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State Corporation Commission
Bureau of Insurance
May 2, 2019
Commissioner of Insurance
BY:

SUNRISE CONTINUING CARE, LLC

THE FAIRFAX

DISCLOSURE STATEMENT

2019

(for fiscal year ending December 31, 2018)

This Disclosure Statement, including the cover page and exhibits, is provided to furnish information about The Fairfax, a continuing care community (the "Community") in Fairfax County, Virginia, operated by Sunrise Continuing Care, LLC (the "Provider"), whose sole member is Sunrise Senior Living Services, Inc., a wholly-owned subsidiary of Sunrise Senior Living, LLC (f/k/a Sunrise Senior Living, Inc.). The Community is dedicated to providing continuing care for all officers eligible for retired pay from all components (regular and reserve) of all the U.S. Armed Services and their spouses.

The Disclosure Statement has been filed with the Commonwealth of Virginia, State Corporation Commission, pursuant to the Continuing Care Provider Registration and Disclosure Act, Virginia Code § 38.2-4900-4917 (2004). The filing of this Disclosure Statement with the State Corporation Commission does not constitute approval, recommendation or endorsement of the Community by the State Corporation Commission.

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SUNRISE CONTINUING CARE, LLC
THE FAIRFAX
DISCLOSURE STATEMENT

CONTINUING CARE PROVIDER

Sunrise Continuing Care, LLC ("Provider"), a wholly-owned subsidiary of Sunrise Senior Living Services, Inc. ("SSLS"), whose address is 7902 Westpark Drive, McLean, Virginia 22102, was formed in the State of Delaware and is qualified to do business in the Commonwealth of Virginia. The Provider is a for-profit corporation and is not exempt from the payment of income taxes under the U.S. Internal Revenue Code of 1986. The Provider's President is Marc Roder. SSLS is a wholly-owned subsidiary of Sunrise Senior Living, LLC ("Sunrise").

On April 21, 2014, a transaction took place affecting the indirect ownership of Sunrise. Prior to the transaction, Sunrise was owned indirectly by investment funds affiliated with Kohlberg Kravis Roberts & Co., L.P. and Beecken Petty O'Keefe & Company, LLC, and by Health Care REIT, Inc. (On September 30, 2015, Health Care REIT, Inc. changed its name to Welltower, Inc.) As a result of the transaction, Sunrise is owned jointly, through subsidiaries, by Revera Inc., a wholly-owned subsidiary of the Public Sector Pension Investment Board, by Welltower, Inc. (f/k/a Health Care REIT, Inc.), and by individual shareholders. SSLS continues to be a subsidiary of Sunrise, and the Provider continues to be a subsidiary of SSLS. There have been no material changes to the business or management of the Community as a result of the foregoing transaction.

HCP MA3 Virginia, LP ("HCP") owns the land and improvements that comprise The Fairfax. In addition, when a new resident pays an Entrance Fee, a portion of that Entrance Fee is used to redeem the Lifecare Bond held by the previous resident of the Independent Living Unit. HCP is entitled to retain the amount that remains. Because of its ownership of The Fairfax and its interest in the Lifecare Bonds that are issued by the Provider, the Virginia Bureau of Insurance has determined that HCP has some of the attributes of a Provider under the Continuing Care Provider Registration and Disclosure Act.

HCP is a Delaware limited partnership in which the general partner is HCP MA3 GP Holding, LLC. The business address of HCP and HCP Holding is: Health Care Property Investors, Inc., 1920 Main Street, Suite 1200, Irvine, CA 92614.

OFFICERS, DIRECTORS, TRUSTEES, MANAGING AND GENERAL PARTNERS AND CERTAIN PERSONS WHO HOLD EQUITY OR BENEFICIAL INTERESTS

(a) Officers, Managers and Directors

The Provider's Officers are listed below:

The Provider's Officers are listed below:

Marc Roder	President and Manager
David Painter	Treasurer
Edward Frantz	Secretary and Vice President
Michael Stein	Vice President and Manager
Wendy Sekel	Vice President

During the fiscal year ending December 31, 2018, all membership interests in the Provider were held by SSLS. The officers and directors of SSLS are listed below:

Marc Roder	President and Director
Andrew Coelho	Vice President
David Painter	Vice President and Treasurer
Edward Frantz	Vice President and Secretary and Director
Michael Stein	Vice President
Wendy Sekel	Vice President

The business address for all of SSLS's officers and directors is 7902 Westpark DriveMcLean, Virginia 22102. There are no Trustees or Managing or General Partners associated with the Provider.

(b) Equity or Beneficial Interests

During the fiscal year ended December 31, 2018, all of the issued and outstanding shares of the Provider's stock were owned by SSLS. SSLS was incorporated in the State of Delaware in 1986. SSLS's principal business address is 7902 Westpark Drive McLean, VA 22102. All of the issued and outstanding shares of SSLS's stock currently are owned by Sunrise.

The Provider has entered into a management agreement with SSLS for the day-to-day operation of the Community. The amount of consideration paid under the management contract is tied to the financial performance of the Provider. Therefore, SSLS has a beneficial interest in the Provider, in addition to its equity interest described above.

The Provider is the lessee under a lease ("Lease") with CNL Retirement MA3, Virginia, LP, n/k/a HCP MA3 Virginia, LP ("HCP" or "Landlord") and an affiliate of HCP, HCP SU TRS Corp. ("HCP SU TRS"). A portion of the amount of consideration paid under the lease is tied to the financial performance of the Provider, giving HCP a beneficial interest in the Provider. HCP is a limited partnership in which the general partner is HCP MA3 GP Holding, LLC ("HCP Holding"). The executive officers of HCP Holding are:

Thomas M. Herzog	President and Chief Executive Officer
Scott M. Brinker	Executive Vice President and Chief Investment Officer
Thomas M. Klaritch	Executive Vice President, Chief Operating Officer and Chief Development Officer
Troy E. McHenry	Executive Vice President, Corporate Secretary and General Counsel
Peter A. Scott	Executive Vice President and Chief Financial Officer
Shawn G. Johnson	Executive Vice President and Chief Accounting Officer
Glen T. Preston	Executive Vice President –Medical Office Properties

The business address of HCP, HCP Holding and their officers and directors is: Health Care Property Investors, Inc., Attn: Legal department 1920 Main Street, Suite 1200, Irvine, CA 92614.

BUSINESS EXPERIENCE OF; ACQUISITION OF GOODS AND SERVICES FROM; AND CRIMINAL, CIVIL AND REGULATORY PROCEEDINGS AGAINST THE PROVIDER; ITS OFFICERS, DIRECTOR, TRUSTEES, MANAGING AND GENERAL PARTNERS; CERTAIN PERSONS WHO HOLD EQUITY OR BENEFICIAL INTERESTS; AND THE MANAGEMENT

(a) Business Experience

In addition to The Fairfax, the Provider operates the senior living facility called The Colonnades in Charlottesville, Virginia. The Colonnades is a Continuing Care Community under the Continuing Care Provider Registration and Disclosure Act, Virginia Code § 38.2-4900-4917 (1986)("the Act"). The Provider holds continuing care provider licenses or similar permits at four (4) other senior living communities throughout the United States.

The Provider has contracted with SSLS to provide day-to-day management of the Community. As of April 1, 2019, SSLS also operated or managed fourteen (14) other senior living communities in the following eight (8) states: Maryland, Georgia, North Carolina, New Jersey, Connecticut, Pennsylvania, Tennessee and Virginia.

Sunrise, through its operating subsidiaries, has extensive experience in the senior living business. Sunrise offers assisted living, Alzheimer's care, skilled nursing and independent living units at senior living communities throughout the United States and internationally. As of February 1, 2019, Sunrise has employed approximately 31,800 people to service 332 communities in the United States, Canada, and the United Kingdom.

The business experience of the aforementioned individuals is set forth below:

Marc Roder is President of the Provider and SSLS. Mr. Roder joined Sunrise in 2003 and currently serves as Controller and Chief Accounting Officer.

Andy Coelho is Vice President of the Sunrise Construction, Development, Facilities Management, and Design Departments. Mr. Coelho joined Sunrise as a Construction Manager in 2004 and became Vice President of Construction Management in 2006. Prior to Sunrise, Mr. Coelho worked for BeeryRio Architects and Interiors, focusing on Sunrise Senior Living projects. He is a registered architect.

David Painter is Vice President and Treasurer. Mr. Painter joined Sunrise as a director of Treasury in 2007, was promoted to Assistant Treasurer in 2008 and became its Treasurer in September 2010. Prior to joining the Company, Mr. Painter worked for ten years in various positions, including director of corporate finance for what is now Host Hotels and Resorts, a premium lodging real estate investment trust.

Michael Stein is Vice President of the Provider and SSLS and joined Sunrise in 1988 and currently serves as Senior Vice President and Associate General Counsel of Sunrise.

Edward Frantz is Vice President and Secretary of the Provider and SSLS and first joined Sunrise in 2007 and returned in 2015. He currently serves as Associate General Counsel.

Wendy Sekel is a Vice President on the Tax Department. She joined Sunrise in 2010.

(b) Acquisition of Goods and Services

It is not anticipated that goods, leases or services valuing $500.00 or more will be obtained from any professional service, firm, association, foundation, trust, partnership or corporation or any other business or legal entity in which the Provider or any of its officers, directors or trustees has a ten percent or greater interest.

The Provider obtains management services from SSLS in the same manner as any other similarly situated Sunrise subsidiary. Similarly, the Provider will obtain food and other supplies through Sunrise's procurement and distribution system in the same manner. The probable or anticipated actual cost of food and supplies purchased in this fashion for The Fairfax will approximate the total amount for **2019**, which is estimated to be about **$1,561,087.**

Marriott International, Inc.("Marriott"), a prior owner of the Provider and SSLS, is party to Agreements of Undertaking whereby Marriott agreed to furnish the Provider with all necessary assistance and support, including financial support, required to enable the Provider to fulfill its obligations to residents of the Community. On March 28, 2003, Sunrise Senior Living, Inc. acquired all of the stock of SSLS, formerly known as Marriott Senior Living Services, Inc. (the "Sunrise Transaction"). As part of the Sunrise Transaction, Marriott, the Provider, SSLS, CNL Retirement MA 3, Virginia, LP ("CNL" and now known as HCP Retirement MA 3, Virginia, LP or "HCP") and CNL Retirement Properties, Inc. ("CNL Parent") entered into an Assumption and Reimbursement Agreement ("Assumption Agreement"). Under the Assumption Agreement, CNL agreed to assume the primary obligation to repay the Lifecare Bonds issued and outstanding as of March 28, 2003 with respect to The Fairfax when they become due and payable. In addition, CNL Parent has entered into a guaranty agreement with the Provider pursuant to which it has guaranteed the obligations of CNL to repay the Lifecare Bonds issued with respect to The Fairfax pursuant to the terms of the Continuing Care Agreements.

