LTC PROPERTIES INC
Form 424B5
July 13, 2005

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PROSPECTUS SUPPLEMENT
(TO PROSPECTUS DATED APRIL 5, 2004)

**Filed Pursuant to Rule 424 (b)(5) under the Securities Act of 1933**
**Registration No 333-113847**

**1,500,000 Shares**

# LTC Properties, Inc.

## COMMON STOCK

We are offering 1,500,000 shares of our Common Stock. Our shares of Common Stock, par value $.01 per share, are listed on the New York Stock Exchange under the symbol "LTC." On July 11, 2005, the last reported sale price of our Common Stock as reported by the New York Stock Exchange was $23.49 per share.

We expect to deliver the Common Stock on or about July 15, 2005.

**Investing in our securities involves certain risks. See "Risk Factors" on page S-7 of this prospectus supplement and beginning on page 6 of the accompanying prospectus.**

| | Per share | Total |
|---|---|---|
| Public offering price | $ 22.08 | $ 33,120,000 |
| Placement Agent Fees(1) | $ 0.2208 | $ 331,200 |
| Proceeds, before expenses, to us(2) | $ 21.8592 | $ 32,788,800 |

(1) We have agreed to engage Cohen & Steers Capital Advisors, LLC, as placement agent for this offering. Cohen & Steers has no commitment to purchase our Common Stock and will act only as an agent in obtaining indications of interest on the Common Stock from certain investors. We have agreed to pay Cohen & Steers Capital Advisors, LLC, a placement agent fee of 1.0% of gross proceeds and to pay certain of its expenses.

(2) Before deducting estimated offering expenses of $150,000.00.

**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.**

**Placement Agent**

**Cohen & Steers Capital Advisors, LLC**

THE DATE OF THIS PROSPECTUS SUPPLEMENT IS JULY 12, 2005

**We have not authorized any dealer, salesman or other person to give any information or to make any representation other than those contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. You must not rely upon any information or representation not contained or incorporated by reference in this prospectus supplement or the accompanying prospectus. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell or the solicitation of an offer to buy securities in any jurisdiction to any person to whom it is unlawful to make such offer or solicitation in such jurisdiction.**

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**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," "estimates" or "anticipates," or the negative of those words or similar words. Forward-looking statements involve inherent risks and uncertainties regarding events, conditions and financial trends that may affect our future plans of operation, business strategy, results of operations and financial position. A number of important factors could cause actual results to differ materially from those included within or contemplated by such forward-looking statements, including, but not limited to, the status of the economy, the status of capital markets including prevailing interest rates, 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, 2004 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.

## 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 Common Stock. In this prospectus supplement, unless otherwise indicated, the "company," "we," "us" and "our" refer to LTC Properties, Inc. and our consolidated subsidiaries.*

### 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 March 31, 2005, 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.

As of March 31, 2005, we had approximately $528 million in carrying value of net real estate investments. At that date, our portfolio included 101 assisted living properties, 95 skilled nursing properties and two charter schools in 31 states. We had approximately $385 million (73%) invested in owned and leased properties, approximately $102 million (19%) invested in mortgage loans, and investments in certificates of a real estate mortgage investment conduit (or REMIC) with a carrying value of approximately $41 million (8%).

### Owned Properties

At March 31, 2005, we owned 55 skilled nursing properties with a total of 6,539 beds, 88 assisted living properties with 4,175 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 March 31, 2005, we had 47 mortgage loans secured by first mortgages on 40 skilled nursing properties with a total of 4,735 beds and 13 assisted living properties with a total of 933 units and one school located in 21 states. At March 31, 2005, the mortgage loans had interest rates ranging from 6.0% to 12.6% and maturities ranging from 2005 to 2019. In addition, the loans contain certain guarantees, provide for certain facility fees and generally have 25-year amortization schedules. The majority of the mortgage loans provide for annual increases in the interest rate based upon a specified increase of 10 to 25 basis points.

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 March 31, 2005 we had $40,796,000 of REMIC Certificates at net book value. Of the $40,796,000, $37,007,000 of our net book value represents face value certificated interests in the principal balances of the underlying mortgage pools which at March 31, 2005 had total unpaid principal balance of $78,075,000. Additionally, there are also $33,956,000 senior certificates outstanding that have priority over the $37,007,000 of face value certificates we retained.

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. At March 31, 2005, the REMIC certificates were collateralized by two pools consisting of 36 first mortgage loans secured by 39 skilled nursing properties. The mortgage loans underlying the REMIC certificates generally have 25-year amortization schedules with final maturities due from 2005 to 2028, unless prepaid prior thereto.

During the second quarter of fiscal 2005, we terminated one of the REMIC pools by exchanging the certificates we held in that REMIC plus approximately $855,000 in cash to fund the redemption of the remaining certificates held by outside third parties. As a result of this transaction, we acquired five direct mortgages having an aggregate outstanding principal balance of $10,469,000 for approximately $10,399,000 (including the $855,000 in cash paid) and decreased our REMIC investments by the same amount. These five mortgages mature from 2005 to 2011 and have a weighted average interest rate of 12%. The outside certificate holders had been receiving a fixed interest rate of approximately 9%.

