NATIONWIDE HEALTH PROPERTIES INC
Form 424B5
May 12, 2005
Table of Contents

Filed pursuant to Rule 424(b)(5)

Registration File No. 333-70707

The information in this prospectus supplement is not complete and may be changed. A registration statement relating to these securities has been declared effective by the Securities and Exchange Commission. We are not using this prospectus to offer to sell these securities or to solicit offers to buy these securities in any place where the offer or sale is not permitted.

Subject to completion dated May 10, 2005

Preliminary prospectus supplement

To prospectus dated July 30, 2002

$250,000,000

% Notes due

Interest payable May 15 and November 15

Issue price: %

The notes will mature on . Interest will accrue from , 2005. We may redeem the notes in whole or in part at any time at the redemption prices described on page S-17.

See Risk Factors beginning on page S-7 for a discussion of certain risks that you should consider in connection with an investment in the notes.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the notes or determined that this prospectus supplement or the prospectus to which it relates is accurate or complete. Any representation to the contrary is a criminal offense.

	Price to Public	Underwriting Discounts	Proceeds to Us
Per Note	%	%	%
Total	$	$	$

The notes will not be listed on any securities exchange. Currently, there is no public market for the notes.

We expect that delivery of the notes will be made to investors through the book-entry delivery system of The Depository Trust Company on or about , 2005.

JPMorgan

Banc of America Securities LLC

UBS Investment Bank

Wachovia Securities

Calyon Securities (USA)

Cohen & Steers

KeyBanc Capital Markets

Wells Fargo Securities

May , 2005

Table of Contents

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with any other information. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date of this prospectus supplement or the accompanying prospectus, respectively, or that information contained in any document incorporated or deemed to be incorporated by reference is accurate as of any date other than the date of that document.

If the description of the notes varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

The distribution of this prospectus supplement and the accompanying prospectus and the offering of the notes in some jurisdictions may be restricted by law. Persons who receive this prospectus supplement and the accompanying prospectus should inform themselves about and observe any such restrictions. This prospectus supplement and the accompanying prospectus do not constitute, and may not be used in connection with, an offer or solicitation by anyone in any jurisdiction in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

Table of Contents

Prospectus supplement

Prospectus

1

Table of Contents

The Company

Nationwide Health Properties, Inc., a Maryland corporation incorporated on October 14, 1985, is a real estate investment trust (REIT) that invests primarily in healthcare related facilities and provides financing to healthcare providers. Whenever we refer herein to NHP , the Company or to us or use the terms we or our, we are referring to Nationwide Health Properties, Inc. and its subsidiaries, unless the context otherwise requires.

We primarily make our investments by acquiring an ownership interest in facilities and leasing them to unaffiliated operators under triple-net master leases that pass all facility operating costs (insurance, property taxes, utilities, maintenance, capital improvements, etc.) through to the tenant operator. In addition, but intentionally to a much lesser extent because we view the risks of this activity to be greater, from time to time we extend mortgage loans and other financing to operators. Currently, about 96% of our revenues are derived from our leases, with the remaining 4% from our mortgage loans and other financing.

At March 31, 2005, we had investments in 422 facilities located in 39 states. The facilities included 194 skilled nursing facilities, 168 assisted and independent living facilities, 7 continuing care retirement communities, 7 specialty hospitals and 46 assisted living facilities operated by an unconsolidated joint venture in which we held a 25% interest. In May of 2005, we acquired the entire interest in that previously unconsolidated joint venture. See Recent Developments. Substantially all of our owned facilities are leased under triple-net leases, which are accounted for as operating leases.

Our facilities are operated by 71 different operators, including the following publicly traded companies: American Retirement Corporation, Beverly Enterprises, Inc., Emeritus Corporation, Extendicare, Inc., Genesis Healthcare, HEALTHSOUTH Corporation, Kindred Healthcare, Inc. and Sun Healthcare Group, Inc. Of the operators of our facilities, only Alterra Healthcare Corporation (Alterra) and American Retirement Corporation accounted for 10% or more of our revenues at March 31, 2005 or are expected to account for more than 10% of our revenues for the remainder of 2005. In addition, the joint venture in which we recently acquired the entire interest has direct ownership of 46 assisted living facilities, all of which are leased to Alterra.

At March 31, 2005, we had direct ownership of 181 skilled nursing facilities, 167 assisted and independent living facilities, six continuing care retirement communities and seven specialty hospitals. We lease our owned facilities to single tenants under triple-net leases that are accounted for as operating leases.

Our leases generally have initial terms ranging from five to 21 years with two or more multiple-year renewal options. We earn fixed monthly minimum rents and may earn periodic additional rents. The additional rent payments are generally computed as a percentage of facility revenues in excess of base amounts or as a percentage of the increase in the Consumer Price Index. Additional rents are generally calculated and payable monthly or quarterly. While the calculations and payments of additional rents contingent upon revenue are generally made on a quarterly basis, SEC Staff Accounting Bulletin No. 101 Revenue Recognition in Financial Statements (SAB No. 101) does not allow for the recognition of this revenue until all possible contingencies have been eliminated. Most of our leases with additional rents contingent upon revenue are structured as quarterly calculations so that all contingencies for revenue recognition have been eliminated at each of our quarterly reporting dates. Also, the majority of our leases contain provisions that the total rent cannot decrease from one year to the next. Approximately

Table of Contents

80% of our facilities are leased under master leases. In addition, the majority of our leases contain cross-collateralization and cross-default provisions tied to other leases with the same tenant, as well as grouped lease renewals and, if purchase options exist, grouped purchase options. Leases covering 290 facilities are backed by security deposits consisting of irrevocable letters of credit or cash, most of which cover from three to six months, of initial monthly minimum rents. As of December 31, 2004, leases covering 153 facilities required the tenant to impound property taxes and leases covering 71 facilities required capital expenditure impounds. Under the terms of the leases, the tenant is responsible for all maintenance, repairs, taxes, insurance and capital expenditures for the leased properties.

At March 31, 2005, we held 11 mortgage loans secured by 13 skilled nursing facilities, one assisted and independent living facility and one continuing care retirement community. As of March 31, 2005, the mortgage loans receivable had a net book value of $75,032,000. The mortgage loans had individual outstanding balances ranging from $164,000 to $10,595,000 and had maturities ranging from 2005 to 2031 at March 31, 2005.