Pursuant to the Assumption Agreement, CNL and CNL Parent agreed to (i) assume Marriott's obligations under the Agreements of Undertaking and (ii) reimburse Marriott in the event Marriott is required to perform under the Agreements of Undertaking. The Assumption Agreement does not, however, release Marriott from its obligations under the Agreements of Undertaking. In the event CNL or CNL Parent fails to satisfy such obligations under the Agreements of Undertaking, with respect to individuals who, as of March 28, 2003 (i) hold a Lifecare Bond or (ii) are party to a Continuing Care Agreement, Marriott will remain secondarily liable to the Provider for financial obligations arising under the Agreements of Undertaking.

As of March 28, 2003, the Agreement of Undertaking between the Provider and Marriott terminated with respect to new residents signing Continuing Care Agreements after that date. While a resident's contractual relationship is with the Provider, under the Lease, HCP SU TRS has assumed the primary obligation to repay the Lifecare Bonds issued with respect to The Fairfax after March 28, 2003. In addition, CNL Parent has entered into a guaranty agreement with the Provider pursuant to which it has guaranteed the obligations of CNL to repay the Lifecare Bonds issued with respect to The Fairfax.

In consideration for CNL's assumption of these obligations, CNL (now known as "HCP") will be entitled to receive the net proceeds from the issuance of new Lifecare Bonds after repayment of any amount due under the existing Lifecare Bond that the new Lifecare Bond replaces.

On October 5, 2006, CNL Parent was merged into Ocean Acquisition I, Inc., a Delaware corporation ("Ocean"), with Ocean being the surviving corporation. Ocean is a wholly owned subsidiary of Health Care Property Investors, Inc., a Maryland corporation ("HCPI"). Ocean acquired all of CNL Parent's rights, responsibilities and obligations as a result of the merger. The Acknowledgement Certificate (attached as

Exhibit A) explains the relationship between and among the Provider, Landlord, HCP SU TRS and Guarantor.

(c) Absence of Criminal, Civil or Regulatory Proceedings

(1) Neither the Provider, SSLS, Sunrise, nor any person identified above has been convicted of a felony or pleaded nolo contendere to a felony charge, or been held liable or enjoined by final judgment in a civil action involving fraud, embezzlement, fraudulent conversion, misappropriation of property or moral turpitude.

Neither the Provider, SSLS, Sunrise, nor any person identified above is subject to an injunctive or restrictive order of a court of record, or within the past five years had any State or Federal license or permit suspended or revoked as a result of an action brought by a governmental agency or department, arising out of or relating to business activity or health care, including, without limitation, actions affecting a license to operate a foster care facility, nursing home, retirement home, home for the aged or facility registered under Virginia Code § 38.2-4900-4917 (2004) or similar laws in any other State.

(2) Neither the Provider, SSLS, Sunrise, nor any person identified above is currently the subject of any State or Federal prosecution, or administrative investigation involving allegations of fraud, embezzlement, fraudulent conversion, or misappropriation of property.

OWNERSHIP OF REAL PROPERTY

The Provider's Community is located on approximately 35 acres of land adjacent to Fort Belvoir, in Fairfax County, Virginia. Until March 28, 2003, the land was owned by the Provider. The land is now owned by HCP.

LOCATION AND DESCRIPTION OF REAL PROPERTY

The Community is located on a 35 acre site at the northeast corner of the intersection of Richmond Highway (U.S. Route 1) and Telegraph Road (Route 611), Fairfax County, Virginia. The site, adjacent to Fort Belvoir and the Davidson Air Field, is approximately 11 miles south of the Capital Beltway (I-495) and approximately two miles east of Interstate 95.

The site is zoned R-5, with a special exception for a 115 bed nursing care facility and a height variance for a 75 foot clock tower. A site plan was approved by the Fairfax County Planning Commission.

The Community contains 382 individual living units, a two story Community Center and an adjoining Health Center in a campus setting. The individual living units are in a variety of one, two and three bedroom styles in 5 four-story apartment buildings and 35 attached cottages. The apartment buildings are connected to the Community Center by enclosed walkways. The apartments and cottages include a full kitchen, an emergency call system, patios or balconies, and illuminated parking.

The Community Center houses the reception area, main dining and private dining areas, lounge, computer room, library, chapel, post office, auditorium, gift shop, barber and beauty shop, activities room, woodworking shop, fitness center, enclosed swimming pool, and administrative offices.

The Health Center is a two-story building with 52 assisted living rooms and 56 licensed nursing care beds in 18 private and 19 semi-private rooms. In addition, the Health Center opened 23 specialized memory care units (collectively referred to as the "Reminiscence Unit") on September 18, 2006. The Health Center also

contains a health clinic, physical therapy rooms, two dining rooms, two activity rooms, and outdoor patio, a reception area and lounges.

The current configuration of the Fairfax Health Center is the result of an expansion project that began in 2004. Prior to the completion of the project, there were 48 units providing assisted living services. The scope of the expansion project and renovation of the existing assisted living units and Health Care Center included:

- Renovation of the 3rd floor skilled nursing area
- Renovation of the 2nd floor assisted living
- Addition of a 19,800 square foot building comprised of assisted living units
- Addition of a commercial grade laundry in the existing structure

The previous 48 assisted living units had a shared bath configuration. A portion of this space was reconfigured into 28 private assisted living units with private baths. The remaining assisted living space in the original Health Center building was renovated and converted into the Reminiscence Unit consisting of 23 living units and several beautiful, homelike common areas.

The new two story assisted living building consists of 24 units of various sizes with private baths and kitchenettes. Additionally, there is a resident laundry, for personal use, living room, all weather porch, library, activities room and bistro.

The entire Health Center building received new flooring, wallpaper, paint, furniture and the addition of a hair salon. The cost of this expansion with renovations was approximately $12.5 million.

AFFILIATIONS WITH RELIGIOUS, CHARITABLE OR OTHER NON-PROFIT ORGANIZATIONS; TAX STATUS OF PROVIDER

(a) Affiliations – The Provider has assumed obligations of a Sponsorship Agreement (attached as Exhibit B) between the Army Retirement Residence Foundation – Potomac, a nonstock, not-for-profit Virginia corporation ("Foundation"), and Marriott Lifecare Retirement Communities-Fairfax, Inc., a predecessor to Sunrise Continuing Care. The Foundation was incorporated in October 1983 to develop a suitable continuing care retirement community for Army officers and their spouses. In September 2000, the Foundation membership voted to restructure the Foundation by creating a separate non-stock, for-profit corporation, the Armed Forces Retirement Residence Services Corporation ("AFRRSC"). The AFRRSC was incorporated in February 2001. The Foundation transferred its responsibilities under the Sponsorship Agreement to AFRRSC. In a special meeting of the membership on August 21, 2006, the membership voted to dissolve and terminate corporate existence of the ARRSC and transfer back all funds and responsibilities to the Foundation. The Board of Directors, Officers, and Advisory Board of the Foundation are as follows:

Board of Directors and Officers

LTG Spence M. Armstrong, USAF, (Ret.)	President
MG Russell L. Fuhrman, USA (Ret.)	Vice President
CAPT Thomas F. Stallman, USN (Ret.)	Treasurer
Mrs. Mary Ellen Ackerson	Corporate Secretary
MG John D. Altenburg, Jr., USA (Ret.)	
MG Charles W. Fletcher, Jr., USA (Ret.)	
COL Donald E. Hazen, USA (Ret.)Ms. Brenda DuVall	
COL Stephen L. Hill, USA (Ret.)	
LTC Martha E. Kiene, USA (Ret.)	

BG Joseph Schroedel, USA (Ret.)
COL Paul Jackson Rice, USA (Ret.)

Advisory Board

GEN Carl E. Vuono, USA (Ret.) Chairman
COL William B. DeGraf, USA (Ret.)
MG Robert E. Murray, USA (Ret.)
COL Norman.R. Rosen, USA (Ret.)
GEN Louis C. Wagner, Jr. USA (Ret.)
MG Thomas McHugh, USA (Ret.)
BG Robert Jorgensen, USA (Ret.)

(b) Tax Status - The Provider is a for profit corporation and is not exempt from the payment of income taxes under the U.S. Internal Revenue Code of 1986.

SERVICES PROVIDED UNDER CONTINUING CARE CONTRACTS

Samples of the Provider's two Continuing Care Agreements are attached as Exhibit C. Both agreements offer the same comprehensive range of services and facilities. In addition to providing the residents with individual living units, the Provider will furnish the residents with assisted living and skilled nursing services in the Health Center in accordance with the terms of the Continuing Care Agreements. For additional charges, residents may receive assisted living services in a larger unit and Reminiscence programming in a specialized setting.

The Reminiscence Unit offers specialized programming for residents with Alzheimer's Disease and other forms of memory impairment. The additional charges are for the specialized programming and enhanced physical environment offered in the Reminiscence Unit. Residents who do not wish to move into the Reminiscence Unit may still receive basic care for their memory disorders in assisted living under the Continuing Care Contract rate. However, should their symptoms become too difficult to handle in the assisted living setting, residents would be required, at an additional cost to them, to hire a third party caregiver, move into the Reminiscence Unit or move to another facility.

For temporary stays (up to 30 days within any 90 day period) in the Health Center, residents will receive room, board and nursing care at no additional cost except for a supplemental dietary charge to cover extra meals and charges for required ancillary supplies and services. All accommodations in the nursing care units will be in semi-private rooms. An additional charge will be made for a private room. All accommodations in the assisted living units will be standard rooms unless the resident wishes to pay for the upgraded accommodations mentioned above.

For extended stays in the Health Center (more than 30 days within any 90 day period), the resident will be charged a daily Health Center Fee. The Health Center Fee for Refundable and Non-Refundable payment plans, shall be an amount equal to the Fauquier Unit Equivalent "F Unit Equivalent" in the published Care Fees for the year of admission into the Health Center plus the charge for two additional meals per day and charges for required ancillary supplies. The Health Center Fee for the 90% Moderate Refundable payment plan, shall be an amount equal to the Fauquier Unit Equivalent Moderate "F Unit Equivalent Moderate" fee in the published Care Fees for the year of admission into the Health Center plus the charge for two additional meals per day and charges for required ancillary supplies. In the Reminiscence Unit, residents are also charged for the extra programming they receive. The schedule of current Care Fees is attached as Exhibit D. The table of Health Center Fee Increases is attached as Exhibit E. Thereafter, the Health Center Fee is subject to the annual rate increases. It is anticipated that residents moving into the Health Center for

extended stays will release their individual living unit and will incur no further Monthly Fees for that unit. In this circumstance, only fees for the Health Center would apply. However, if a resident in the Health Center for an extended stay wishes to retain his or her independent living unit, Monthly Fees for both the independent living unit and the Health Center would apply.