In July, 2005, we purchased seven mortgage loans on seven skilled nursing properties for a total of approximately $8,751,000, the total outstanding principal balance, from the remaining REMIC pool. These loans had been transferred to special servicing due to consistent late payments from one borrower and the bankruptcy filing of the operator of six facilities. The borrowers under these loans do not operate the properties but lease them to other operators. New operators have been identified by the borrowers of the six properties and we have approved the new operators and the new leases. All amounts due under these loans have been received through July 2005. The weighted average interest rate on these mortgages is approximately 11% and they mature from 2008 to 2017. As a result of these purchases, $8,751,000 of outside certificates earning fixed rates of approximately 7% were paid.

Additionally, during the second quarter of fiscal 2005, two loans in this REMIC pool paid a total of approximately $12,641,000 that went to redeem certificates held by outside certificate holders. As of July 12, 2005, there remained outstanding outside certificates of $9,793,000 and mortgage loan balances of $43,817,000 in the remaining REMIC pool.

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 $27,700 per bed while that of properties subject to our mortgages is approximately $14,600 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**

In addition to the recent developments detailed in REMIC Certificates above, since March 31, 2005, we funded a $5,000,000 loan on a 104 bed skilled nursing property in Georgia. The interest rate is 10.25% and the loan matures in five years.

**Recent Medicare and Medicaid Developments**

In a July 30, 2004 notice, the Centers for Medicare & Medicaid Services, ("CMS") increased Medicare skilled nursing facility prospective payment system rates by 2.8% for fiscal year 2005, resulting in an estimated $440 million increase in Medicare payments compared to fiscal year 2004 levels. More recently, on May 19, 2005, CMS published a proposed rule that would update the prospective payment system for skilled nursing facilities. Under the rule, CMS proposes, among other things, a refinement to the resource utilization groups ("RUGs") which would add nine new patient classification categories which determine the daily payments for Medicare beneficiaries in skilled nursing facilities. CMS is also proposing increases in the case mix index for all of the RUG categories. The increase in the index is equal to half of the value of the temporary "add-on" payment that ends with the refinement of the current system. CMS estimates that the increase in payments resulting from the RUG refinement, together with an annual inflation increase of 3% and certain other payment updates would result in no net change in skilled nursing facility Medicare payments in fiscal year 2006. The RUG refinement under the proposed rule would be effective on January 1, 2006, and the market basket increase would be effective October 1, 2005. Comments on the proposed rule were accepted until July 12, 2005 and a final rule is expected to be published in the third quarter of 2005. At this time we cannot predict what impact the proposed rule will have on the liquidity or profitability of the operators of our skilled nursing properties.

With regard to Medicaid, in May 2005 CMS announced the establishment of the "Medicaid Commission" to advise the Secretary of Health and Human Services on ways to modernize the Medicaid program. Among other things, the Commission is charged with providing recommendations on options to achieve $10 billion in Medicaid savings over five years. There can be no assurances that future federal or state Medicaid reforms will not result in reduced Medicaid reimbursement for nursing facilities or otherwise have a material adverse effect on our financial condition or results of operation.

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

## RISK FACTORS

You should carefully consider the risks described below and in the accompanying prospectus before making an investment decision in us. The risks and uncertainties described below are not the only ones facing us and there may be additional risks that we do not presently know of or that we currently consider immaterial.

For a discussion of certain risks that purchasers of our Common Stock should consider, we refer you to the discussion under the caption "Risk Factors" in Item 1 of our annual report on Form 10-K for the year ended December 31, 2004, 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. See "Documents Incorporated by Reference" on page 4 of the accompanying prospectus.

In the fourth quarter of fiscal 2000 and for all of 2001 we suspended paying a common dividend. During that period we had a Secured Revolving Credit that limited the amount of dividends (including dividends on our Preferred Stock) we could distribute to our stockholders. While still under these restrictive covenants, we were able to reinstate a common dividend in the first quarter of fiscal 2002. In December 2003, we replaced the Secured Revolving Credit with an Unsecured Credit Line which limits the payment of common dividends to the greater of (i) 90% of funds from operations or the greater of (A) the amount required for us to maintain our REIT status or (B) the amount required to ensure we will avoid the imposition of an Excise Tax. At no time have we ever suspended payment of dividends on our Preferred Stock.

## USE OF PROCEEDS

The net proceeds from the sale of the 1,500,000 shares of our Common Stock offered hereby are estimated to be $32,638,800 at a public offering price of $22.08 per share and after deducting placement agent fees and estimated offering expenses payable by us. Net proceeds will be used for general corporate purposes, including the acquisition of health care properties and the funding of mortgage loans secured by health care properties.