We believe we have operated in such a manner as to qualify for taxation as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. We intend to continue to qualify as such and therefore to distribute at least 90% of our REIT taxable income to our stockholders. If we qualify for taxation as a REIT, and we distribute 100% of our taxable income to our stockholders, we will generally not be subject to federal income taxes on our income that is distributed to stockholders. This treatment substantially eliminates the double taxation (i.e., at the corporate and stockholder levels) that generally results from investing in the stock of a corporation.

Our principal executive offices are located at 610 Newport Center Drive, Suite 1150, Newport Beach, California 92660 and our telephone number is (949) 718-4400.

Table of Contents

Recent Developments

On May 3, 2005, we acquired JER Senior Housing LLC s 75% interest in our joint venture, JER/NHP Senior Housing, LLC, for approximately $121,000,000. As part of this transaction, we assumed the secured debt that the joint venture had in place of approximately $60,000,000 ($45,000,000 of which was attributable to JER s 75% interest in the joint venture), resulting in a net payment to JER of approximately $75,000,000, net of other costs and fees related to buying out their interest, of approximately $1,000,000. As a result of this acquisition, we now own 100% of the 46 assisted living facilities leased to Alterra under two cross-defaulted master leases with initial terms expiring in 2020. From the transaction date forward, the operations of JER/NHP Senior Housing, LLC will be consolidated with our other operations.

Use of Proceeds

We estimate that the net proceeds we will receive from this offering will be approximately $248 million after deducting estimated underwriters discounts and commissions and other offering expenses payable by us. The net proceeds from the sale of the notes will primarily be used for the repayment of amounts outstanding under our revolving credit facility. As of May 3, 2005, the aggregate amount of such indebtedness was approximately $335 million having interest rates between % and 6.0% and a maturity date of April 15, 2007. Amounts outstanding under the revolving credit facility were incurred for general corporate purposes, including the acquisition of health care facilities and funding of mortgage loans secured by health care facilities and the acquisition of the remaining 75% interest of our former joint venture, JER Senior Housing, LLC. See Recent Developments.

Table of Contents

Capitalization

The following table presents our consolidated cash and cash equivalents and capitalization as of March 31, 2005:

on an actual basis; and

on an adjusted basis giving effect to the issuance and sale of our notes being offered by this prospectus supplement and the accompanying prospectus and the application of the net proceeds from this offering.

This table should be read in conjunction with our consolidated financial statements and the related notes contained therein in our Annual Report on Form 10-K for the fiscal year ended December 31, 2004 and our unaudited consolidated financial statements and related notes contained therein in our quarterly report on Form 10-Q for the first quarter ended March 31, 2005, which are incorporated by reference in this prospectus supplement.

	As of March 31, 2005	
	Actual	As adjusted
	(in thousands)	
Cash and cash equivalents	$ 9,184	$ ______(1)
Debt:		
Borrowings under unsecured revolving credit facility	$ 246,000	$ (1)
Senior notes due 2006-2038	452,000	702,000
Notes and bonds payable	194,988	194,988
Total debt	$ 892,988	$ 896,988
Stockholders equity:		
Preferred stock, $1.00 par value per share; 5,000,000 shares authorized:		
7.677% Series A Cumulative Preferred Step-Up REIT Securities; 1,000,000 shares issued and outstanding; stated at liquidation preference of $100 per share	100,000	100,000
7.75% Series B Cumulative Convertible Preferred Stock; 1,064,500 shares issued and outstanding; stated at liquidation preference of $100 per share	106,450	106,450
Common stock, $0.10 par value per share; 100,00,000 shares authorized; 67,096,171 shares issued and outstanding (2)	6,710	6,710
Capital in excess of par value	872,542	872,542
Cumulative net income	822,136	822,136
Cumulative dividends	(1,103,188)	(1,103,188)
Total stockholders equity	804,650	804,650
Total capitalization	$ 1,697,638	$ 1,701,638

(1) At May 3, 2005, the aggregate amount outstanding under our revolving credit facility was approximately $335 million. The net proceeds from this offering will be used to reduce these borrowings.

(2) Excludes:

931,850 shares of our common stock issuable upon exercise of options outstanding as of March 31, 2005, at a weighted average exercise price of $18.99 per share; and

14,142 shares of our common stock available for future grant under our stock option and restricted stock plan as of March 31, 2005.

Table of Contents

Ratio of Earnings to Fixed Charges

The ratio of earnings to fixed charges for each of the periods indicated is as follows:

	For the three months ended March 31,	Year Ended December 31,				
	2005	**2004**	**2003**	**2002**	**2001**	**2000**
Ratio	1.92	2.27	1.96	1.72	2.05	2.09

Table of Contents

Summary Financial Data

The following table presents summary consolidated financial data. Certain of this financial data has been derived from our unaudited consolidated financial statements included in our Quarterly Report on Form 10-Q for the first quarter ended March 31, 2005 and our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2004 and should be read in conjunction with these consolidated financial statements and accompanying notes and with Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Quarterly Report on Form 10-Q and our Annual Report on Form 10-K incorporated by reference herein. Operating results for the first quarter ended March 31, 2005 are not necessarily indicative of the operating results to be expected for the year ending December 31, 2005.

	Years ended December 31,			Three Months Ended March 31	
Operating data	**2002**	**2003**	**2004**	**2004**	**2005**
				(unaudited)	
		(in thousands)			
Revenues	$ 150,753	$ 161,549	$ 186,611	$ 40,981	$ 51,441
Income from continuing operations	40,817	55,616	71,299	14,481	13,443
Discontinued operations	(4,263)	(2,174)	3,253	75	(82)
Net income	36,554	53,442	74,822	14,556	13,361
Preferred stock dividends	(7,677)	(7,677)	(11,802)	(1,919)	(3,982)
Income available to common stockholders	$ 28,877	$ 45,765	$ 63,020	$ 12,637	$ 9,379
Dividends paid on common stock	90,585	88,566	99,666	25,373	25,035

	Years ended December 31,			Three Months Ended March 31	
Balance sheet data	**2002**	**2003**	**2004**	**2004**	**2005**
				(unaudited)	
		(in thousands)			
Cash and cash equivalents	8,387	10,726	8,473	12,788	$ 9,184
Investments in real estate, net	1,345,195	1,317,969	1,637,390	1,387,793	1,683,712
Total assets	1,409,933	1,384,555	1,710,111	1,461,543	1,750,991
Borrowings under unsecured revolving credit facility	107,000	63,000	186,000	25,000	246,000(1)
Senior notes due 2006-2038	614,750	540,750	470,000	517,000	452,000
Notes and bonds payable	111,303	133,775	187,409	140,737	194,988
Stockholders equity	529,140	602,407	815,826	729,617	804,650

(1) At May 3, 2005, the aggregate amount outstanding under our revolving credit facility was approximately $335 million. The net proceeds from this offering will be used to reduce these borrowings.