In the event a single resident or a married couple reside in the Community under the Moderate payment plan and must live in the Health Center (HC) on an extended stay basis, the computation of Monthly and Health Center Fees shall be as follows:

	Retaining Independent Living Unit	**Relinquishing Independent Living Unit**
Single Resident in HC	1 Monthly Fee based on Moderate Plan 1 Health Center Fee Based on Moderate Plan	1 Health Center Fee based on Moderate Plan
Couple (One of whom Resides in HC)	1 Monthly Fee based on Moderate Plan 1 Health Center Fee based on Moderate Plan	Not Applicable
Couple (both reside In HC)	1 Monthly Fee based on Moderate Plan 2 Health Center Fees based on Moderate Plan	2 Health Center Fee based on Moderate Plan

Individuals who have certain pre-existing health conditions may still reside at the Community but will not be eligible to use the Health Center at the Continuing Care Agreement rate nor are they eligible for temporary stay days. These individuals will be charged the prevailing per diem rate for any usage of the Health Center. The pre-existing conditions are identified by the Community Medical Director after review of the prospective resident's health and medical history. Individuals with certain conditions such as memory loss and dementia will always pay the per diem rate in the Health Center. Other conditions may also qualify for the per diem rate at the time of the evaluation.

The Provider will furnish the following facilities and services under the terms of the Continuing Care Agreements at no additional charge:

One meal per day, breakfast, lunch or dinner;
Weekly housekeeping, including light cleaning services;
Security personnel on premises daily;
Maintenance of building and appliances in living units;
Groundskeeping and landscaping;
Property taxes, electricity, water and sewer bills;

Scheduled transportation to Fort Belvoir and other locations in the surrounding area to include scheduled doctor's appointments within a ten mile radius; and
Emergency call system in each living unit.

There are additional charges for some services and conditions, including but not limited to:

Guest meals;
Extra meals in the dining room and additional meals while in the Health Center;
Telephone installation and service costs;
Cable television service;
Internet Services;
Unscheduled use of transportation; Transportation to medical appointments beyond the ten mile radius;
Scheduled private hire transportation to local airport, train station or METRO;
Covered parking or issuance of additional parking spaces per unit (>1 per unit) as available;
Extra housekeeping or maintenance services;
Barber shop/beauty parlor;
Guest rooms;
Physical therapy;
Fitness programming;
Prescription and non-prescription medications;
Private room in the Health Center; Deluxe assisted living rooms and suites
Medical and ancillary supplies;
Care for memory impairment including programming provided in the Reminiscence Unit of the Heath Care Center
Cleaning fee

The fee schedule for ancilliary services is attached as Exhibit F.

The following are examples of services not furnished under the Continuing Care Agreements.
This is not a comprehensive list:

Physical examinations and medical tests;
Eyeglasses or refractions;
X-rays;
Hearing aids;
Dentistry, dentures and inlays;
Orthopedic appliances;
Podiatric services;
Private duty nursing care;
Treatment for psychiatric disorders or alcoholism;
Nursing costs incurred outside of the Community (unless temporarily transferred by Provider);
Surgical, hospital, or medical services; and
Home health care.

FEES REQUIRED OF RESIDENTS

The steps and associated fees to becoming a resident at The Fairfax are as follows:

Step One: Army Retirement Residence Foundation-Potomac

A Resident must meet the membership criteria of the Army Retirement Residence Foundation-Potomac (described herein in the section entitled ADMISSION OF NEW RESIDENTS). Prospective residents must complete and return an application (see Exhibit G) to the ARRF-P office with a copy of their DD214 (Record of Service) or equivalent documentation providing evidence of retirement from the Federal Government or other qualified career and the membership fee, payable to ARRF-P, of $1,000 for singles, and $1,500 for couples. Members of ARRF-P ("Members") will be assigned a priority number according to their date of membership. The membership fee held by ARRF-P is a donation to ARRF-P.

Step Two: The Fairfax Waiting List Request

In order to be placed on the Wait List, a Member must complete the Wait List Request form (listing type of units desired- see Exhibit G) and pay a deposit to The Fairfax of $3,500. The deposit is refundable upon request or will apply to the Member's Entrance Fee once a unit has been selected.

Step Three: Application for Residency

A Member must also complete an "Application for Residency" form (see Exhibit G) and return it with a non- refundable $300 application fee made payable to "The Fairfax".

Step Four: Active Wait List

Once the Member makes a Wait List Deposit and completes an Application for Residency, the Member will be placed on an Active Wait List in accordance with their Priority Number.

Step Five: Execute Residence Unit Reservation Agreement

When a Member selects a Residence Unit at The Fairfax, the Member will execute a Residence Unit Reservation Agreement attached as Exhibit H. This Agreement will take the selected unit off the market and the Member will begin payment of a non-refundable monthly Reservation Fee (50% of the monthly fee associated with single occupancy of the Residence Unit, paid monthly for the first two months, thereafter, 100% of the monthly fee associated with single occupancy of the Residence Unit). The Reservation Fee will cease upon execution of the Continuing Care Agreement and the initiation of payments thereunder.

Step Six: Execute Continuing Care Agreement

As required by Virginia Code § 38.2-4905.B. the resident has the right to rescind the Continuing Care Agreement, without penalty or forfeiture, within seven days after executing the contract and also shall not be required to move into the Community before the expiration of the seven day period.

Residents will have both recurring and non-recurring fees and payments. The non-recurring fees and payments are the ARRF-P Application Fee, the Wait List Deposit, the Residency Application Fee and the entrance payments which are based upon the type, location and size of the living unit selected by the resident and upon the type of payment plan selected by the resident.

There are three payment plans currently in effect at the Community, two of which provide for a refund of a portion of a resident's entrance payment when the resident dies or leaves the Community and the unit is re-occupied by another resident who is a party to a Continuing Care Agreement.

(a) Prices. The entrance payments for living units are estimated to range as follows (the Moderate Plan was discontinued for new residents effective July 1, 2015 - rates shown below are for current plan residents only):

	90% Refundable	**50% Refundable**	**0% Refundable**	**90% Refundable Moderate**
1 Bedroom apt.	$186,000 - $384,000	$131,000 - $269,000	$ 90,000 - $183,000	$ 94,079 - $193,978
2 Bedroom apt.	$379,000 - $507,000	$266,000 - $355,000	$181,000 - $243,000	$191,809 - $256,404
3 Bedroom apt.	$501,000 - $650.000	$352,000 - $456,000	$240,000 - $311,000	$268,798 - $344,242
Cottages	$460,000 - $699,000	$323,000 - $492,000	$220,000 - $357,000	$248,397 - $375,569

There is an additional $18,000 fee under all plans for another occupant. The additional occupant fee is non-refundable. The complete price list of Entrance Fees and associated Monthly Fees by floor plan is attached as Exhibit I.

(b) Payment Schedule. Upon signing the Continuing Care Agreement, the entrance payment and any additional occupant fee are due.

Any additional occupant fee and the balance of the entrance payment are due at settlement.

(c) Application of Funds.

(1) **Refundable Payment Plans** – Under these plans (90%, Refundable or 50% Refundable) a percentage of a resident's entrance payment is repayable when the resident dies or leaves the Community and the unit is re-occupied by another resident who is a party to a continuing care agreement. A resident purchases a non-negotiable, non-interest bearing Lifecare Bond from the Provider. The Lifecare Bond is equal to 90% or 50% of the entrance payment for the resident's living unit. The Lifecare Bond is repaid by the Provider upon termination or cancellation of the Continuing Care Agreement and the occupancy of the unit by another resident who is a party to a Continuing Care Agreement. The Provider uses entrance fees to meet various operational and financial objectives.

(2) **Nonrefundable Payment Plan** – Under this plan the entrance fee is **100% NON-REFUNDABLE** if the Continuing Care Agreement is terminated after the Rescission Period. Since there is no refund, no Lifecare Bond is issued.

(3) The Provider uses entrance fees to meet various operational and financial objectives.

(d) Recurring Fees.

(1) **Monthly Fees** – Residents will pay "Monthly Fees" based upon the type of living unit selected. The Monthly Fees range as follows:

Standard Payment Plan (Discontinued on June 1, 1995. Fees apply to current Plan holders.)

90% Refundable Payment Plan
(for existing residents, also applies to 95% Refundable plans)
50% Refundable Payment Plan
0% Refundable Payment Plan

$2980 - $3952	for a one bedroom apartment;
$3966 - $4978	for a two bedroom apartment;
$4503 - $5370	for a three bedroom apartment;
$4229 - $5442	for a cottage; and
$1482	for each additional occupant in the living unit.

Moderate Plan 90% Refundable (Discontinued on July 1, 2015. Fees apply to current Plan holders and also applies to 95% Refundable plan.)

$4527 - $4718	for a one bedroom apartment
N/A	for a two bedroom apartment
$7129	for a three bedroom apartment
$5438	for a cottage; and
$1482	for each additional occupant in the living unit

(2) **Other Fees** – Residents may have other recurring fees including the Reservation Fees, Health Center Fee (described in Section 4.3), the per diem rate for Health Center usage due to pre-existing conditions (described in Section 4.3.4) fees for additional programming provided in the Reminiscence Unit, and medical and surgical insurance costs (described in Section 4.5.1). [References are to the numbered Articles of the Continuing Care Agreements.]

(3) **Adjustments** – The Provider may adjust the Monthly Fee from time to time, by providing at least 30 days' advanced written notice to the residents. Existing resident contracts that contain additional requirements for Fee adjustments will be honored as written.

(e) Table of Increases in Periodic Rates.

The following tables show the increase in periodic rates for the Community for the last five years.