## DIVIDEND POLICY

In the second quarter of fiscal 2005, beginning with the month of March, we began paying a monthly dividend to holders of our Common Stock. Prior to that, it had been our policy to declare quarterly dividends to holders of our Common Stock. We pay dividends in sufficient amounts to at least comply with applicable sections of the Internal Revenue Code governing real estate investment trusts. Set forth below are the cash dividends per share paid from January 1, 2003 to June 30, 2005. On June 29, 2005, we declared monthly cash dividends of $0.11 per Common Stock per month for the months of July, August and September 2005, payable on August 1, September 1 and October 3, 2005, respectively, to stockholders of record on July 22, August 24 and September 26, 2005, respectively. Future dividends will be declared and paid at the discretion of our Board of Directors and will depend upon cash generated by operating activities, our financial condition, relevant financing instruments, capital requirements, annual distribution requirements under the real estate investment trust provisions of the Internal Revenue Code and such other factors as our Board of Directors deems relevant. We currently expect to pay at least an annual dividend of $1.32 per share for the foreseeable future.

| | Dividend |
|---|---|
| **2005** | |
| First Quarter | $ 0.300 |
| April | 0.110 |
| May | 0.110 |
| June | 0.110 |
| **2004** | |
| First Quarter | $ 0.250 |
| Second Quarter | 0.275 |
| Third Quarter | 0.300 |
| Fourth Quarter | 0.300 |
| **2003** | |
| First Quarter | $ 0.100 |
| Second Quarter | 0.150 |
| Third Quarter | 0.150 |
| Fourth Quarter | 0.250 |

## DESCRIPTION OF OUR CAPITAL STOCK

### 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 60,000,000 shares of all classes of stock, each share having a par value of $0.01 of which 45,000,000 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 of stock 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:

- 2,000,000 shares have been designated as 8.5% Series C Cumulative Convertible Preferred Stock;
- 2,200,000 shares have been designated as 8.5% Series E Cumulative Convertible Preferred Stock; and
- 6,640,000 shares have been designated as 8.0% Series F Cumulative Preferred Stock;

As of July 11, 2005, 2,000,000, 382,867, 6,640,000 and 21,649,449 shares of Series C Preferred Stock, Series E Preferred Stock, Series F Preferred Stock and Common Stock, respectively were outstanding.

For descriptions of our Common Stock, Series E Cumulative Convertible Preferred Stock and Series F Cumulative Preferred Stock, see the accompanying prospectus.

### 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 with respect to dividend rights or rights on liquidation, dissolution or winding up of our company; (ii) on parity with 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 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, 2005, 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 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.

**CAPITALIZATION**

The following table sets forth our consolidated capitalization (i) as of March 31, 2005 (ii) as adjusted to give proforma effect to the issuance and sale of the Common Stock offered hereby.

| | As of March 31, 2005 | |
|---|---|---|
| | Actual | As adjusted |
| | (in thousands) | |
| Debt: | | |
| Mortgage loans payable | $ 70,905 | $ 70,905 |
| Bonds payable and capital lease obligations | 13,503 | 13,503 |
| Senior participation payable | 15,187 | 15,187 |
| Total debt | 99,595 | 99,595 |
| Stockholders' equity | | |
| Preferred Stock, $0.01 par value; 15,000,000 shares authorized | | |
| Series C Cumulative Convertible Preferred Stock, 2,000,000 shares issued and outstanding | 38,500 | 38,500 |
| Series E Cumulative Convertible Preferred Stock, 392,465 shares issued and outstanding(1) | 9,812 | 9,812 |
| Series F Cumulative Preferred Stock, 6,640,000 shares issued and outstanding as adjusted | 166,000 | 166,000 |
| Common Stock, $0.01 par value; 45,000,000 authorized; 21,606,453 shares issued and outstanding, historical; 23,106,453 shares issued and outstanding as adjusted(1)(2) | 216 | 231 |
| Capital in excess of par value | 295,056 | 327,680 |
| Cumulative net income | 332,840 | 332,840 |
| Other equity | (1,649) | (1,649) |
| Cumulative distributions | (399,545) | (399,545) |
| Total stockholders' equity | 441,230 | 473,869 |
| Total capitalization | $ 540,825 | $ 573,464 |

(1) Since March 31, 2005, holders of 9,598 shares of Series E Convertible Preferred Stock converted into 19,196 shares of Common Stock. As of June 30, 2005, the balance of Series E Convertible Preferred Stock was $9,571,675.

(2) Excludes as of March 31, 2005: (i) 249,816 shares reserved under our 1998 Equity Participation Plan; (ii) 500,000 shares reserved under our 2004 Stock Option Plan; (iii) 79,900 shares reserved under our 2004 Restricted Stock Plan; (iv) 201,882 shares reserved for issuance upon conversion by limited partners; (v) 2,000,000 shares reserved for issuance upon the conversion of our Series C Preferred Stock; and (vi) 784,930 shares reserved for issuance upon the conversion of our Series E Preferred Stock.