Table of Contents

Risk Factors

Generally speaking, the risks facing our company fall into two categories: risks associated with the operations of our operators; and other risks unique to our operations. You should carefully consider the risks and uncertainties described below before making an investment decision in our company. These risks and uncertainties are not the only ones facing us and there may be additional matters that we are unaware of or that we currently consider immaterial. All of these could adversely affect our business, financial condition, results of operations and cash flows and, thus, the value of an investment in our company.

Risks relating to our operators

Our financial position could be weakened and our ability to make distributions could be limited if any of our major operators were unable to meet their obligations to us or failed to renew or extend their relationship with us as their lease terms expire or their mortgages mature, or if we were unable to lease or re-lease our facilities or make mortgage loans on economically favorable terms. There may end up being more serious operator financial problems that lead to more extensive restructurings or tenant disruptions than we currently expect. This could be unique to a particular operator or it could be more industry wide, such as further federal or state governmental reimbursement reductions in the case of our skilled nursing facilities as governments work through their budget deficits, continuing reduced occupancies or slow lease-ups for our assisted and independent living facilities due to general economic and other factors, continuing increases in liability, insurance premiums and other expenses. These adverse developments could arise due to a number of factors, including those listed below.

The bankruptcy, insolvency or financial deterioration of our operators could significantly delay our ability to collect unpaid rents or require us to find new operators for rejected facilities.

We are exposed to the risk that our operators may not be able to meet their obligations, which may result in their bankruptcy or insolvency. Although our leases and loans provide us the right to terminate an investment, evict an operator, demand immediate repayment and other remedies, the bankruptcy laws afford certain rights to a party that has filed for bankruptcy or reorganization. An operator in bankruptcy may be able to restrict our ability to collect unpaid rent and interest during the bankruptcy proceeding.

Leases. If one of our lessees seeks bankruptcy protection, the lessee can either assume or reject the lease. Generally, the operator is required to make rent payments to us during its bankruptcy until it rejects the lease. If the lessee assumes the lease, the court cannot change the rental amount or any other lease provision that could financially impact us. However, if the lessee rejects the lease, the facility would be returned to us. In that event, if we were able to re-lease the facility to a new operator only on unfavorable terms or after a significant delay, we could lose some or all of the associated revenue from that facility for an extended period of time.

Mortgage Loans. If an operator defaults under one of our mortgage loans, we may have to foreclose on the mortgage or protect our interest by acquiring title to a property and thereafter making substantial improvements or repairs in order to maximize the facility s investment potential. Operators may contest enforcement of foreclosure or other remedies, seek bankruptcy protection against an enforcement and/or bring claims for lender liability in response to actions to enforce mortgage obligations. If an operator seeks bankruptcy

S-7

protection, the automatic stay of the federal bankruptcy law would preclude us from enforcing foreclosure or other remedies against the operator unless relief is obtained from the court. In addition, an operator would not be required to make principal and interest payments while an automatic stay was in effect. High loan to value ratios or declines in the value of the facility may prevent us from realizing an amount equal to our mortgage loan upon foreclosure.

The receipt of liquidation proceeds or the replacement of an operator that has defaulted on its lease or loan could be delayed by the approval process of any federal, state or local agency necessary for the replacement of the operator licensed to manage the facility. In some instances, we may take possession of a property that exposes us to successor liabilities. These events, if they were to occur, could reduce our revenue and operating cash flow.

In addition, some of our leases provided for free rent at the beginning of the lease. These deferred amounts are repaid over the remainder of the lease term. Although the payment of cash rent is deferred, rental income is recorded on a straight-line basis over the life of the lease, such that the income recorded during the early years of the lease is higher than the actual cash rent received during that period, creating an asset on our balance sheet called deferred rent receivable. To the extent any of the operators under these leases, for the reasons discussed above, become unable to pay the deferred rents, we may be required to write down the rents receivable from those operators, which would reduce our net income.

Operators that fail to comply with governmental reimbursement programs such as Medicare or Medicaid, licensing and certification requirements, fraud and abuse regulations or new legislative developments may be unable to meet their obligations to us.

Our operators are subject to numerous federal, state and local laws and regulations that are subject to frequent and substantial changes (sometimes applied retroactively) resulting from legislation, adoption of rules and regulations, and administrative and judicial interpretations of existing law. The ultimate timing or effect of these changes cannot be predicted. These changes may have a dramatic effect on our operators costs of doing business and the amount of reimbursement by both government and other third-party payors. The failure of any of our operators to comply with these laws, requirements and regulations could adversely affect their ability to meet their obligations to us in particular

Medicare, Medicaid and Private Payor Reimbursement. A significant portion of our skilled nursing facility operators revenue is derived from governmentally-funded reimbursement programs, such as Medicare and Medicaid, and failure to maintain certification and accreditation in these programs would result in a loss of funding from them. Moreover, federal and state governments have adopted and continue to consider various reform proposals to control health care costs. In recent years, there have been fundamental changes in the Medicare program that have resulted in reduced levels of payment for a substantial portion of health care services. For example, the Balanced Budget Act of 1997 established a Prospective Payment System for Medicare skilled nursing facilities under which facilities are paid a federal per diem rate for most covered nursing facility services. Under this system, skilled nursing facilities are no longer assured of receiving reimbursement adequate to cover the costs of operating the facilities. In many instances, revenues from Medicaid programs are already insufficient to cover the actual costs incurred in providing care to those patients. In addition, reimbursement from private payors has in many cases effectively been reduced to levels approaching those of government payors. Governmental concern regarding health care costs and their budgetary impact may result in significant reductions in payment to health care facilities, and future reimbursement rates for either governmental or private payors may not be sufficient to cover cost increases in providing services to patients. Loss of certification or accreditation, or any changes in reimbursement policies that reduce reimbursement to levels that are insufficient to cover the cost of providing patient care, could cause the revenues of our operators to decline, potentially jeopardizing their ability to meet their obligations to us. In that event, our revenues from those facilities could be reduced, which could in turn cause the value of our affected properties to decline.