The Fairfax

Moderate 90% Refundable Payment Plan
(Discontinued on July 1, 2015. Fees apply to current Plan holders)

(Also applies to current plan holders of the Moderate 95% Refundable Payment Plan)

Unit Type	2015 Increase	2016 Increase	2017 Increase	2018 Increase	2019 Increase
One Bedroom	$113 - $133	($356) -$723	$22-$128	$158-$164	$164-$171
Two Bedroom	$148 - $159	($499) - $158	$163	$167	$ N/A
Three Bedroom	$171 - $182	$906 - $189	$194	$200	$258
Cottages	$174	$120 - $793	$147	$189	$197
2nd Resident	$37	$39	$40	$42	$54

90% Refundable Payment Plan

(Also applies to current plan holders of the Standard Payment Plan,
95% Refundable Plan, 50% Refundable Payment Plan and 0% Refundable Payment Plan)

Unit Type	2015 Increase	2016 Increase	2017 Increase	2018 Increase	2019 Increase
One Bedroom	$76-105	$58 - $98	$13-$81	$104-$138	$108-$143
Two Bedroom	$105-127	$97 - $120	$70- $135	$128-$173	$143-$180
Three Bedroom	$114-138	$117 - $131	$121-$146	$158-$189	$153-$163
Cottages	$110-141	$43 - $143	$72- $148	$118-$177	$192-$197
2nd Resident	$37	$39	$40	$42	$54

IMPUTED INTEREST ON BOND
(Below Market Loan)

Section 7872 of the Internal Revenue Code of 1986 provides that if a "below market loan' is made, the lender will be treated as receiving imputed interest income in excess of the amount of interest being paid, even if the obligation to repay the loan does not provide for the payment of any interest. The purchase of the Lifecare Bond from the Provider was deemed to be such a below market loan. Effective January 1, 2006, legislation has been enacted exempting certain payments to CCRCs from the below market loan rules. The Provider has determined that the Lifecare Bonds (whether purchased before or after the effective date) qualify for this exemption. Prospective residents are urged to consult with their personal tax advisors for additional information.

RESERVE FUNDING

It is anticipated that operating income from the Monthly Fees will be sufficient to enable the Provider to meet its continuing care obligations. Accordingly, no reserve or security funds will be established.

CERTIFIED FINANCIAL STATEMENTS

A copy of the Provider's certified financial statements for fiscal years 2017 and 2018 are attached as Exhibit J. Sunrise is a wholly owned subsidiary of Red Fox Holding Corporation ("Red Fox") and is Red Fox's only asset. A copy of Red Fox's audited financial statements for the fiscal years ending December 31, 2017, and December 31, 2018, are attached as Exhibit K. HCPI's 2018 Annual Report is attached as Exhibit L.

PRO FORMA INCOME STATEMENT

The unaudited pro forma income statement for the Provider's current fiscal year is attached as Exhibit M. It has been prepared in accordance with generally accepted accounting principles.

ADMISSION OF NEW RESIDENTS

The Community's admission criteria are: (i) eligible membership in the Foundation*; (ii) minimum age of 55 years (unless approved by the Executive Director of the Community, on a case-by-case basis, to be considered for residence as a special exception); (iii) submission of a physician's report identifying the applicant's pre-existing conditions and any other relevant health problems; (iv) proof of sufficient assets and income to pay the Entrance Fee and pay the Monthly Fee and other normal expenses for items and services not provided by the Community; and (v) satisfactory evidence of enrollment in the Defense Enrollment Eligibility Reporting System (DEERS) and Medicare Parts A and B, as well as a supplemental health insurance program.

Eligibility. A person who meets any of the following criteria shall be an Eligible Member and may apply for residency in the Community:

A. an officer of any component (e.g., Regular, Reserve or National Guard) of the U.S. Armed Forces entitled to a retirement payment as a commissioned or warrant officer [hereinafter referred to as an "Officer"]; or
B. an unremarried surviving spouse of an Eligible Member who was lawfully married to such Eligible Member at the time of such member's death; or

C. officers of the U.S. Uniformed Services or the National Oceanic and Atmospheric Administration and the U.S. Public Health entitled to receive a retirement payment; or
D. a career Foreign Service officer entitled to receive a retirement payment; or
E. a career Central Intelligence Agency Officer entitled to receive a retirement payment; or
F. a career Federal Bureau of Investigation special agent entitled to receive a retirement payment; or
G. a career federal employee with a grade equivalent to officer levels of the U.S. Uniformed Services entitled to receive a retirement payment; or
H. a parent or parents of a retired or active duty officer of the U.S. Uniformed Services; or
I. a person who has had a significant special relationship with the community of Officers or Officers' spouses and who is declared by the Board of Directors on a case-by-case basis to be eligible for residence in the Community as an exception to the eligibility criteria listed in paragraphs A, B, and C immediately above; or
J. the divorced spouse of an Eligible Member, if such Eligible Member is not a member of the Community at the time of the divorce, may be an Eligible Member if qualified under paragraph G above; or
K. the divorced spouse of an Eligible Member, if such spouse is a member of the Community at the time of the divorce.

Eligible Foundation members have been given numbers establishing a priority system for the admission of members and the selection of individual living units.

In the event Foundation's eligible membership does not provide a sufficient number of residents to occupy at least 95% of the individual living units on a continuing basis, Provider will be permitted to fill vacancies from the general public within and outside the marketing area without requiring membership in the Foundation.

If at any time there is a vacancy of an independent living unit available for occupancy for at least sixty (60) days, Sunrise may fill the unit from the general public.

Admission to the Community is open to anyone meeting the foregoing requirements, without regard to race, religion, national origin or sex.

Copies of applications to the Foundation and The Fairfax are attached as Exhibit G.

ACCESS TO COMMUNITY BY NON-RESIDENTS

The residents in the Community likely will not require all of the 56 licensed nursing care beds, 52 assisted living beds and 23 specialized memory care ("Reminiscence) beds in the Health Center. Sunrise may provide Nursing Services and nursing care units in the Health Center to non-residents on a daily rate basis to the extent that space and services are not fully utilized by residents.
Access to the Beauty and Barber Shop, Gift Shop and Community Center Dining is open to all Fairfax residents, Health Center residents, and guests.

Access to the above and to all other recreational and dining areas, and other common areas in the Community is limited to Fairfax residents, ARRF-P members, guests, and those individuals authorized by the Fairfax Executive Director.

SMOKING POLICY

Effective February 1, 2016, The Fairfax has been designated a smoke free environment in all indoor public areas, the community center, which includes the dining venues, common areas in all independent living

buildings and the entire health care center. This policy applies to all residents and visitors who smoke cigarettes, cigars and pipes.

The following policy applies to the entire Fairfax campus.

- Effective February 1, 2016, residents and/or visitors will no longer be allowed to smoke in the individual apartments located on The Fairfax campus. Residents who smoke and currently reside at The Fairfax will be "grandfathered" and will be allowed to smoke in their individual apartments.

- However, all residents who are "grandfathered" **are strongly encouraged** to smoke on their balconies or outside of their building in the designated smoking area. By smoking in these areas, it will eliminate the second hand smoke that travels to other apartments, hallways, and common areas.

- All residents who are "grandfathered" will be required to place and use a UV odor elimination system in their apartment. By utilizing this equipment, it will reduce the smoking fumes in the apartment and through out the community.

- Residents who continue to smoke in their apartments may be subject to fees associated with any remediation that is needed to the apartment related to smoking.

- Effective February 1, 2016, applicants applying to live at The Fairfax will be informed that we will no longer allow residents who smoke to move into our community.

- Residents and Visitors that are non adherent to this policy could be subject to termination of the Residency Agreement and/or removal from The Fairfax property.

PROCEDURE FOR RESIDENT TO FILE A COMPLAINT OR DISCLOSE CONCERN

A resident may direct a complaint or concern to the manager of the department at the Community who is responsible for the issues(s), or directly to the Community's Executive Director. In addition, there is a sixteen member Residents' Council consisting of two residents from each of the five apartment buildings and one resident representing the cottages and one from the Health Center. Additionally, four members are elected at-large. Residents are encouraged to bring suggestions or concerns to the Residents' Council since the Council works closely with senior management of the Community. In addition, residents serve on the various functional committees of the Community (i.e. Housekeeping, Food Service, etc.) and a resident may direct a concern to the relevant committee.

EXHIBIT A

ACKNOWLEDGEMENT CERTIFICATE

(The Fairfax, Ft. Belvoir, Virginia)

This Acknowledgement Certificate ("Acknowledgement") is dated as of September 22, 2009, and has been created for residents and potential residents of The Fairfax, Ft. Belvoir, Virginia ("The Fairfax") for the purposes set forth herein.

Part 1 – Purpose

The purpose of this Acknowledgement is to provide certain background information to, and acknowledgements for the benefit of, residents and potential residents of The Fairfax ("Residents") to explain: (1) the relationships that exist between the various companies that own, lease and operate The Fairfax; and (2) how those relationships relate to the issuance of LifeCare Bonds (as described below) to Residents, and the obligations for repayment of such LifeCare Bonds when they become due and payable. This Acknowledgement may be included in regulatory filings such as the annual Disclosure Statement filed with the Virginia Bureau of Insurance.

Part 2 – Factual Background

1. The Fairfax is owned by HCP MA3 Virginia, LP (formerly known as CNL Retirement MA3 Virginia, LP) (the "Landlord"). Sunrise Continuing Care, LLC (formerly known as Marriott Continuing Care, LLC) (the "Tenant") leases and operates The Fairfax pursuant to a written lease agreement (the "Lease") among the Tenant, the Landlord and an affiliate of Landlord, HCP SU TRS Corp. ("HCP SU TRS"). The Landlord and HCP SU TRS are wholly-owned, indirect subsidiaries of HCP, Inc., a publicly traded company (NYSE: HCP). The Tenant is a wholly-owned, indirect subsidiary of Sunrise Senior Living, Inc., a publicly traded company (NYSE: SRZ). Under the Lease, Landlord delegated to HCP SU TRS all of Landlord's obligations to pay any amounts coming due under maturing or redeemed LifeCare Bonds as further described below.

2. Pursuant to the Lease, on behalf of HCP SU TRS, the Tenant is permitted to sell and issue LifeCare Bonds to Residents of The Fairfax. A LifeCare Bond represents the refundable portion of a Resident's entrance fee ("Refundable Entrance Fee") pursuant to such Resident's Continuing Care Agreement. Under the Lease, the Tenant, on behalf of the Landlord and HCP SU TRS, is responsible for repayment of the Refundable Entrance Fee to a Resident or his/her estate as the refund(s) become due and payable under such Resident's LifeCare Bond and/or Continuing Care Agreement.