## 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.

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 supplement. 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 supplement 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 your own tax advisor, regarding the tax consequences to you of the acquisition, ownership and sale of the Common Stock offered in this prospectus supplement, 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 the offering of the Common Stock offered in this prospectus supplement, our tax counsel will render an opinion to the agents of this 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, 2004 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 (as discussed below), but nonetheless maintain our qualification as a REIT because certain other requirements have been met, we will be subject to a 100% tax on an amount equal to (a) the gross income attributable to the greater of the amount by which we fail the 75% or 95% test multiplied by (b) a fraction intended to reflect our profitability.

Sixth, if we fail to distribute during each calendar year at least the sum of (i) 85% of our ordinary income for such year, (ii) 95% of our REIT capital gain net income for such year, and (iii) any undistributed taxable income from prior periods, we will be subject to a 4% excise tax on the excess of such required distribution over the amounts actually distributed.

Seventh, if we acquire an asset which meets the definition of a built-in gain asset from a corporation which is or has been a C corporation (i.e., generally a corporation subject to full corporate-level tax) in certain transactions in which the basis of the built-in gain asset in our hands is determined by reference to the basis of the asset in the hands of the C corporation, and if we subsequently recognize gain on the disposition of such asset during the ten-year period, called the recognition period, beginning on the date on which we acquired the asset, then, to the extent of the built-in gain (i.e., the excess of (a) the fair market value of such asset over (b) our adjusted basis in such asset, both determined as of the beginning of the recognition period), such gain will be subject to tax at the highest regular corporate tax rate, pursuant to IRS regulations.

Eighth, if we have taxable REIT subsidiaries, 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.

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.

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% 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 our assets, liabilities and such items. 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.

*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. Our state and local tax treatment may not conform to the federal income tax consequences discussed above.

**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 State federal income tax purposes, is:

- a citizen or resident alien of the United States;
- a corporation or partnership or other entity classified as a corporation or partnership for these purposes, created or organized in or under laws of the United States or of any state or in the District of Columbia, unless, in the case of a partnership, Treasury Regulations provide otherwise;
- an estate the income of which is subject to United States federal income taxation regardless of its source; or
- a trust whose administration is subject to the primary supervision of a United States court and which has one or more United States persons, within the meaning of the Code who have the authority to control all substantial decisions of the trust.

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.

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.

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 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 currently 28% for tax years beginning after 2002. 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.

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

**OTHER TAX CONSEQUENCES**

You should recognize that the present federal income tax treatment of an investment in our Common Stock 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 our Common Stock.

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 our Common Stock.

## PLAN OF DISTRIBUTION

We have agreed to engage Cohen & Steers Capital Advisors, LLC, as a placement agent for this offering. In acting as such placement agent, Cohen & Steers Capital Advisors, LLC is not purchasing and re-selling the securities as principal, and accordingly this offering is not made on an underwritten basis. Notwithstanding the foregoing, Cohen & Steers Capital Advisors, LLC may be deemed to be a statutory underwriter within the meaning of the Securities Act of 1933, as amended, in connection with its placement agent activities in this offering. Cohen & Steers Capital Advisors, LLC is an affiliate of Cohen & Steers Capital Management Inc., which is an investment adviser to certain entities that own certain of our shares of Preferred Stock.

Cohen & Steers Capital Advisors, LLC has no commitment to purchase any of our Common Stock and will act only as an agent in obtaining indications of interest in our Common Stock from selected institutional investors. We agreed to pay the placement agent a fee of 1.0% of gross proceeds and to pay certain of its expenses.

We have agreed to indemnify the placement agent and each of its respective partners, directors, officers, associates, affiliates, subsidiaries, employees, consultants, attorneys and agents, and each person, if any, controlling the placement agent and any of its affiliates, against liabilities resulting from this offering and to contribute to payments the placement agent may be required to make for these liabilities.

In the ordinary course of business, Cohen & Steers Capital Advisors, LLC has engaged and may in the future engage in financial advisory, investment banking and other transactions with us for which customary compensation has been, and will be paid.

Subject to the terms and conditions of purchase agreements dated July 12, 2005, certain investors have agreed to purchase, and we have agreed to sell, 1,500,000 shares of our Common Stock at a negotiated purchase price of $22.08 per share. The purchase agreements provide that the obligations of the purchasers to purchase these shares included in this offering are subject to customary closing conditions. In negotiating the offering price per share of our Common Stock, we considered the dilution to our stockholders that will result from this offering.

Jeffries & Company, Inc. is acting as settlement agent in connection with the sale of our Common Stock under the purchase agreements and will receive a fee of $30,000. After paying this fee, the fee to the placement agent and other estimated expenses, we anticipate receiving approximately $32,638,800 in net proceeds from this offering.

## 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. Reed Smith LLP will rely upon the opinion of the 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, 2004 and LTC Properties, Inc. management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2004 included therein have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon included therein and incorporated herein by reference. Such consolidated financial statements and schedules and management's assessment are incorporated herein by reference in reliance on such reports given on the authority of such firm as experts in accounting and auditing.