Licensing and Certification. operators and facilities are subject to regulatory and licensing requirements of federal, state and local authorities and are periodically audited by them to confirm compliance. Failure to obtain licensure or loss of licensure would prevent a facility, or in some cases, potentially all of an operator s facilities in a state, from operating. Our skilled nursing facilities generally require governmental approval, often in the form of a certificate of need that generally varies by state and is subject to change, prior to the addition or construction of new beds, the addition of services or certain capital expenditures. Some of our facilities may not be able to satisfy current and future regulatory requirements and may for this reason be unable to continue operating in the future. In such event, our revenues from those facilities could be reduced or eliminated for an extended period of time. State licensing and Medicare and Medicaid laws also require operators of nursing homes and assisted living facilities to comply with extensive standards governing operations. Federal and state agencies administering those laws regularly inspect such facilities and investigate complaints. Our tenants and their managers receive notices of potential sanctions and remedies from time to time, and such sanctions have been imposed from time to time on facilities operated by them. If they are unable to cure deficiencies which have been identified or which are identified in the future, such sanctions may be imposed and if imposed may adversely affect our tenants ability to operate and therefore pay rent to us.

Fraud and Abuse Regulations. There are various extremely complex and largely uninterpreted federal and state laws governing a wide array of referrals, relationships and arrangements and prohibiting fraud by health care providers. These laws include (i) criminal laws that prohibit filing false claims or making false statements to receive payment or certification under Medicare and Medicaid, or failing to refund overpayments or improper payments, (ii) certain federal and state anti-remuneration laws, such as the federal health care Anti-Kickback Statute and federal self-referral law (also known as the Stark law), which govern various types of financial arrangements among health care providers and others who may be in a position to refer or recommend patients to these providers, (iii) the Civil Monetary Penalties law, which may be imposed by the Department of Health and Human Services for certain fraudulent acts, and (iv) federal and state patient privacy laws, such as the privacy and security provisions of the Health Insurance Portability and Accountability Act of 1996. Governments are devoting increasing attention and resources to anti-fraud initiatives against health care providers. In addition, certain laws, such as the Federal False Claims Act, allow for individuals to bring qui tam (or whistleblower) actions on behalf of the government for violations of fraud and abuse laws. These qui tam actions may be filed by present and former patients, nurses or other employees, or other third parties. The Health Insurance Portability and Accountability Act of 1996 and the Balanced Budget Act of 1997 expand the penalties for health care fraud, including broader provisions for the exclusion of providers from the Medicare and Medicaid programs. Further, under anti-fraud demonstration projects such as Operation Restore Trust, the Office of Inspector General of the US Department of Health and Human Services, in cooperation with other federal and state agencies, has focused and may continue to focus on the activities of skilled nursing facilities in certain states in which we have properties. The violation of any of these regulations by an operator may result in the imposition of fines or other penalties (including exclusion from the Medicare and Medicaid programs) that could jeopardize that operator s ability to make lease or mortgage payments to us or to continue operating its facility.

Legislative Developments. Each year, legislative proposals are introduced or proposed in Congress and in some state legislatures that would effect major changes in the health care system, either nationally or at the state level. Among the proposals under consideration are cost controls on state Medicaid reimbursements, hospital cost-containment initiatives by public and private payors, uniform electronic data transmission standards for health care claims and payment transactions, and higher standards to protect the security and privacy of health-related information. We cannot predict whether any proposals will be adopted or, if adopted, what effect, if any, these proposals would have on operators and, thus, our business.

Our operators are faced with significant potential litigation and rising insurance costs that not only affect their ability to obtain and maintain adequate liability and other insurance, but also may affect their ability to pay their lease or mortgage payments and fulfill their insurance, indemnification and other obligations to us.

In some states, advocacy groups have been created to monitor the quality of care at skilled nursing facilities and assisted and independent living facilities, and these groups have brought litigation against operators. Also, in several instances, private litigation by skilled nursing facility patients or assisted and independent living facility residents or the families of either has succeeded in winning very large damage awards for alleged abuses. To a lesser extent, this litigation also has spilled over and affected assisted and independent living facilities. The effect of this litigation and potential litigation has been to materially increase the costs of monitoring and reporting quality of care compliance incurred by our tenants. In addition, the cost of liability and medical malpractice insurance has increased and may continue to increase so long as the present litigation environment continues. This has affected the ability of some of our operators to obtain and maintain adequate liability and other insurance and, thus, manage their related risk exposures. In addition to being unable to fulfill their insurance, indemnification and other obligations to us under their leases and mortgages and thereby potentially exposing us to those risks, this could cause our tenants to be unable to pay their lease or mortgage payments potentially decreasing our revenues and increasing our collection and litigation costs. Moreover, to the extent we are required to foreclose on the affected facilities, our revenues from those facilities could be reduced or eliminated for an extended period of time.

In addition, we may in some circumstances be named as a defendant in litigation involving the actions of our operators. For example, we have been named as a defendant in lawsuits for wrongful death at one of our facilities formerly operated by a now bankrupt operator with minimal insurance. Although we have no involvement in the activities of our operators and our standard leases generally require our operators to carry insurance to cover us in certain cases, a significant judgment against us in such litigation could exceed our and our operators insurance coverage, which would require us to make payments to cover the judgment. For further information, please see Notes to Condensed Consolidated Financial Statements in the Company s Quarterly Report on Form 10-Q.

Increased competition has resulted in lower revenues for some of our operators and may affect the ability of our tenants to meet their payment obligations to us.