3. Pursuant to the Lease, Tenant maintains an interest bearing reserve account with a bank (the "LifeCare Bond Reserve"). The LifeCare Bond Reserve was initially funded by Landlord at the commencement date of the Lease in the amount of $250,000.00. Pursuant to the Lease, all Refundable Entrance Fees are initially deposited in the LifeCare Bond Reserve, and a balance of $250,000.00 is maintained in the LifeCare Bond Reserve at all times. The Tenant draws upon the LifeCare Bond Reserve to refund the Refundable Entrance Fee to each Resident or his/her estates as such

refund(s) become due and payable under such Resident's LifeCare Bond and/or Continuing Care Agreement

4. Pursuant to the Lease, if, at any time prior to the expiration or earlier termination of the Lease, the LifeCare Bond Reserve has insufficient funds to pay any obligations coming due under maturing or redeemed LifeCare Bonds, the Tenant may provide a notice to HCP SU TRS of such deficiency setting forth the amount of such deficiency and HCP SU TRS is required pursuant to the terms of the Lease to pay to the LifeCare Bond Reserve the amount of such deficiency within five (5) business days after receipt of such notice. In the event that the Lease expires or is terminated, HCP SU TRS is required to pay the full amount of any obligations due under maturing or redeemed LifeCare Bonds in accordance with the terms thereof.

5. Pursuant to a written guaranty (the "Guaranty") in favor of Tenant, Ocean Acquisition I, Inc. (successor by merger to CNL Retirement Properties, Inc) (the "Guarantor") has guaranteed to the Tenant the obligations of Landlord and HCP SU TRS under the Lease to repay existing and future LifeCare Bonds coming due under maturing or redeemed LifeCare Bonds upon and subject to the terms thereof. Guarantor is a wholly-owned subsidiary of HCP.

Part 3 – Acknowledgements of Tenant, Landlord, HCP SU TRS and Guarantor

As of the date of this Acknowledgement, Tenant, Landlord, HCP SU TRS and Guarantor each hereby acknowledge and confirm for the benefit of the Residents and potential Residents of the Fairfax that the Factual Background set forth in Part 2 above is true and correct.

Part 4 – Miscellaneous

This Acknowledgement may be executed in counterparts, each of which shall be an original, but all of which, together, shall constitute one and the same instrument.

[Signatures Appear On The Following Pages]

Tenant, Landlord, HCP SU TRS and Guarantor execute this Acknowledgement as of the date first written above.

TENANT:

SUNRISE CONTINUING CARE, LLC.

By: _____

Its: Vice President + Secretary

[Signatures Continue On Next Page]

LANDLORD:

HCP MA3 VIRGINIA, LP f/k/a CNL RETIREMENT MA3, VIRGINIA, LP,

By: HCP MA3 GP Holding, LLC, its general partner

By: _____
Brian J. Maas
Its: Senior Vice President

HCP SU TRS:

HCP SU TRS Corp.

By: _____
Brian J. Maas
Its: Senior Vice President

GUARANTOR:

OCEAN ACQUISITION I, INC.

By: _____
Brian J. Maas
Its: Senior Vice President

EXHIBIT B

AMENDED AND RESTATED SPONSORSHIP AGREEMENT

(Corrected)

[This corrected version of the Amended and Restated sponsorship Agreement dated November 15, 1996, corrects, supersedes and completely replaces the Amended and Restated Sponsorship Agreement dated November 14, 1996, in order to correct two scrivener's errors in Section 3.01.]

This Amended and Restated Sponsorship Agreement ("Agreement") is made as of the 15th day of November, 1996 ("Effective Date"), by and between THE ARMY RETIREMENT RESIDENCE FOUNDATION-POTOMAC, a Virginia non-stock corporation, with a mailing address at 9140 Belvoir Woods Parkway, Fort Belvoir, Virginia 22060-2703 ("Foundation"), and MARRIOTT SENIOR LIVING SERVICES, INC., a Delaware corporation, with offices at 10400 Fernwood Road, Bethesda, Maryland 20058 ("Marriott").

R E C I T A L S :

1. The Foundation is a non-profit corporation established to provide for the retirement needs and interests of retired officers of the U.S. Armed Forces and their spouses and desires to provide for its members one or more retirement residence communities in the greater Washington, D.C. area.

2. Marriott is a Delaware corporation which develops, owns and operates residential retirement communities.

3. The Foundation and Marriott entered into a sponsorship Agreement dated as of the 26th of November, 1986 ("Sponsorship Agreement") pursuant to which, Marriott and the Foundation set forth the duties and obligations of the two parties in developing a retirement community that would meet the needs of U.S. Army officers and their spouses, such criteria having been expanded to retired officers of the U.S. Armed Forces and their spouses.

4. Marriott developed a retirement community known as "The Fairfax", a Marriott Lifecare Retirement Community, developed for The Army Retirement Residence Foundation - Potomac which opened on July 22, 1989. The "Community" consists of three hundred eighty-two (382) independent living units (an "Independent Living Unit"), forty-five (45) licensed assisted living units (an "Assisted Living Unit") and sixty (60) licensed nursing care beds (a "Nursing Bed"). Marriott and the Foundation now desire to amend and restate their obligations and duties contained in the Sponsorship Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the parties agree as follows:

ARTICLE I

DEFINITION OF TERMS

1.01 Definition of Terms

The following terms when used in this Agreement shall have the meanings indicated:

A. "Resident(s)" - shall mean those individuals residing in an Independent Living Unit in the Community pursuant to the terms of a Continuing Care Agreement with Marriott.

B. "Health Center" - shall mean that portion of the Community facilities licensed to provide assisted living and nursing care services and functions.

C. "Marriott Retirement Community System" shall mean at any particular time the entire system or group of retirement communities then owned, leased, operated or managed by Marriott.

1.02 Terms Defined in Other Sections

The following terms when used in this Agreement shall have the meanings described in that portion of this Agreement indicated below:

A. "Agreement" - preamble

B. "Effective Date" - preamble

C. "Foundation" - preamble

D. "Marriott" - preamble

E. "Sponsorship Agreement" - recital 3

F. "Community" - recital 4

G. "Independent Living Unit" - recital 4

H. "Assisted Living Unit" - recital 4

I. "Nursing Bed" - recital 4

J. "Active Priority List" - Section 3.01(B)

K. "Wait List Policy" - Section 3.01(B)

L. "Move-In List" - Section 3.01(B)

M. "Community List" - Section 3.01(B)

N. "Continuing Care Agreement" - Section 3.02

O. "Entrance Payments" - Section **3.03**(A)

P. "Monthly Fee" - Section 3.03(A)

Q. "Cash Operating Costs" - Section 3.03(B)

R. "Residents' Association" - Section 3.07

S. "Transfer" - Section 4.01

T. "Management" - Section 4.01

U. "Approved Manager" - Section 4.02

V. "Sale of the Community" - Section 4.03

W. "Initial Term" - Section 5.01

ARTICLE II

THE COMMUNITY

2.01 Name

For as long as this Agreement is in effect and Marriott is the owner, manager or lessee of the Community, (i) the Community name shall be "The Fairfax, a Marriott Lifecare Retirement Community, developed for The Army Retirement Residence Foundation - Potomac" and (ii) the role of the Foundation and Marriott will always be prominently acknowledged in any signage and/or marketing materials. After the termination or expiration of this Agreement, Marriott or any owner, manager or lessee of the Community may not include or refer to the Foundation in the name of the Community.

2.02 Community Services

The services provided at the Community currently consist of those services set forth in the Continuing Care Agreement, Nursing Admission Agreement or Assisted Living Residency Agreement. Marriott may from time to time change the Nursing Admission Agreement and/or Assisted Living Residency Agreement without notice to or comment from the Foundation. Marriott may from time to time change the Continuing Care Agreement, but will make no material change to it without first giving the Foundation notice of such change. The Foundation may, within thirty (30) days of such notice, submit to Marriott any comments or objections, and Marriott will give due consideration to same, it being understood that at the end of said thirty (30) day period, Marriott, in its sole discretion, may make such proposed changes. If there are changes to the Continuing Care Agreement which are mandated by Federal, Virginia or local law in Marriott's opinion, then Marriott shall so advise the Foundation and immediately implement such changes without waiting for the Foundation's comments or objections.

ARTICLE III

COMMUNITY OPERATION

3.01 Admission to the Communitv

A. During the term of this Agreement and subject to the provisions of this Section, admission to the Independent Living Units at the Community shall be restricted to members of the Foundation who meet the Foundation's eligibility requirements for residency and the financial and health criteria set forth by Marriott. The Foundation will maintain reasonable standards for eligibility for residency in the Community. Eligibility for residency in the Community is currently restricted to (i) retired officers of the U.S. Armed Forces and their spouses, or (ii) persons with a significant special relationship with the community of officers and officers' spouses in the U.S. Armed Forces who are determined by the Foundation to be eligible for residency. The Foundation will not reduce its eligibility for residency requirements to less than all retired officers and their spouses in all U.S. Armed Forces without Marriott's prior written consent, such consent not to be unreasonably withheld, delayed or conditioned. Except with respect to maintaining eligibility for residency in the Community for retired officers and their spouses in all U.S. Armed Forces, the Foundation may from time to time change its membership standards, but will make no material change without first giving Marriott notice of such change. Marriott may, within thirty (30) days of such notice, submit to the Foundation any comments or objections, and the Foundation will give due consideration to same, it being understood that at the end of said thirty (30) day period, the Foundation, in its sole discretion, may make such proposed changes.

B. The Foundation maintains its roster of members who have expressed an interest in moving into an Independent Living Unit through the payment of the requisite membership fee to the Foundation. Such members shall receive priority numbers, one number per single or per couple, if the Independent Living Unit is to be jointly occupied, based upon the date upon which the membership fee is received. When the member is ready to actively compete for assignment of an Independent Living Unit, the member requests that the Foundation place the member's name on the Foundation's Active Priority List (the "Active Priority List") for the Independent Living Unit(s) desired. The Marriott and Foundation joint Wait List Policy (the "Wait List Policy") describes how members on the Active Priority List compete for the assignment of an Independent Living Unit by Marriott. The Foundation shall use reasonable commercial efforts to maintain the Active Priority List at a level sufficient to meet the estimated demand for vacant Independent Living Units established by Marriott. Marriott maintains a separate list (the "Move-In List") of those Foundation members who have completed a full application for occupancy of an Independent Living Unit and paid Marriott a refundable deposit to evidence their commitment

to move into an Independent Living Unit. Marriott shall also maintain a separate list (the "Community List"), in accordance with the Wait List Policy, of Residents who have expressed an interest in moving to a different Independent Living Unit within the Community. When an Independent Living Unit becomes vacant, Marriott will first seek to fill that vacancy with a Resident on the Community List or a Foundation member on the Move-In List in accordance with the Wait List Policy and, if Marriott is unsuccessful, it next shall seek to fill the vacancy with a Foundation member from the Active Priority List. Such Wait List Policy was mutually agreed upon by Marriott and the Foundation in 1992, was not changed prior to the Effective Date and will be changed after the Effective Date only by mutual agreement of Marriott and the Foundation. Notwithstanding the foregoing, if at any time there is a vacancy of an Independent Living Unit available for occupancy for at least sixty (60) days, Marriott shall be free to fill such vacancy from the general public. Marriott will consult with the Foundation as needed to establish or revise reasonable financial and health admissions criteria for prospective Residents. Such criteria shall apply equally to all prospective Residents, whether or not they are Foundation members. The final decision as to such criteria shall be made by Marriott.