## WHERE YOU CAN FIND ADDITIONAL INFORMATION

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 100 F Street, NE, Washington, DC 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, as well as on our website at http://www.ltcproperties.com. Information on our website is not incorporated by reference herein and out web address is included as an inactive textual reference only.

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, 2004.
- Quarterly report on Form 10-Q for the quarterly period ended March 31, 2005.
- Current reports on Form 8-K filed with the SEC on February 1, 2005, February 2, 2005, February 2, 2005, February 2, 2005, April 18, 2005 and May 6, 2005.
- Definitive proxy statement for the annual meeting of stockholders held on May 17, 2005.
- 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.

This prospectus supplement and the documents incorporated by reference summarize certain material provisions of contracts and other documents to which we refer. Since this prospectus supplement 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 supplement a free copy, without exhibits, of any or all documents incorporated by reference into this prospectus. You may direct such requests to:

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

**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 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 (or NYSE) under the symbol "LTC." Our executive offices are located at 22917 Pacific Coast Hwy, Suite 350, Malibu, California 90265, telephone number: 310-455-6010, facsimile: 805-981-8663 and web site: www.ltcproperties.com.

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 involve 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 April 5, 2004

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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 Securities and Exchange Commission (or 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."

You should rely only on the information contained and incorporated by reference in this prospectus. Neither we nor the underwriters have authorized any other person to provide you with different or inconsistent information from that contained in this prospectus and the applicable prospectus supplement. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information in this prospectus and the applicable prospectus supplement, as well as the information we previously filed with the SEC and incorporated by reference, is accurate only as of the date on the front cover of this prospectus and the applicable prospectus supplement. Our business, financial condition, results of operations and prospects may have changed since those dates.

**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," or the negative of those words or similar words. Forward-looking statements involve inherent risks and uncertainties regarding events, conditions and financial trends that may affect our future plans of operation, business strategy, results of operations and financial position. A number of important factors could cause actual results to differ materially from those included within or contemplated by such forward-looking statements, including, but not limited to, the status of the economy, the status of capital markets including prevailing interest rates, compliance with and changes to regulations and payment policies within the health care industry, changes in financing terms, competition within the health care and senior housing industries, and changes in federal, state and local legislation. 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, 2003. 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.

## 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, 2003.
- Definitive proxy statement for the annual meeting of stockholders held on July 28, 2003.
- Current Report on Form 8-K dated March 19, 2004, for Amendment No. 1 to Rights Agreement dated as of March 19, 2004, between LTC Properties, Inc. and Harris Trust & Savings Bank (as Rights Agent).
- 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.

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

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

## ABOUT OUR COMPANY

We are a self-administered real estate investment trust that invests primarily in long-term care and other health care related properties through mortgage loans, property lease transactions and other investments. As of December 31, 2003, long-term care properties, which include skilled nursing and assisted living properties, 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 health care and real estate finance.

As of December 31, 2003, we had approximately $516 million in carrying value of net real estate investments. At that date, our portfolio included 96 assisted living properties, 83 skilled nursing properties and one charter school in 30 states. We had approximately $383 million (74%) invested in owned and leased properties, approximately $71 million (14%) 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 December 31, 2003, we owned 53 skilled nursing properties with a total of 6,047 beds, 88 assisted living properties 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.

### Mortgage Loans

At December 31, 2003, we had 37 mortgage loans secured by first mortgages on 30 skilled nursing properties with a total of 3,681 beds and eight assisted living properties with a total of 369 units located in 19 states. At December 31, 2003, these mortgage loans had interest rates ranging from 9.5% to 12.6% and maturities ranging from 2004 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 December 31, 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 $150 million and 7.1%. As of December 31, 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 15.4% at December 31, 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 69 first mortgage loans secured by 103 skilled nursing properties. The mortgage loans underlying the REMIC certificates generally have 25-year amortization schedules with final maturities due from 2004 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 sustain and enhance stockholder equity value and provide current income for distribution to stockholders through real estate investments in long-term care properties and other health care related properties managed by experienced operators. To meet these objectives, we attempt to invest in properties 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 properties, 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 properties is approximately $27,000 per bed while that of our mortgages is approximately $16,000 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 properties tend to be both newer and less dependent, if at all, on any government reimbursement.

## RISK FACTORS

You should carefully consider the risks described below and in the applicable prospectus supplement before making an investment decision in our company. The risks and uncertainties described below and therein 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, 2003, 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 health care industry;
- changes in financing terms;
- competition within the health care 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 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 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 or our equity securities.

**A failure to maintain or increase our dividend could reduce the market price of our stock.**

During calendar 2002 we paid a quarterly dividend of $.10 per common share of stock. During calendar 2003, we paid a $.10 dividend in the first quarter, a $.15 dividend in the second and third quarter and a $.25 dividend in the fourth quarter on our common stock. The ability to maintain or raise our common dividend is dependent, to a large part, on growth of funds from operations. This growth in turn depends upon increased revenues from additional investments and loans, rental increases and mortgage rate increases.