The health care industry is highly competitive and we expect that it may become more competitive in the future. Our operators are competing with numerous other companies providing similar health care services or alternatives such as home health agencies, life care at home, community-based service programs, retirement communities and convalescent centers. In addition, past overbuilding in the assisted and independent living market caused a slow-down in the fill-rate of newly constructed buildings and a reduction in the monthly rate many newly built and previously existing facilities were able to obtain for their services and adversely impacted the occupancy of mature properties. This in turn resulted in lower revenues for the operators of certain of our facilities and contributed to the financial difficulties of some of our operators. While we believe that overbuilt markets should reach stabilization in the next several years and are less of a problem today due to minimal new development, we cannot be certain the operators of all of our facilities will be able to achieve occupancy and rate levels that will enable them to meet all of their obligations to us. Our operators are expected to encounter increased competition in the future, including through industry consolidations, that could limit their ability to attract residents or expand their businesses and therefore affect their ability to pay their lease or mortgage payments.

Risks unique to us and our operations

In addition to the operator related risks discussed above, there are a number of risks directly associated with us and our operations.

We are subject to particular risks associated with real estate ownership, which could result in unanticipated losses or expenses.

Our business is subject to many risks that are associated with the ownership of real estate. For example, if our operators do not renew their leases, we may be unable to re-lease the facilities at favorable rental rates. Other risks that are associated with real estate acquisition and ownership include, among other things, the following:

general liability, property and casualty losses, some of which may be uninsured;

the inability to purchase or sell our assets rapidly to respond to changing economic conditions, due to the illiquid nature of real estate and the real estate market;

costs relating to maintenance and repair of our facilities and the need to make expenditures due to changes in governmental regulations, including the Americans with Disabilities Act; and environmental hazards created by prior owners or occupants, existing tenants, mortgagors or other persons for which we may be liable.

We rely on external sources of capital to fund future capital needs, and if our access to such capital on reasonable terms is limited, we may not be able to meet maturing commitments or make future investments necessary to grow our business.

In order to qualify as a REIT under the Internal Revenue Code, we are required, among other things, to distribute each year to our stockholders at least 90% of our REIT taxable income. Because of this distribution requirement, we will not be able to fund, from cash retained from operations, all future capital needs, including capital needs to satisfy or refinance maturing commitments and to make investments. As a result, we rely on external sources of capital. If we are unable to obtain needed capital at all or only on unfavorable terms from these sources, we might not be able to make the investments needed to grow our business, or to meet our obligations and commitments as they mature, which could negatively affect the ratings of our debt and even, in extreme circumstances, affect our ability to continue operations. Our access to capital depends upon a number of factors over which we have little or no control, including rising interest rates, inflation and other general market conditions and the market s perception of our growth potential and our current and potential future earnings and cash distributions and the market price of the shares of our capital stock. In the early 2000 s, difficult capital market conditions in our industry limited our access to capital and as a result our historic level of new investments decreased. Although we believe our access to capital today is good, we may again encounter difficult market conditions that could limit our access to capital. This could limit our ability to make future investments or possibly affect our ability to meet our maturing commitments.

Our potential capital sources include

Equity financing. As with other publicly-traded companies, the availability of equity capital will depend, in part, on the market price of our common stock which, in turn, will depend upon various market conditions that may change from time to time. Among the market conditions and other factors that may affect the market price of our common stock are:

the extent of investor interest;

the reputation of REITs in general and the healthcare sector in particular and the attractiveness of REIT equity securities in comparison to other equity securities, including securities issued by other real estate-based companies;

our financial performance and that of our operators;

the contents of analyst reports about us and the REIT industry;

Aon Corporation, 8.205% 01/01/27

1,282,027[1][2] 615,000

Arch Capital Group, Ltd., 6.75%, Series C

16,547,374**(1)(3)

Aspen Insurance Holdings Ltd.:

71,206

5.95%

1,841,565**(3) 16,729

7.25%

442,273**(3) 87,755

7.401%

2,147,260**(3)

AXA SA:

$3,315,000

6.379%, 144A****

3,452,406**(1)(2)(3) $2,750,000

8.60% 12/15/30

3,581,875(3) 1,358,586

Axis Capital Holdings Ltd., 6.875%, Series C

35,832,706**(1)(3)

Chubb Ltd.:

$4,566,000

Ace Capital Trust II, 9.70% 04/01/30

6,497,418(1)(2)(3) 732,250

Delphi Financial Group, 7.376% 05/15/37

18,260,484(1)(2)

Endurance Specialty Holdings:

84,000

6.35%, Series C

2,206,680**(3) 185,902

7.50%, Series B

4,723,082**(1)(3) $13,308,000

Everest Re Holdings, 6.60% 05/15/37

11,478,150(1)(2) 50,000

Hartford Financial Services Group, Inc., 7.875%

1,596,875 $36,918,000

Liberty Mutual Group, 10.75% 06/15/58, 144A****

53,623,395(1)(2)

MetLife:

$16,612,000

MetLife, Inc., 10.75% 08/01/39

24,585,760(1)(2) $2,250,000

MetLife Capital Trust IV, 7.875% 12/15/37, 144A****

2,576,250(1)(2) $18,250,000

MetLife Capital Trust X, 9.25% 04/08/38, 144A****

23,770,625(1)(2)

PartnerRe Ltd.:

140,000

5.875%, Series F

3,640,000**(1)(3) 475,799

7.25%, Series E

13,708,959**(1)(3)

Prudential Financial, Inc.:

$4,906,000

5.625% 06/15/43

4,853,261(1)(2) $3,900,000

5.875% 09/15/42

3,963,453(1)(2)

Flaherty & Crumrine Preferred Securities Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 29, 2016 (Unaudited)