C. Although Residents will be provided priority access to the Health Center on a space available basis, a Nursing Bed may not always be available at the particular time a Resident requires one. In such circumstances, temporary nursing care arrangements will be made for such Resident, under terms described in the Continuing Care Agreement. Marriott may, to the extent prudent and feasible, also accept patients from the general public to fill vacancies in the Health Center on a space-available, per diem, basis with the understanding that all such patients must meet the Health Center's financial and health criteria.

D. Neither Marriott nor the Foundation will discriminate on the basis of sex, race, creed or national origin with respect to admission to the Community or to the Health Center.

3.02 Continuing Care Agreement

Marriott shall require each person admitted to an Independent Living Unit in the Community to execute a residence agreement ("Continuing Care Agreement"), then in effect at the Community. The Continuing Care Agreement shall describe the living accommodations, the obligations of the Resident and of Marriott, including financial obligations, and the facilities and services available to the Resident. Marriott may from time to time change the Continuing Care Agreement, but will make no material change without first giving the Foundation notice of such change. The Foundation may, within thirty (30) days of such notice, submit to Marriott any comments or objections, and Marriott will give due consideration to same, it being understood

that at the end of said thirty (30) day period, Marriott, in its sole discretion, may make such proposed,changes.

3.03 Fees

A. Prospective Residents may be required to make one or more initial payments (whether in the form of fees, purchase of a life care bond or otherwise) prior to or at the time they enter the Community, all of which in the aggregate are herein referred to as the "Entrance Payments" pursuant to the terms of the particular Continuing Care Agreement entered into by the Resident with Marriott. In addition to the Entrance Payments, each Resident may also be required to pay a monthly service fee (the "Monthly Fee") with .respect to his or her occupancy in the Community which may include any and all fees and expenses chargeable to such Resident other than the Entrance Payments. The Monthly Fee is subject to change but will not be adjusted for current Residents more frequently than once annually and at least sixty days prior written notice will be given before any such adjustment shall become effective. Ninety days prior to any change in the Monthly Fee for the current Residents, Marriott will notify the governing body of the Residents' Association and advise it of the need to change the Monthly Fee. It being understood that the decision to change the Monthly Fee shall be at Marriott's sole discretion, except to the extent, if any, that Marriott's discretion is limited in a Continuing Care Agreement.

B. The Continuing Care Agreements in effect as of the Effective Date of this Agreement provide certain limits on Marriott's ability to increase the Monthly Fee. The Foundation shall have the right to review or cause to be reviewed any increase in the Monthly Fee to insure Marriott's compliance with the Continuing Care Agreements. Marriott shall reasonably cooperate with the Foundation in permitting it to carry out its rights under this Agreement. The Foundation shall have the right annually, but not prior to ninety (90) days after the close of each Marriott fiscal year, to review the "Cash Operating Costs" (as that term is defined in the Continuing Care Agreement) of the Community. If the Foundation so chooses, such review will be conducted by a certified public accounting firm chosen by the Foundation, approved by Marriott, and retained at the Foundation's expense. In the event of dispute, the parties will accept a certified public accounting firm appointed by the local office of the American Arbitration Association upon the Foundation's request. The review shall be conducted during normal business hours at a time reasonably convenient to the Community's Executive Director. All business and accounting records of the Community, working papers, findings and reports related to the review including the report of such firm shall be confidential to Marriott and the Foundation's Board of Directors. If a dispute arises with respect to increases in the Monthly Fee for those Residents who have a limitation on Marriott's ability to increase the Monthly Fee in their Continuing Care Agreements, the issue shall be resolved by arbitration in accordance with the provisions of Section 6.01 hereof and such arbitration

proceedings and all evidence, records and reports with respect thereto shall be admissible but considered confidential. Upon the termination of this Agreement for any reason, Marriott will continue to comply with any restrictions in the Continuing Care Agreements on its ability to increase Monthly Fees, however, the Foundation shall not maintain its role of reviewing Monthly Fee increases as described in this Section **3.03**(B).

3.04 Marketing

Marriott will be responsible for managing a marketing and sales program for the Community. Marriott will consult with the Foundation concerning the marketing of the Community and the Foundation will promote the Community.and resident membership in the Community. As requested by Marriott, the Foundation will assist in developing and carrying out the marketing and sales program, including: recommendations to its members; endorsements in press releases; direct mail advertising to prospective Residents accompanied by an introductian on Foundation letterhead; review advertising copy prior to publication; and providing speakers to groups of prospective Residents.

3.05 Manasement

Marriott will operate the Community in its sole and complete discretion including the selection of management staff, hiring and firing of employees, the selection of outside contractors and suppliers and establishing Community policies and standards, subject to only those notice and consultation obligations specified in this Agreement.

3.06 Standards

Marriott will maintain a qualified and experienced staff pursuant to standards that are consistent with the standards set at comparable projects within the Marriott Retirement Community System. Marriott will comply with applicable laws and regulations. Related entities of Marriott may provide any or all supplies and services to the Community, provided such supplies and services shall be at competitive prices and rates.

.3.07 Residents Association

The Foundation and Marriott have been advised that the Fairfax Residents' Association is an organization authorized under Section 38.2-4910 of the Code of Virginia **(1950)** and that it was formally established in June **1990** with the Residents' approval of the Fairfax Residents' Association By-Laws. The Foundation and Marriott have been further advised by the Fairfax Residents' Council that such Council is the governing body of the Fairfax Residents' Association pursuant to the Code of Virginia and the Fairfax Residents' Association By-Laws and that such Council acts in the collective interest of the Residents in matters related to the Community. Marriott will continue to assist the Residents in maintaining the Fairfax Residents' Association or a similar residents' association ("Residents' Association") to represent the Residents as a group in their relationship with Marriott and Community management and to

coordinate certain Residents sponsored activities and programs. The Residents' Association may formulate by-laws and rules governing its own activities. However, the Continuing Care Agreement shall prevail over any such by-laws, rules or decisions of the Residents' Association which are in conflict.

3.08 Continuing Role of the Foundation

A. The Foundation intends to continue to address the retirement housing needs of retired officers of the U.S. Armed Forces and their spouses. Subject to Marriott's and the Foundation's termination rights, the Foundation will continue a sponsorship role with the Community in accordance with the terms of this Agreement.

B. The Foundation may

(i) accept gifts and bequests on behalf of the Community and coordinate their disposition; and

(ii) administer a benevolent fund on behalf of Residents.

C. Foundation and Marriott representatives will meet at least annually, and more frequently if both parties deem it necessary, to consider matters of significant concern to either party or to the Residents' Association and recommend appropriate actions or policies intended to improve the operation of the Community and the quality of life for the Residents.

ARTICLE IV

ASSIGNMENT BY MARRIOTT

4.01 Assignment and Transfer

Marriott may, at any time, with or ,without the Foundation's prior written consent, (i) assign (in whole or in part or parts) this Agreement to any entity while retaining Management of the Community, (ii) create a condominium or cooperative regime at the Community while retaining Management of the Community, (iii) sell Marriott's interest in the Community (subject to the Foundation's rights, if any, under Section **4.03** below) while retaining Management of the Community, (iv) make any conveyance of Marriott's interest in the Community while retaining Management of the Community, (v) assign this Agreement to any entity while not retaining Management of the Community, (vi) sell its Marriott Retirement Community System including the Community and not retain the Management of the Community, or (vii) sell the Community and not retain the Management of the Community (any of which are hereinafter referred to as a "Transfer"). Any Transfer under clauses (v), (vi) or (vii) in the preceding sentence is subject to the requirements of Section **4.02** below. The term "Management" shall mean the day-to-day oversight of the operation of the Community as well as

the power to make all decisions relative to repairs, replacements, upgrades and capital improvements. Any transfer of a controlling interest in Marriott other than a sale by Marriott of its entire Marriott Retirement Community System shall be deemed a Transfer for purposes of this Article IV.

4.02 Approved Manaaer

If Marriott (i) assigns this Agreement to any entity while not retaining Management of the Community, (ii) sells its Marriott Retirement Community System including the Community while not retaining the Management of the Community, or (iii) sells the Community while not retaining the Management of the Community, the new entity designated to perform the Management and/or operational duties previously performed by Marriott shall be an entity which (w) is duly registered and approved as a "provider" under Chapter 49, Sections 38.2-4900 et seq. of the Code of Virginia, (x) is experienced in the management of retirement communities similar to the Community, (y) is adequately capitalized to meet all of its financial obligations related to the management of the Community on a going concern basis, and (z) does ndt have a bad business reputation [an entity which meets or exceeds all the preceding criteria in clauses (w) through (z) above is referred to herein as an "Approved Manager"]. If not already provided to the Foundation under Section 4.04(A) below, all the information about the new manager/operator of the Community described in Section 38.2-4902 of the Code of Virginia shall be provided to the Foundation prior to the new manager/operator taking over Management of the Community. If Marriott and the Foundation disagree on whether any transferee or proposed transferee of Management is an Approved Manager, such disagreement shall be resolved by arbitration in accordance with the provisions of Section 6.01 hereof and such arbitration proceedings and all evidence, records and reports with respect thereto shall be admissible but considered confidential. Any Transfer to a third party who itself is not an Approved Manager, but who contemporaneously with said Transfer enters into a contract with an Approved Manager for the Management and operation of the community and such Approved Manager assumes Marriott's obligations under this Agreement, shall be deemed to be a transfer to an Approved Manager.

4.03 Request for First Negotiation

If Marriott desires to sell its entire ownership interest in the community (fee simple and/or leasehold) in a transaction which involves only the Community, i.e., no other transfer of Marriott ownership interests in any other retirement community in the Marriott Retirement Community System will be part of such transaction (a "Sale of the Community"), the Foundation requests that Marriott first negotiate for thirty (30) days with the Foundation to sell the Community to the Foundation at a mutually acceptable price and on mutually acceptable terms. Although Marriott shall not be obligated to negotiate with the Foundation on any proposed Transfer of the Community, a Sale of the Community without giving the Foundation a 30-day right of

first negotiation shall be considered contrary to the provisions of this Article IV.