**At times, we may have limited access to capital which will slow our growth.**

A REIT is required to make dividend distributions and retains little capital for growth. As a result, a REIT is required to grow through the steady investment of new capital in real estate assets. Presently, we believe capital is readily available to us. However, there will be times when we will have limited access to capital from the equity and/or debt markets. During such periods, virtually all of our available capital will be required to meet existing commitments and to reduce existing debt. We may not be able to obtain additional equity or debt capital or dispose of assets on favorable terms, if at all, at the time we require additional capital to acquire health care properties on a competitive basis or meet our obligations.

**Income and returns from health care facilities can be volatile.**

The possibility that the health care properties in which we invest will not generate income sufficient to meet operating expenses, will generate income and capital appreciation, if any, at rates lower than those anticipated or will yield returns lower than those available through investments in comparable real estate or other investments are additional risks of investing in health care related real estate. Income from properties and yields from investments in such properties may be affected by many factors, including changes in governmental regulation (such as zoning laws and government payment), general or local economic conditions (such as fluctuations in interest rates and employment conditions), the available local supply of and demand for improved real estate, a reduction in rental income as the result of an inability to maintain occupancy levels, natural disasters (such as 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 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 12.6%, or $72.5 million, of our total assets. 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. At the request of our Board of Directors, we agreed to reduce total rents under the 37 leases by $0.9 million 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.

ALC is a publicly traded company, and as such is subject to the filing requirements of the Securities and Exchange Commission.

Alterra Healthcare Corporation (or Alterra) leases 35 assisted living properties with a total of 1,416 units owned by us representing approximately 12.4%, or $71.3 million, of our total assets at December 31, 2003. Alterra announced on January 22, 2003 that it had filed a voluntary petition with the U.S. Bankruptcy Court for the District of Delaware to reorganize under Chapter 11 of the U.S. Bankruptcy Code. Alterra's Plan of Reorganization was approved in November 2003 and Alterra emerged from bankruptcy in December 2003 as a non-publicly traded company. All of our leases with Alterra were assumed, without change, by the reorganized Alterra.

Our financial position and 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 borrowers when it expires.

**Our borrowers and lessees face competition in the health care industry.**

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

**The health care industry is heavily regulated by the government.**

Our borrowers and lessees who operate health care facilities are subject to extensive regulation by federal, state and local governments. This includes, among others, state licensure, Medicare and Medicaid certification, health care professional licensure requirements, building code and zoning laws, requirements on the submission of claims to third party payers, patient privacy requirements, and laws governing financial arrangements among health care entities. Our borrowers and lessees are also required to comply with various privacy, claims submission and security standards mandated by the Health Insurance Portability and Accountability Act of 1996. These laws and regulations are subject to frequent and substantial changes resulting from legislation, adoption of rules and regulations, and administrative and judicial interpretations of existing law. These changes may have a dramatic effect on the definition of permissible or impermissible activities, the relative costs associated with doing business and the amount of reimbursement by both government and other third-party payors. These changes may be applied retroactively. The ultimate timing or effect of these changes cannot be predicted. The failure of any borrower of funds from us or lessee of any of our properties to comply with such laws, requirements and regulations could affect its ability to operate its facility or facilities and could adversely affect such borrower's or lessee's ability to make debt or lease payments to us.

**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 include the federal Medicare program, state Medicaid programs, private insurance carriers, health care service plans, health maintenance organizations, preferred provider arrangements, self-insured employers, as well as the patients themselves.

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

Governmental and public concern regarding health care costs may result in significant reductions in payment to health care facilities, and there can be no assurance that future payment rates for either governmental or private payors will be sufficient to cover cost increases in providing services to patients. Any changes in reimbursement policies which reduce reimbursement to levels that are insufficient to cover the cost of providing patient care could adversely affect revenues of our 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, (or PPS) rates for fiscal year 2004, which began October 1, 2003. In addition, the rule adjusted 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 health care reform measures.**

The health care industry is facing various challenges, including increased government and private payor pressure on health care 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 U.S. 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.

For instance, the Balanced Budget Act of 1997 enacted significant changes to the Medicare and Medicaid programs designed to modernize payment and health care delivery systems while achieving substantial budgetary savings. 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 certain long-term care operators and both assisted living operators have emerged from bankruptcy, during their reorganizations and in some instances subsequent thereto, they reduced their operations by rejecting leases and/or defaulting on loans resulting in properties being returned to lessors or lenders. There can be no assurances given that the remainder of 2004 and future years will not include additional bankruptcies of skilled nursing and assisted living operators.