Shares/$ Par		**Value**
Preferred Securities (Continued)		
	Insurance (Continued)	
	QBE Insurance:	
$ 17,752,000	QBE Capital Funding III Ltd., 7.25% 05/24/41, 144A****	$ 19,394,060(1)(2)(3)
	Unum Group:	
$ 15,240,000	Provident Financing Trust I, 7.405% 03/15/38	17,585,573(1)(2)
	XL Group PLC:	
$ 33,000,000	XL Capital Ltd., 6.50%, Series E	23,182,500(1)(2)(3)
		318,004,998
	Utilities 11.3%	
	Baltimore Gas & Electric Company:	
10,000	6.70%, Series 1993	1,018,438*(1)
15,000	7.125%, Series 1993	1,523,437*
	Commonwealth Edison:	
$ 15,828,000	COMED Financing III, 6.35% 03/15/33	16,606,374(1)(2)
$ 11,662,000	Dominion Resources, Inc., 7.50% 06/30/66	9,796,080(1)(2)
164,400	Georgia Power Company, 6.50%, Series 2007A	17,246,596*(1)
98,800	Indianapolis Power & Light Company, 5.65%	10,108,475*
463,700	Integrys Energy Group, Inc., 6.00%	11,853,331(1)
	Nextera Energy:	
$ 16,293,000	FPL Group Capital, Inc., 6.65% 06/15/67, Series C	12,301,215(1)(2)
$ 5,100,000	FPL Group Capital, Inc., 7.30% 09/01/67, Series D	4,870,500(1)(2)
	PECO Energy:	
$ 2,386,000	PECO Energy Capital Trust III, 7.38% 04/06/28, Series D	2,699,177(1)(2)
	PPL Corp:	
$ 18,180,000	PPL Capital Funding, Inc., 6.70% 03/30/67, Series A	13,647,126(1)(2)
$ 23,500,000	Puget Sound Energy, Inc., 6.974% 06/01/67, Series A	17,096,250(1)(2)
197,500	Southern California Edison Co., 6.50%, Series D	20,305,469*(1)
		139,072,468
	Energy 2.3%	
$ 2,510,000	DCP Midstream LLC, 5.85% 05/21/43, 144A****	1,342,850
$ 38,198,000	Enbridge Energy Partners LP, 8.05% 10/01/37	26,070,135(1)(2)
$ 1,471,000	Enterprise Products Operating L.P., 8.375% 08/01/66, Series A	1,106,928
		28,519,913

Flaherty & Crumrine Preferred Securities Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 29, 2016 (Unaudited)

Shares/$ Par		Value
Preferred Securities (Continued)		
	Real Estate Investment Trust (REIT) 2.8%	
17,745	Equity CommonWealth, 7.25%, Series E	$ 447,508
	National Retail Properties, Inc.:	
263,818	5.70%, Series E	6,743,848[1][2]
137,417	6.625%, Series D	3,564,253[1]
	PS Business Parks, Inc.:	
22,000	5.70%, Series V	566,500
30,000	5.75%, Series U	755,100
55,000	6.00%, Series T	1,398,100
275,175	6.45%, Series S	7,128,766[1]
59,386	Public Storage, 6.375%, Series Y	1,660,955
331,640	Realty Income Corporation, 6.625%, Series F	8,602,742[1]
127,988	Regency Centers Corporation, 6.625%, Series 6	3,359,685
		34,227,457
	Miscellaneous Industries 2.4%	
	BHP Billiton Limited:	
$ 2,500,000	BHP Billiton Finance U.S.A., Ltd., 6.75% 10/19/75, 144A****	2,418,750[3]
$ 6,974,000	General Electric Company, 5.00%, Series D	7,087,328*[1][2]
$ 9,500,000	Land O Lakes, Inc., 8.00%, 144A****	9,820,625*[1][2]
105,400	Ocean Spray Cranberries, Inc., 6.25%, 144A****	9,028,174*
48,000	Stanley Black & Decker, Inc., 5.75% 07/25/52	1,233,000[1]
		29,587,877
	Total Preferred Securities	
	(Cost $1,163,996,134)	1,144,071,923
Corporate Debt Securities 4.9%		
	Banking 1.7%	
$ 10,992,000	Regions Financial Corporation, 7.375% 12/10/37, Sub Notes	14,201,675[1][2]
274,000	Texas Capital Bancshares Inc., 6.50% 09/21/42, Sub Notes	6,635,951
28,000	Zions Bancorporation, 6.95% 09/15/28, Sub Notes	780,500
		21,618,126
	Financial Services 0.3%	
101,339	Affiliated Managers Group, Inc., 6.375% 08/15/42	2,631,652[1][2]
$ 4,726,012	Lehman Brothers, Guaranteed Note, Variable Rate, 5.843% 12/16/16, 144A****	159,267[4][5]

8

Flaherty & Crumrine Preferred Securities Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 29, 2016 (Unaudited)

Shares/$ Par		Value
Corporate Debt Securities (Continued)		
	Financial Services (Continued)	
30,586	Raymond James Financial, 6.90% 03/15/42	$ 826,779[1]
		3,617,698
	Insurance 1.4%	
$ 13,500,000	Liberty Mutual Insurance, 7.697% 10/15/97, 144A****	16,846,502[1][2]
		16,846,502
	Energy 0.6%	
$ 6,717,000	Energy Transfer Partners LP, 8.25% 11/15/29	6,956,810[1][2]
		6,956,810
	Communication 0.5%	
256,158	Qwest Corporation, 7.375% 06/01/51	6,476,007[1]
		6,476,007
	Miscellaneous Industries 0.4%	
38,000	eBay, Inc., 6.00% 02/01/56	944,300
$ 3,550,000	Pulte Group, Inc., 7.875% 06/15/32	4,047,000[1][2]
		4,991,300
	Total Corporate Debt Securities (Cost $52,224,936)	60,506,443
Common Stock 0.2%		
	Banking 0.1%	
54,740	CIT Group, Inc.	1,631,799*
		1,631,799
	Insurance 0.1%	
241,737	WMI Holdings Corporation, 144A****	589,838*
		589,838

Total Common Stock	
(Cost $23,031,471)	2,221,637

9

Flaherty & Crumrine Preferred Securities Income Fund Incorporated

PORTFOLIO OF INVESTMENTS (Continued)

February 29, 2016 (Unaudited)

Shares/$ Par			Value
Money Market Fund 0.6%			
	BlackRock Liquidity Funds:		
7,409,849	T-Fund, Institutional Class		$ 7,409,849
	Total Money Market Fund (Cost $7,409,849)		7,409,849
Total Investments (Cost $1,246,662,390***)		98.8%	1,214,209,852
Other Assets And Liabilities (Net)		1.2%	14,567,647
Total Managed Assets		100.0%	$ 1,228,777,499
Loan Principal Balance			(434,375,000)
Total Net Assets Available To Common Stock			$ 794,402,499

* Securities eligible for the Dividends Received Deduction and distributing Qualified Dividend Income.