4.04 Conditions for Assisnment and Release

No Transfer or assignment of this Agreement shall be effective against the Foundation under this Agreement unless and until (i) Marriott gives written notice thereof to the Foundation, and (ii) such transferee or assignee shall, except for purchasers of less than five percent (5%) of any available condominium units or cooperative shares, deliver to the Foundation the following documents:

A. if any Transfer requires Marriott and/or its transferee or assignee to file and/or update a registration and/or disclosure statement under Chapter 49, Sections 38.2-4900 et seq. of the Code of Virginia, a complete copy or copies of such new and/or updated registration and/or disclosure statement(s) shall be provided to the Foundation promptly after their being filed with the Virginia State Corporation Commission;

B. a certified copy of all documents by which the Transfer will be accomplished if not already provided under Section 4.04(A) above;

C. a certified copy of the agreement or instrument whereby such transferee or assignee was created, if not a natural person, and all amendments thereto and proof that said transferee or assignee is validly formed, duly organized and authorized to transact the business contemplated in this Agreement if not already provided under Section 4.04(A) above;

D. a description of the transferee's or assignee's business history and its qualifications to own the Community and/or serve as an Approved Manager if not already provided under Section 4.04(A) above; and

E. in the case of the creation of a condominium or cooperative regime, a certified copy of all documents by which said regime will be created.

Upon consummation of such a Transfer in which all of Marriott's right, title and interest in and to the Community and this Agreement is assumed by said transferee or assignee and Management is transferred to an Approved Manager, Marriott shall be relieved of all further liability under this Agreement.

4.05 Sole Remedy for Marriott Breach of Article IV

If any Transfer or Sale of the Community or assignment of this Agreement or change in Management is made or attempted contrary to the provisions of this Article IV, the Foundation's sole remedy shall be to terminate this Agreement with Marriott being considered the party causing the termination for purposes of any other agreements between Marriott and the Foundation.

ARTICLE V

TERM AND TERMINATION

5.01 Term

The term of this Agreement shall commence on the Effective Date and expire on one (1) year (the "Initial Term"). Thereafter, unless previously terminated, this Agreement shall automatically renew itself from year to year on the anniversary of the end of the Initial Term.

5.02 Early Termination

A. The Foundation may .terminatethis Agreement on thirty (30) days written notice to Marriott in the event Marriott breaches any of its obligation contained in this Agreement. Marriott shall be considered to have caused such termination for purposes of any other agreements between Marriott and the Foundation.

B. Marriott may terminate this Agreement if at any time, actual residency of Independent Living Units available for occupancy by Residents falls below an average of (i) ninety-five percent (95%) and continues for three (3) consecutive months, or (ii) ninety-three percent (93%) in any period of twelve (12) consecutive months, by sending thirty (30) days written notice thereof to the Foundation. The Foundation shall be considered to have caused such termination for purposes of any other agreements between Marriott and the Foundation.

C. Neither the Foundation nor Marriott shall terminate this Agreement under this Section 5.02 unless and until they have given at least thirty (30) days advance notice to the other of their intention to do so, specifying their reasons in detail, and the other fails to cure such circumstances within such thirty (30) day period.

5.03 Termination After the Initial Term

After the Initial Term, either party may terminate this Agreement, with or without cause, by giving at least ninety (90) days prior written notice to the other party of its decision to terminate this Agreement. This Agreement shall automatically terminate upon the later of (i) the termination date specified in the written notice, or (ii) ninety (90) days after the receipt of the termination notice by the non-terminating party, unless the party delivering the termination notice rescinds the termination notice prior to the termination date specified in such notice. The party initiating the'termination shall be considered the party causing the termination for purposes of any other agreements between Marriott and the Foundation.

ARTICLE VI

ARBITRATION

6.01 Arbitration

A. Whenever under any provision of this Agreement it is provided that a dispute between the Foundation and Marriott shall be settled by arbitration, such arbitration shall be conducted in the manner set forth in this Section 6.01.

B. The party desiring such arbitration shall give written notice to that effect to the other party and shall in such notice appoint a disinterested person of recognized competence in the field involved as one of the arbitrators. Within thirty (30) business days thereafter, the other party shall by written notice to the original party appoint a second disinterested person of recognized competence in such field as an arbitrator. The arbitrators thus appointed shall appoint a third disinterested person of recognized competence in such field, and the three (3) arbitrators shall as promptly as possible determine such matter; provided, however, that

(i) if the second arbitrator shall not have been appointed within the time periods set forth above, the first arbitrator shall proceed on ten (10) business days written notice to the parties to determine such matter; and

(ii) if the two (2) arbitrators appointed by the parties shall be unable, within fifteen (15) business days after the appointment of the second arbitrator, to agree upon the appointment of a third arbitrator, they shall give written notice of such failure to agree to the parties, and, if the parties fail to agree upon the selection of such third arbitrator within fifteen (15) business days after the arbitrators appointed by the parties have given such notice, then within ten (10) business days thereafter either of the parties upon written notice to the other party hereto may request such appointment by the then President of the Virginia Board of Realtors (or any successor organization), or in his absence, refusal, failure or inability to act, may request such appointment by the then President of the Virginia Bar (Unified) [or any successor organization], or in his absence, refusal, failure or inability to act, may apply for such appointment to the American Arbitration Association or to any successor agency thereto exercising functions similar to those now exercised by the American Arbitration Association.

C. The Foundation and Marriott shall each be entitled to present evidence and argument to the arbitrators. The arbitrator or arbitrators shall have the right only to interpret and apply the covenants, provisions and conditions of this Agreement, and may not change any of such covenants, provisions or conditions or deprive any party to this Agreement of any right or remedy expressly or impliedly provided in the Agreement. The arbitrators and arbitration shall use and follow

the Commercial Arbitration Rules of the American Arbitration Association or of any successor agency thereto exercising functions similar to those now exercised by the American Arbitration Association. The arbitration shall not be administered by the American Arbitration Association unless Marriott and the Foundation both agree to use and pay the costs of such administration.

D. The determination of the majority of the arbitrators or of the sole arbitrator, as the case may be, shall be conclusive upon the parties, and judgment upon the same may be entered in any court having jurisdiction thereof. The arbitrators shall give written notice to the parties stating their determination and shall furnish to each party a copy of such determination signed by them.

E. In the event of the failure, refusal or inability of any arbitrator to act, a new arbitrator shall be appointed in his stead, which appointment shall be made in the same manner as hereinbefore provided for the appointment of the arbitrator so failing, refusing or unable to act.

F. The expenses of arbitration shall be borne equally by the Foundation and Marriott or as the arbitrator(s) shall otherwise determine.

ARTICLE VII

MISCELLANEOUS PROVISIONS

7.01 Applicable Law

This Agreement shall be construed under and shall be governed by the laws of the Commonwealth of Virginia.

7.02 No Asencv, Partnership or Third Partv Beneficiary

Nothing contained in this Agreement shall be deemed or construed by the parties hereto or by any third party in and of itself to create the relationship of principal and agent or of partnership for joint venture or of any association between the Foundation and Marriott. No person or entity other than Marriott and the Foundation shall be deemed to have any rights or benefits arising out of this Agreement including the right to enforce this Agreement or to seek any damages at law or in equity against either Marriott or the Foundation. There are no third party beneficiaries of this Agreement, specifically including, without limitation, as parties who are not third party beneficiaries, the Residents and Residents' Association.

7.03 Gender and Number

Words of any gender used in this Agreement shall be held to include any other gender and words in the singular shall be held to include the plural when the sense requires.

7.04 Notices

Notices, statements and other communications to be given under the terms of this Agreement shall be in writing and delivered by messenger or overnight delivery service against receipt or sent by certified or registered mail return receipt requested and addressed as follows:

If to Foundation: The Army Retirement Residence Foundation - Potomac
9140 Belvoir Woods Parkway
Fort Belvoir, Virginia 22060-2703

If to Marriott: Marriott Senior Living Services, Inc.
c/o Marriott International, Inc.
10400 Fernwood Road
Bethesda, Maryland 20058
Attn: Law Department

or at such other addresses as from time to time designated by the party receiving the notice. Any such notice which is properly mailed shall be deemed to have been served as of five (5) business days after the post date for purposes of establishing that the sending party complied with the applicable time limitations set forth herein but shall not be binding on the addressee until actually received.

7.05 Headings

Headings as to contents of particular articles and sections herein are inserted only for convenience and are in no way to be construed as a part of the agreement or as a limitation on the scope of the particular section to which they refer.

7.06 Binding Effect

The covenants, conditions and Agreements contained in this Agreement shall bind, apply to and inure to the benefit of the parties hereto and their respective successors and assigns.

7.07 Entire Asreement: Merser,

This Agreement contains all the Agreements and conditions made between the parties hereto with respect to the matters contained herein and may not be modified orally or in any manner other than by an Agreement in writing signed by all the parties hereto or their respective successors. All prior written and oral understandings and Agreements including the confidential Letter of Intent dated June 12, 1984 shall be deemed to have been merged into this Agreement and have no further force in effect.

7.08 The Foundation as a Tax Exempt Entity

Marriott recognizes that the Foundation is a tax exempt entity pursuant to the terms of Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Marriott agrees not to'take any action which will jeopardize the Foundation's tax exempt status and in the event that any of the provisions of this Agreement may cause the Foundation to lose its tax exempt status,

Marriott will agree to make any reasonable changes to this Agreement which do not alter or change Marriott's rights and/or obligations hereunder.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first written above.

THE ARMY RETIREMENT RESIDENCE FOUNDATION - POTOMAC
a Virginia non-stock corporation

ATTEST:

Marjorie Lich
Secretary

By: William B. DeGraf
William B. DeGraf, President

[Corporate Seal]

MARRIOTT SENIOR LIVING SERVICES, INC.
a Delaware corporation

ATTEST:

K M
Assistant Secretary

By: Edward P. Bowsey
Vice President

[Corporate Seal]

EXHIBIT C

CONTINUING CARE AGREEMENT

THE FAIRFAX

A Sunrise Lifecare Retirement Community

Non-Refundable Payment Plan

CONTINUING CARE AGREEMENT
(Non-Refundable Payment Plan)

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Exhibit A Pre-Existing Conditions

Notice of Right to Rescind

CONTINUING CARE AGREEMENT
(Non-Refundable Payment Plan)

This Agreement ("Agreement") is made this ___ day of _____, 20__ ("Effective Date") by Sunrise Continuing Care, LLC, a Delaware Limited Liability Company ("Sunrise") and _____ ("Resident").

