gain or income realized from the sale, redemption, retirement at maturity or other disposition of your notes, unless:

in the case of gain, you are an individual who is present in the United States for 183 days or more during the taxable year of the sale or other disposition of your notes, and specific other conditions are met;

you are subject to tax provisions applicable to certain United States expatriates; or

the gain is effectively connected with your conduct of a US trade or business.

If you are engaged in a trade or business in the United States and gain with respect to your notes is effectively connected with the conduct of that trade or business, you generally will be subject to US income tax on a net basis on the gain. In addition, if you are a foreign corporation, you may be subject to a branch profits tax on your effectively connected earnings and profits for the taxable year, as adjusted for certain items.

*US Federal Estate Tax.* If you are an individual and are not a US citizen or a resident of the United States, as specially defined for US federal estate tax purposes, at the time of your death, your notes will generally not be subject to the US federal estate tax, unless, at the time of your death (1) you owned actually or constructively ten percent or more of the total combined voting power of all our classes of stock entitled to vote or (2) interest on the notes is effectively connected with your conduct of a US trade or business.

*Backup Withholding and Information Reporting.* Backup withholding will not apply to payments of principal or interest made by us or our paying agent, in its capacity as such, to you if you have provided the required certification that you are a non-US holder as described in US Federal Withholding Tax above, and provided that neither we nor our paying agent have actual knowledge that you are a US holder, as described in US Holders above. We or our paying agent may, however, report payments of interest on the notes.

The gross proceeds from the disposition of your notes may be subject to information reporting and backup withholding tax. If you sell your notes outside the United States through a non-US office of a non-US broker and the sales proceeds are paid to you outside the United States, then the US backup withholding and information reporting requirements generally will not apply to that payment. However, US information reporting, but not backup withholding, will apply to a payment of sales proceeds, even if

**Table of Contents**

that payment is made outside the United States, if you sell your notes through a non-US office of a broker that:

is a US person, as defined in the Internal Revenue Code,

derives 50% or more of its gross income in specific periods from the conduct of a trade or business in the United States,

is a controlled foreign corporation for US federal income tax purposes, or

is a foreign partnership, if at any time during its tax year,

one or more of its partners are US persons who in the aggregate hold more than 50% of the income or capital interests in the partnership, or

the foreign partnership is engaged in a US trade or business,

unless the broker has documentary evidence in its files that you are a non-US person and certain other conditions are met or you otherwise establish an exemption. If you receive payments of the proceeds of a sale of your notes to or through a US office of a broker, the payment is subject to both US backup withholding and information reporting unless you provide a Form W-8BEN certifying that you are a non-US person or you otherwise establish an exemption.

You should consult your own tax advisor regarding application of backup withholding in your particular circumstance and the availability of and procedure for obtaining an exemption from backup withholding. Any amounts withheld under the backup withholding rules from a payment to you will be allowed as a refund or credit against your US federal income tax liability, provided the required information is furnished to the Internal Revenue Service.

**OTHER TAX CONSEQUENCES**

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

We and you may be subject to state or local taxation in various state or local jurisdictions, including those in which we or you transact business or reside. Our state and local tax treatment and your state and local tax treatment may not conform to the federal income tax consequences discussed above. Consequently, you should consult your own tax advisors regarding the effect of state and local tax laws on an investment in us.

**PLAN OF DISTRIBUTION**

We may sell the securities registered by this prospectus to one or more underwriters for public offering and sale by them or may sell the securities registered by this prospectus to investors directly or through agents. Any underwriter or agent involved in the offer and sale of the securities registered by this prospectus will be named in the applicable prospectus supplement. We have reserved the right to sell or exchange securities directly to investors on our or their own behalf in those jurisdictions where we are authorized to do so.

We may sell the securities:

through underwriters or dealers;

through agents;

**Table of Contents**

directly to purchasers; or

through a combination of any of these methods of sale.

Any underwriter or agent involved in the offer and sale of the securities will be named in the applicable prospectus supplement. Direct sales to investors or our stockholders may be accomplished through subscription offerings or through stockholder purchase rights distributed to stockholders. In connection with subscription offerings or the distribution of stockholder purchase rights to stockholders, if all of the underlying securities are not subscribed for, we may sell any unsubscribed securities to third parties directly or through underwriters or agents. In addition, whether or not all of the underlying securities are subscribed for, we may concurrently offer additional securities to third parties directly or through underwriters or agents. If securities are to be sold through stockholder purchase rights, the stockholder purchase rights will be distributed as a dividend to the stockholders for which they will pay no separate consideration. The prospectus supplement with respect to the offer of securities under stockholder purchase rights will set forth the relevant terms of the stockholder purchase rights, including:

whether Common Stock or Preferred Stock will be offered under the stockholder purchase rights;

the number of those securities that will be offered under the stockholder purchase rights;

the period during which and the price at which the stockholder purchase rights will be exercisable;

the number of stockholder purchase rights then outstanding;

any provisions for changes to or adjustments in the exercise price of the stockholder purchase rights, and

any other material terms of the stockholder purchase rights.

Underwriters may offer and sell the securities at:

fixed prices, which may be changed;

prices related to the prevailing market prices at the time of sale; or

negotiated prices.

We also may, from time to time, authorize underwriters acting as our agents to offer and sell the securities upon the terms and conditions as are set forth in the applicable prospectus supplement. In connection with the sale of securities, underwriters may be deemed to have received compensation from us in the form of underwriting discounts or commissions and may also receive commissions from purchasers of securities for whom they may act as agent. Underwriters may sell securities to or through dealers, and these dealers may receive compensation in the form of discounts, concessions or commissions from the underwriters or commissions from the purchasers for whom they may act as agent, or both. The applicable prospectus supplement will disclose:

any underwriting compensation we pay to underwriters or agents in connection with the offering of securities, and

any discounts, concessions or commissions allowed by underwriters to participating dealers.