** Securities distributing Qualified Dividend Income only.

*** Aggregate cost of securities held.

**** Securities exempt from registration under Rule 144A of the Securities Act of 1933. These securities may be resold in transactions exempt from registration to qualified institutional buyers. At February 29, 2016, these securities amounted to $248,820,759 or 20.2% of total managed assets.

(1) All or a portion of this security is pledged as collateral for the Fund s loan. The total value of such securities was $760,756,702 at February 29, 2016.

(2) All or a portion of this security has been rehypothecated. The total value of such securities was $282,105,324 at February 29, 2016.

(3) Foreign Issuer.

(4) Illiquid security (designation is unaudited).

(5) Valued at fair value as determined in good faith by or under the direction of the Board of Directors as of February 29, 2016.

(6) Represents the rate in effect as of the reporting date.

Non-income producing.

The issuer has filed for bankruptcy protection. As a result, the Fund may not be able to recover the principal invested and also does not expect to receive income on this security going forward.

The percentage shown for each investment category is the total value of that category as a percentage of total managed assets.

Flaherty & Crumrine Preferred Securities Income Fund Incorporated

STATEMENT OF CHANGES IN NET ASSETS AVAILABLE TO COMMON STOCK[1]

For the period from December 1, 2015 through February 29, 2016 (Unaudited)

	Value
OPERATIONS:	
Net investment income	$ 16,868,008
Net realized gain/(loss) on investments sold during the period	395,925
Change in net unrealized appreciation/(depreciation) of investments	(37,905,239)
Net decrease in net assets resulting from operations	**(20,641,306)**
DISTRIBUTIONS:	
Dividends paid from net investment income to Common Stock Shareholders[2]	(17,839,701)
Total Distributions to Common Stock Shareholders	**(17,839,701)**
FUND SHARE TRANSACTIONS:	
Increase from shares issued under the Dividend Reinvestment and Cash Purchase Plan	1,158,813
Net increase in net assets available to Common Stock resulting from Fund share transactions	**1,158,813**
NET DECREASE IN NET ASSETS AVAILABLE TO COMMON STOCK FOR THE PERIOD	**$ (37,322,194)**

NET ASSETS AVAILABLE TO COMMON STOCK:	
Beginning of period	$ 831,724,693
Net decrease in net assets during the period	(37,322,194)
End of period	$ 794,402,499

(1) These tables summarize the three months ended February 29, 2016 and should be read in conjunction with the Fund s audited financial statements, including notes to financial statements, in its Annual Report dated November 30, 2015.

(2) May include income earned, but not paid out, in prior fiscal year.

Flaherty & Crumrine Preferred Securities Income Fund Incorporated

FINANCIAL HIGHLIGHTS[1]

For the period from December 1, 2015 through February 29, 2016 (Unaudited)

For a Common Stock share outstanding throughout the period

PER SHARE OPERATING PERFORMANCE:	
Net asset value, beginning of period	$ 19.04
INVESTMENT OPERATIONS:	
Net investment income	0.39
Net realized and unrealized gain/(loss) on investments	(0.86)
Total from investment operations	(0.47)
DISTRIBUTIONS TO COMMON STOCK SHAREHOLDERS:	
From net investment income	(0.41)
Total distributions to Common Stock Shareholders	(0.41)
Net asset value, end of period	$ 18.16
Market value, end of period	$ 19.78
Common Stock shares outstanding, end of period	43,744,828
RATIOS TO AVERAGE NET ASSETS AVAILABLE TO COMMON STOCK SHAREHOLDERS:	
Net investment income	8.39%*
Operating expenses including interest expense	1.59%*
Operating expenses excluding interest expense	0.93%*
SUPPLEMENTAL DATA:	
Portfolio turnover rate	2%**
Total managed assets, end of period (in 000 s)	$ 1,228,777
Ratio of operating expenses including interest expense to total managed assets	1.04%*
Ratio of operating expenses excluding interest expense to total managed assets	0.61%*

(1) These tables summarize the three months ended February 29, 2016 and should be read in conjunction with the Fund s audited financial statements, including notes to financial statements, in its Annual Report dated November 30, 2015.

* Annualized.

** Not annualized.

The net investment income ratio reflects income net of operating expenses, including interest expense.

Information presented under heading Supplemental Data includes loan principal balance.

12

FINANCIAL HIGHLIGHTS (Continued)

Per Share of Common Stock (Unaudited)

	Total Dividends Paid	Net Asset Value	NYSE Closing Price	Dividend Reinvestment Price[1]
December 31, 2015	$ 0.1360	$ 18.84	$ 20.05	$ 19.05
January 29, 2016	0.1360	18.51	19.91	18.91
February 29, 2016	0.1360	18.16	19.78	18.79

(1) Whenever the net asset value per share of the Fund s Common Stock is less than or equal to the market price per share on the reinvestment date, new shares issued will be valued at the higher of net asset value or 95% of the then current market price. Otherwise, the reinvestment shares of Common Stock will be purchased in the open market.

Flaherty & Crumrine Preferred Securities Income Fund Incorporated

NOTES TO FINANCIAL STATEMENTS (Unaudited)

1. Aggregate Information for Federal Income Tax Purposes

At February 29, 2016, the aggregate cost of securities for federal income tax purposes was $1,281,674,221, the aggregate gross unrealized appreciation for all securities in which there was an excess of value over tax cost was $68,146,620 and the aggregate gross unrealized depreciation for all securities in which there was an excess of tax cost over value was $135,610,989.

2. Additional Accounting Standards

Fair Value Measurements: The Fund has analyzed all existing investments to determine the significance and character of all inputs to their fair value determination. The levels of fair value inputs used to measure the Fund s investments are characterized into a fair value hierarchy. Where inputs for an asset or liability fall into more than one level in the fair value hierarchy, the investment is classified in its entirety based on the lowest level input that is significant to that investment s valuation. The three levels of the fair value hierarchy are described below:

Level 1 quoted prices in active markets for identical securities

Level 2 other significant observable inputs (including quoted prices for similar securities, interest rates, prepayment speeds, credit risk, etc.)