More recently, 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 providing 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 Medicare PPS payment for skilled nursing facility residents with acquired immune deficiency syndrome, applicable to services furnished on or after October 1, 2004. In addition, President Bush's fiscal year 2005 proposed budget indicates that temporary increases in Medicare payment for certain high-cost skilled nursing facility patients now in effect will continue through fiscal year 2005. Nevertheless, there can be no assurances that future legislation or regulations will not reduce Medicare reimbursement for skilled nursing facility services. In fact, 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 2004 report that Congress provide no Medicare reimbursement update for skilled nursing facilities in fiscal year 2005, and that CMS develop a new patient classification system for the skilled nursing facility prospective payment system. Until such a new classification system is developed, MedPAC recommends certain reallocation of payments from rehabilitation payment groups to other patient groups. While the MedPAC recommendations are not binding on Congress, they may affect congressional consideration of future Medicare reimbursement legislation.

In addition, comprehensive reforms affecting the payment for and availability of health care 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 health care 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. 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 2003 and in 19 states in fiscal 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 2003 and in 29 states in fiscal 2004; these increases often are mandated by state statutory funding formulas. States may be further challenged in June 2004 when temporary aid to states enacted in the May 2003 Jobs and Growth Reconciliation Tax Act expires; $10 billion of the $20 billion in temporary assistance was earmarked for state Medicaid programs. President Bush has advocated further restrictions in federal funding for the Medicaid program as part of his proposed fiscal year 2005 budget. However, in light of forthcoming regulations and continuing state and federal Medicaid program reform efforts and budget cuts, no assurance can be given that future Medicaid policy developments or 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 in a public offering or in a private transaction. Accordingly, we could become more highly leveraged. The degree of leverage could have important consequences to stockholders, including affecting our ability to obtain 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.

**A failure to reinvest cash available to us could adversely affect our future revenues and our ability to increase dividends to stockholders; there is considerable competition in our market for attractive investments.**

From time to time, we will have cash available from (1) proceeds of sales of shares of securities, (2) proceeds from new debt issuances, (3) principal payments on our mortgages and other investments, (4) sale of properties, and (5) funds from operations. We may reinvest this cash in health care investments in accordance with our investment policies, repay outstanding debt or invest in qualified short-term investments. We compete for real estate investments with a broad variety of potential investors. The competition for attractive investments negatively affects our ability to make timely investments on acceptable terms. Delays in acquiring properties or making loans will negatively impact revenues and perhaps our ability to increase distributions to our stockholders.

**Our failure to qualify as a REIT would have serious adverse consequences to our stockholders.**

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

**Our properties are subject to licensing, certification and accreditation.**

In addition to the requirements to be met by skilled nursing facilities for participation in the Medicare and Medicaid programs, skilled nursing facilities are subject to regulatory and licensing requirements of federal, state and local authorities. We have no direct control over our borrowers' or tenants' ability to meet the numerous state and federal regulatory requirements. If a borrower or tenant does not continue to meet all regulatory requirements, such borrower or tenant may lose its ability to provide or bill for health care services. If we cannot attract another health care provider on a timely basis or on acceptable terms, our revenues would be adversely impacted. In addition, our properties are special purpose properties that may not be easily adaptable to uses unrelated to health care. Transfers of operations of health care facilities are subject to regulatory approvals not required for transfers of other types of commercial operations and real estate.

**Our remedies may be limited when mortgage loans default.**

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

**Investments in commercial mortgage backed securities are subject to real estate risks relating to the underlying properties.**

We retain subordinated portions of the REMIC Certificates issued in our securitizations. These REMIC Certificates are a form of mortgage backed securities and as such, we are subject to the same risks associated with investing directly in the underlying mortgage loans. This is especially true in our case due to the nature of the collateral properties securing the underlying mortgages in our securitizations. All of these properties are special purpose properties used for the delivery of long-term care services. Any risks associated with investing in these types of properties could impact the value of our investment in the REMIC Certificates we retain.

**Investments in commercial mortgage-backed securities are subject to risks associated with prepayment of the underlying mortgages.**

As with many interest bearing mortgage-backed instruments, prepayments of the underlying mortgages may expose us to the risk that an equivalent rate of return is not available in the current market and that new investment of equivalent risk will have lower rates of return. Certain types of investments in commercial mortgage-backed securities may be interest only securities which expose the holder to the risk that the underlying mortgages may prepay at a faster rate than anticipated at acquisition. Faster than anticipated prepayments may cause the investment in interest only commercial mortgage-backed securities to have a lower than anticipated rate of return and could result in a loss of the initial investment under extreme prepayment scenarios.

**Subordinated securities may not be repaid upon default.**

We invest in subordinated tranches of commercial mortgage backed securities (our retained REMIC Certificates). In general, subordinated tranches of commercial mortgage backed securities are entitled to receive repayment of principal only after all principal payments have been made on more senior tranches and also have subordinated rights as to receipt of interest distributions. In addition, an active secondary market for such subordinated securities is not as well developed as the market for other mortgage backed securities. Accordingly, such subordinated commercial mortgage backed securities may have limited marketability and there can be no assurance that a more efficient secondary market will develop.