Under the Securities Act, underwriters, dealers and agents participating in the distribution of the securities may be deemed to be underwriters and any discounts and commissions received by them and any profit realized by them on resale of the securities may be deemed to be underwriting discounts and commissions. We may agree to indemnify underwriters, dealers and agents against civil liabilities, including liabilities under the Securities Act and to make contribution to them in connection with those liabilities.

If indicated in the applicable prospectus supplement, we may also offer and sell securities through a firm that will remarket the securities. These firms may act as principals for their own account or as our agents. These firms may be deemed to be underwriters in connection with the securities being remarketed. We may agree to indemnify these firms against liabilities, including liabilities under the Securities Act.

**Table of Contents**

If indicated in the applicable prospectus supplement, we will authorize dealers acting as our agents to solicit offers by institutions to purchase securities at the offering price set forth in that prospectus supplement under delayed delivery contracts providing for payment and delivery on the dates stated in the prospectus supplement. Each contract will be for an amount not less than, and the aggregate principal amount of securities sold under contracts will be not less nor more than, the respective amounts stated in the applicable prospectus supplement. Institutions with whom contracts, when authorized, may be made include commercial and savings banks, insurance companies, pension funds, investment companies, educational and charitable institutions, and other institutions but will in all cases be subject to our approval. Contracts will not be subject to any conditions except:

the purchase by an institution of the securities covered by its contracts will not at the time of delivery be prohibited under the laws of any jurisdiction in the United States to which the institution is subject, and

if the securities are being sold to underwriters, we will have sold to them the total principal amount of the securities less the principal amount of the securities covered by contracts.

Agents and underwriters will have no responsibility in respect of the delivery or performance of contracts.

To facilitate the offering of securities, certain persons participating in the offering may engage in transactions that stabilize, maintain, or otherwise affect the price of the securities. This may include over-allotments or short sales of the securities, which involve the sale by persons participating in the offering of more securities than we sold to them. In these circumstances, these persons would cover such over-allotments or short positions by making purchases in the open market or by exercising their over-allotment option, if any. In addition, these persons may stabilize or maintain the price of the securities by bidding for or purchasing securities in the open market or by imposing penalty bids, whereby selling concessions allowed to dealers participating in the offering may be reclaimed if securities sold by them are repurchased in connection with stabilization transactions. The effect of these transactions may be to stabilize or maintain the market price of the securities at a level above that which might otherwise prevail in the open market. These transactions may be discontinued at any time.

Some of the underwriters and their affiliates may engage in transactions with or perform services for us in the ordinary course of business.

**LEGAL MATTERS**

The validity of the securities offered will be passed upon by Ballard Spahr Andrews & Ingersoll, LLP, Baltimore, Maryland. Certain tax matters will be passed upon for us by Reed Smith, LLP, New York, New York. Certain legal matters will be passed upon for us by Reed Smith, LLP, New York, New York. Any underwriters will be advised about the other issues relating to any offering by their own legal counsel.

**EXPERTS**

The consolidated financial statements and schedules of LTC Properties, Inc. appearing in our annual report on Form 10-K for the year ended December 31, 2002 have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon included therein and which is incorporated herein by reference. Such consolidated financial statements and schedules are incorporated herein by reference in reliance on such report given on the authority of such firm as experts in accounting and auditing.

**Table of Contents****TABLE OF CONTENTS**

<b>Prospectus Supplement</b>	<b>Page</b>
Forward-looking statements	S-3
Prospectus supplement summary	S-4
Risk factors	S-10
Use of proceeds	S-10
Capitalization	S-11
Selected consolidated financial data	S-12
Legal proceedings	S-13
Ratios of earnings to fixed charges and earnings to combined fixed charges and preferred stock dividends	S-13
Description of our capital stock	S-14
Additional federal income tax considerations	S-24
Underwriting	S-33
Legal matters	S-35
Experts	S-35

<b>Prospectus</b>	<b>Page</b>
About this prospectus	2
Forward-looking statements	3
Where you can find additional information	4
Documents incorporated by reference	4
About our company	6
Our strategy	7
Risk factors	9
Use of proceeds	15
Ratios of earnings to fixed charges and earnings to combined fixed charges and preferred stock dividends	15
General description of the offered securities	15
Description of debt securities	16
Description of common stock	22
Description of preferred stock	24
Restrictions on ownership and transfer	29
Certain provisions of Maryland law and of our charter and bylaws	31
Certain US federal income tax considerations	33
Legal matters	49
Experts	49

**You should only rely on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not, and our underwriters have not, authorized any person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it.**

**We are not, and our underwriters are not, making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted.**

**You should assume that the information appearing in this prospectus supplement, the accompanying prospectus and the documents incorporated by reference is accurate only as of its respective date or on the date which is specified in those documents. Our business, financial condition, results of operations and prospects may have changed since any such date.**

**This prospectus supplement and the accompanying prospectus does not constitute an offer to sell, or the solicitation of any offer to buy, any securities other than the securities to which it relates.**

**2,000,000 Shares  
% Series F  
Cumulative  
Convertible Preferred  
Stock**

**LTC Properties, Inc.**

---

**PROSPECTUS  
SUPPLEMENT**

**, 2004**

---

**Stifel, Nicolaus & Company  
Incorporated  
Friedman Billings Ramsey  
McDonald Investments Inc.  
Harris Nesbitt Gerard**

---

---