Level 3 significant unobservable inputs (including the Fund s own assumptions in determining the fair value of investments)

The inputs or methodology used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. Transfers in and out of levels are recognized at market value at the end of the period.

Flaherty & Crumrine Preferred Securities Income Fund Incorporated

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

A summary of the inputs used to value the Fund s investments as of February 29, 2016 is as follows:

	Total Value at February 29, 2016	Level 1 Quoted Price	Level 2 Significant Observable Inputs	Level 3 Significant Unobservable Inputs
Preferred Securities				
Banking	$ 580,760,029	$ 479,884,233	$ 100,823,146	$ 52,650
Financial Services	13,899,181	13,899,181		
Insurance	318,004,998	182,849,610	135,155,388	
Utilities	139,072,468	42,672,172	96,400,296	
Energy	28,519,913	1,106,928	27,412,985	
Real Estate Investment Trust (REIT)	34,227,457	34,227,457		
Miscellaneous Industries	29,587,877	10,739,078	18,848,799	
Corporate Debt Securities				
Banking	21,618,126	7,416,451	14,201,675	
Financial Services	3,617,698	3,458,431		159,267
Insurance	16,846,502		16,846,502	
Energy	6,956,810		6,956,810	
Communication	6,476,007	6,476,007		
Miscellaneous Industries	4,991,300	944,300	4,047,000	
Common Stock				
Banking	1,631,799	1,631,799		
Insurance	589,838	589,838		
Money Market Fund	7,409,849	7,409,849		
Total Investments	$ 1,214,209,852	$ 793,305,334	$ 420,692,601	$ 211,917

During the reporting period, there were no transfers into Level 1 from Level 2 or into Level 2 from Level 1.

The fair values of the Fund s investments are generally based on market information and quotes received from brokers or independent pricing services that are approved by the Board of Directors and are unaffiliated with the Adviser. To assess the continuing appropriateness of security valuations, management, in consultation with the Adviser, regularly compares current prices to prior prices, prices across comparable securities, actual sale prices for securities in the Fund s portfolio, and market information obtained by the Adviser as a function of being an active market participant.

Securities with quotes that are based on actual trades or actionable bids and offers with a sufficient level of activity on or near the measurement date are classified as Level 1. Securities that are priced using quotes derived from implied values, indicative bids and offers, or a limited number of actual trades or the same information for securities that are similar in many respects to those being valued are classified as Level 2. If market information is not available for securities being valued, or materially-comparable securities, then those securities are classified as Level 3. In considering market information, management evaluates changes in liquidity, willingness of a broker to execute at the quoted price, the depth and consistency of prices from pricing services, and the existence of observable trades in the market.

15

Flaherty & Crumrine Preferred Securities Income Fund Incorporated

NOTES TO FINANCIAL STATEMENTS (Unaudited) (Continued)

The following is a reconciliation of Level 3 investments for which significant unobservable inputs were used to determine fair value:

	Total Investments	Preferred Securities Banking	Corporate Debt Securities Financial Services
Balance as of 11/30/15	$ 201,992	$ 52,650	$ 149,342
Accrued discounts/premiums			
Realized gain/(loss)			
Change in unrealized appreciation/(depreciation)	9,925		9,925
Purchases			
Sales			
Transfers in			
Transfers out			
Balance as of 02/29/16	$ 211,917	$ 52,650	$ 159,267

For the three months ended February 29, 2016, total change in unrealized gain/(loss) on Level 3 securities still held at period-end and included in the change in net assets was $9,925.

The following table summarizes the valuation techniques used and unobservable inputs developed to determine the fair value of Level 3 investments:

Category	Fair Value at 02/29/16	Valuation Technique	Unobservable Input	Input Range (Wgt Avg)
Preferred Securities (Banking)	$ 52,650	Bankruptcy recovery	Credit/Structure-specific recovery	0.00% - 0.50% (0.15%)
Corporate Debt Securities (Financial Services)	159,267	Bankruptcy recovery	Credit/Structure-specific recovery	2% - 5% (3.3%)

The significant unobservable inputs used in the fair value measurement technique for bankruptcy recovery are based on recovery analysis that is specific to the security being valued, including the level of subordination and structural features of the security, and the current status of any bankruptcy or liquidation proceedings. Observable market trades in bankruptcy claims are utilized by management, when available, to assess the appropriateness of valuations, although the frequency of trading depends on the specific credit and seniority of the claim. Expected recoveries in bankruptcy by security type and industry do not tend to deviate much from historical recovery rates, which are very low (sometimes zero) for preferred securities and more moderate for senior debt. Significant changes in these inputs would result in a significantly higher or lower fair value measurement.

Directors

R. Eric Chadwick, CFA

Chairman of the Board

David Gale

Morgan Gust

Karen H. Hogan

Robert F. Wulf, CFA

Officers

R. Eric Chadwick, CFA

Chief Executive Officer and

President

Chad C. Conwell

Chief Compliance Officer,

Vice President and Secretary

Bradford S. Stone

Chief Financial Officer,

Vice President and Treasurer

Roger Ko

Assistant Treasurer

Laurie C. Lodolo

Assistant Compliance Officer,

Assistant Treasurer and

Assistant Secretary

Linda M. Puchalski

Assistant Treasurer

Investment Adviser

Flaherty & Crumrine Incorporated

e-mail: flaherty@pfdincome.com

Servicing Agent

Destra Capital Investments LLC

1-877-855-3434

Questions concerning your shares of Flaherty & Crumrine Preferred Securities Income Fund?

If your shares are held in a Brokerage Account, contact your Broker.
If you have physical possession of your shares in certificate form, contact the Fund s Transfer Agent
BNY Mellon c/o Computershare

P.O. Box 30170

College Station, TX 77842-3170 1-866-351-7446

This report is sent to shareholders of Flaherty & Crumrine Preferred Securities Income Fund Incorporated for their information. It is not a Prospectus, circular or representation intended for use in the purchase or sale of shares of the Fund or of any securities mentioned in this report.

Quarterly

Report

February 29, 2016

www.preferredincome.com