**We are subject to risks and liabilities in connection with properties owned through limited liability companies and partnerships.**

We have ownership interests in limited liability companies and/or partnerships. We may make additional investments through these ventures in the future. Partnership or limited liability company investments may involve risks such as the following:

- our partners or co-members might become bankrupt (in which event we and any other remaining general partners or members would generally remain liable for the liabilities of the partnership or limited liability company);

- our partners or co-members might at any time have economic or other business interests or goals which are inconsistent with our business interests or goals;

- our partners or co-members may be in a position to take action contrary to our instructions, requests, policies or objectives, including our policy with respect to maintaining our qualification as a REIT; and

- agreements governing limited liability companies and partnerships often contain restrictions on the transfer of a member's or partner's interest or "buy-sell" or other provisions which may result in a purchase or sale of the interest at a disadvantageous time or on disadvantageous terms.

We will, however, generally seek to maintain sufficient control of our partnerships and limited liability companies to permit us to achieve our business objectives. Our organizational documents do not limit the amount of available funds that we may invest in partnerships or limited liability companies. The occurrence of one or more of the events described above could have a direct and adverse impact on us.

**Certain provisions of Maryland law and our Charter and Bylaws 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, until its expiration on April 1, 2004, 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 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, certain 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. In May 2000, we adopted a Stockholder Rights Plan (or Rights Plan) designed to discourage any potential acquirer 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 would have the right to purchase a specified amount of Common Stock at a substantial discount from market price. On March 18, 2004, our Board of Directors approved an amendment to our Rights Plan whereby the Rights Plan will expire on April 1, 2004 and be of no further effect from such date. Our Rights Plan is an exhibit to the registration statement for our Series D Junior Participating Preferred Stock (or Series D Preferred Stock), and therefore is incorporated by reference as an exhibit to the registration statement of which this prospectus is a part.

**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 development and acquisition of additional properties and other acquisition transactions, the expansion and improvement of certain properties in our portfolio and the redemption of our Series C Preferred Convertible Stock.

## 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, | | | | |
|---|---|---|---|---|---|
| | **1999** | **2000** | **2001** | **2002** | **2003** |
| Consolidated ratio of earnings to fixed charges (unaudited) | 2.20 | 2.06 | 1.33 | 1.79 | 1.90 |
| Consolidated ratio of earnings to combined fixed charges and Preferred Stock dividends (unaudited) | 1.32 | 1.34 | 0.79 | 1.07 | 1.08 |

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, 2,000,000 shares of 8.5% Series C Cumulative Convertible Preferred Stock in September 1998 and 2,200,000 shares of 8.5% Series E Cumulative Convertible 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 $10.8 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 as of December 31, 2003, we had 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, 40,000 shares as Series D Preferred Stock and 2,200,000 shares as of 8.5% Series E Cumulative Convertible Preferred Stock (or Series E Preferred Stock) and as of February 27, 2004, we had designated and issued 4,000,000 shares of 8% Series F Cumulative Preferred Stock (or Series F Preferred Stock).

As of December 31, 2003, 17,807,051 shares of Common Stock and 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. There were no shares of Series D Preferred Stock outstanding. On December 31, 2003, and February 24, 2004, we announced the redemption of 1,225,680 shares and 1,838,520 shares, respectively of our Series A Preferred Stock. On March 1, 2004, we announced the redemption of 1,988,000 shares of our Series B Preferred Stock.

The redemption dates of the Series A Preferred Stock was January 30, 2004 for the 1,225,680 shares and is March 25, 2004 for the 1,838,520 shares.

The redemption date of the Series B Preferred Stock is March 31, 2004.

Subsequent to March 31, 2004, we intend to file Articles Supplementary to effect the reclassification and re-designation of 3,080,000 shares of Series A Preferred Stock and 2,000,000 shares of Series B Preferred Stock to authorized but unclassified and unissued preferred stock.

On March 18, 2004, our Board of Directors amended the Rights Plan, whereby the Rights Plan will expire on April 1, 2004, and be of no further effect from such date. In connection therewith, our Board of Directors also authorized the filing of Articles Supplementary on or after April 1, 2004, to effect the reclassification and re-designation of our Series D Preferred Stock to authorized but unclassified and unissued preferred stock.

Following such actions, we currently expect that on or about April 1, 2004, pursuant to our Charter, of our total authorized Preferred Stock, we will have classified and designated 2,000,000 shares as Series C Preferred Stock, 2,200,000 as Series E Preferred Stock and 4,000,000 shares as Series F Preferred Stock, leaving 6,800,000 shares of authorized but unclassified and unissued preferred stock.

Our Common Stock is listed on the New York Stock Exchange under the symbol "LTC." Until redeemed, 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." We will terminate the listing of the Series A Preferred Stock and Series B Preferred Stock on the New York Stock Exchange following redemption. Our Series E Preferred Stock and Series F Preferred Stock are listed on the New York Stock Exchange under the symbols "LTC PrE" and "LTC PrF," respectively. 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;
- 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.

**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.

*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 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 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