Sunrise's continuing care facility is known as "The Fairfax", a Sunrise Lifecare Retirement Community located near Fort Belvoir Military Reservation in Fairfax County, Virginia (the "Community"). Resident has applied for entry into the Community and been accepted, subject to the terms of this Agreement.

Resident and Sunrise agree as follows:

ARTICLE I
FEES AND CHARGES

1.1 Entry Fee – The entry fee for:

Resident's Unit is $_____.
The additional occupant fee is $_____.
The total entry fee is $_____.

1.2 Payment Schedule –

1.2.1 Occupancy Date – The "Occupancy Date" for all purposes of this Agreement is the Effective Date.

1.2.2 Reservation Deposit – Upon signing the Priority Wait List Agreement, Resident paid Sunrise _____$_____.

1.2.3 Balance – The balance of Resident's total entry fee is due prior to Resident's Occupancy Date in the amount of _____$_____.

THE ENTRY FEE AND THE ADDITIONAL OCCUPANT FEE ARE NON-REFUNDABLE UNLESS RESIDENT ELECTS TO TERMINATE THIS AGREEMENT DURING THE SEVEN (7) DAY RESCISSION PERIOD.

1.3 Monthly Fee –

1.3.1 Payment of Monthly Fee – Commencing on the Occupancy Date, Resident will pay Sunrise a monthly fee ("Monthly Fee"). The Monthly Fee shall be payable in advance on or before the fifth (5th) day of each month throughout the term of the Agreement and will be deemed made when received by Sunrise. Sunrise may assess a five percent (5%) penalty charge for late payment. The Monthly Fee for the month within which the Occupancy Date falls shall be due and payable on the Occupancy Date. The Monthly Fee for that month and for the last month of the

Agreement shall be prorated based upon the number of days in the first and last months of the Agreement. The Monthly Fee is not rent but is consideration for services provided to Resident as herein described.

1.3.2 Amount of Monthly Fee – The initial Monthly Fee shall be _____ Dollars ($_____).

1.4 Adjustments of Monthly Fee and Health Center Fee –

1.4.1 Adjustments – The Monthly Fee and Health Center Fee may be adjusted from time to time. Sunrise will provide at least thirty (30) days advance written notice of any changes in the Monthly Fee or Health Center Fee. Residents will also be given at least thirty (30) days advance notice of any changes in other fees, charges or the scope of care or services, except for changes required by state or federal assistance programs.

1.4.2 Termination of Double Occupancy – If one occupant of a double occupant Unit leaves the Community permanently or moves into the Health Center for an extended stay, effective on the first day of the following month, the Monthly Fee for the remaining occupant shall be the Monthly Fee for single occupancy of the Unit. Upon termination of double occupancy under this Section 1.4.2, the remaining occupant shall have the right to move to a different or smaller unit, if or when available, and to pay the prevailing market rate Monthly Fee for single occupancy of such unit.

1.4.3 Resident's Absence – If Resident is absent from the Community for more than seven (7) consecutive days, Resident shall receive a meal credit as determined by Sunrise, provided such Resident first gives written notice to the person named by Sunrise to be the Community's Executive Director ("Executive Director") at least five (5) days prior to commencement of such absence.

ARTICLE II
RESIDENCE ACCOMMODATIONS AND FACILITIES

2.1 Residence Unit – The Residence Unit selected by and assigned to Resident is Residence Unit #_____, Model Style ____, Building ____ ("Residence Unit" or "Unit"). Resident shall have the right to reside in the Unit, subject to the terms of the Agreement and the Community rules and regulations.

2.2 Property Protection – Resident will protect, preserve and not permit misuse of or damage to the Unit or any property therein.

2.3 Parking – A single motor vehicle per unit may be parked in an assigned space. Resident may contract for covered parking space or a second assigned space on a separate charge basis, as available. There will not be a recreational vehicle parking area.

2.4 Storage – Limited storage space will be made available to Resident. Assignment of space shall be subject to Sunrise's supervision. Resident will be responsible for securing the assigned storage area and will assume all risk of loss.

2.5 Modifications to Units – Resident shall not make any structural or physical change to the Unit without the Executive Director's written consent. Subject to Sunrise's approval, Sunrise's Contractor will perform the modification work. Resident shall be liable for all costs of restoring the Unit to the original condition as determined by the Executive Director. Title to all modifications and additions to the Unit shall vest in Sunrise when made.

ARTICLE III
NON-MEDICAL SERVICES

3.1 Meals – Sunrise will make available morning, noon, and evening meals at designated hours with nutritionally well balanced and varied menus. For the Monthly Fee, Sunrise will provide Resident one meal, breakfast, lunch or dinner, each day, in the Community dining room. Additional meals may be obtained for a reasonable charge in the dining room or other areas within the Community within which meals are served.

3.1.1 Meal Delivery – Meal delivery to the unit is available for independent living residents for a reasonable charge.

3.1.2 Special Meals – Special diet meals will be provided when ordered by attending physician.

3.1.3 Guest Meals – Residents may invite guests to any meal. Prior notice is requested. Guest meal charges will be billed to Resident as an additional charge.

3.2 Housekeeping – Sunrise will provide weekly light cleaning services. Additional housekeeping service may be contracted for an additional charge basis.

3.3 Maintenance and Repair – Sunrise will provide necessary repairs, maintenance, and replacement of Community property and equipment. Except in an emergency, such services will be provided during normal working hours, Monday through Friday. Sunrise shall have the right to charge Resident for any repairs, maintenance or replacement required as a result of negligence of Resident or Resident's invitees. Resident is responsible for maintaining, repairing and replacing Resident's property.

3.4 Security - Sunrise, as it deems necessary, will employ security personnel to supervise the Community buildings and grounds

3.5 Buildings and Grounds – Sunrise will maintain all Community buildings, common areas and grounds, including lawns, walkways, and driveways. Landscaping and decorative plantings will be provided and maintained by Sunrise as it deems appropriate.

3.6 Utilities – Sunrise will furnish water, sewer, heat, air conditioning, electricity and garbage collection. Telephone service will be available to each unit, however, installation of telephones and service costs will be at Resident's expense. At a minimum, Resident agrees to obtain and maintain an active telephone line necessary for the installation and functioning of the Community's emergency alert system. Basic cable service is required for all independent living residences to secure discounted service rates. Additional cable services are available to each unit at the Resident's expense.

3.7 Insurance and Responsibility for Resident's Property – Resident will provide all personal property and liability insurance for Resident and Resident's property, guests and invitees. Sunrise shall not be responsible for and Sunrise insurance will not protect Resident against any loss or damage to Resident's personal property from theft, fire or other cause, nor will Sunrise insure Resident against personal liability for injury to guests or invitees within the Unit.

ARTICLE IV
HEALTH AND NURSING SERVICES

4.1 Health Center – The Community will have a Health Center staffed twenty-four (24) hours a day with nursing and other health center personnel. The Health Center will provide assisted living and nursing care and, to the extent of its capability, will provide first aid and emergency referral for acute care. Before admission to the Health Center, the Resident will select a personal physician who has admitting privileges or is willing to have admitting privileges to the Health Center. The resident shall be responsible for all costs and charges of physician care.

4.2 Transfer to and from Health Center – In case of emergency, where the consultation described below is not feasible, Sunrise may transfer you from your Unit to an appropriate facility.

Other than an emergency described above, if the Resident Care Committee, consisting of the Executive Director, and health center professionals determines, after consulting the resident, a member of Resident's family or Resident's designated Representative:

(i) that Resident's continued occupancy of the Unit constitutes a danger or health hazard to Resident or other residents, or is detrimental to the peace or security of other residents; or

(ii) that Resident is no longer able to leave the Unit without the assistance of another during an emergency and the Unit is not approved by the State Fire Marshal for use by nonambulatory residents; or

(iii) that Sunrise does not have adequate facilities or staff to provide the nursing services or medical care needed by Resident; then Resident may be requested to transfer from the Unit to the Health Center or elsewhere for appropriate care. Failure to consent to a transfer may constitute good cause for the termination of this Agreement.

Thereafter, if Resident is able to return, as determined by the Resident Care Committee, Resident may return to the same Unit if available, or if not, to the first available comparable unit. In such event, the Monthly Fee shall be the amount applicable to the new unit.

Although it is expected that Health Center bed space will be adequate to meet demand, if not available for Resident when needed, Sunrise will have the option to contract and pay for similar nursing services for Resident at an accredited outside facility. During Resident's stay in such outside facility, Resident will pay Sunrise the Monthly Fee and/or Health Center Fee as applicable. Any Resident transferred to an outside facility shall have the right, on a priority basis, to be returned to the Health Center as soon as appropriate space is available.

Sunrise may provide Nursing Services and nursing care units in the Health Center to non-residents on a daily rate basis to the extent that space and services are not fully utilized by residents.

4.3 Health Center Fees and Charges – Sunrise will provide Health Center care as hereinafter provided.

4.3.1 Temporary Stay – If Resident moves from the Unit into the Health Center and is there for less than **thirty (30) days during any ninety (90) day period ("temporary stay")**, Resident will continue to pay only the Monthly Fee plus a meal charge for two (2) additional meals per day. If Resident vacates the Independent Living Unit during a temporary stay, the remainder of temporary stay days will be forfeited and the Health Center Fee will ensue.

4.3.2 Extended Stay – If Resident resides in the Health Center for longer than a temporary stay ("extended stay"); the fees shall be as follows:

(a) A single Resident of the Unit shall pay the Monthly Fee plus a fee ("Health Center Fee") for each day in the Health Center exceeding a temporary stay, as long as the Resident retains the Unit. The Health Center Fee shall be an amount equal to (i) the Fauquier Unit Equivalent ("F Unit Equivalent") or the Fauquier Unit Equivalent Moderate ("F Unit Equivalent Moderate"), as applicable, in the published Care Fees for the year of admission into the Health Center plus (ii) the charge for two additional meals per day. Upon surrender of the Unit, the Resident shall thereafter pay only the Health Center Fee and forfeit temporary stays.

(b) If one Resident of a double occupant Unit resides in the Health Center on an extended stay basis and the other Resident remains in the Unit, the Monthly Fee for the Resident remaining in the Unit shall be the applicable rate for a single occupant of the Unit and the Resident in the Health Center shall pay the Health Center Fee and forfeit temporary stays.

(c) If both Residents of a double occupant unit reside in the Health Center on an extended stay basis, each will pay the Health Center Fee. In addition, the Monthly Fee applicable to single occupancy of the Unit will be payable as long as the Unit is retained. Upon surrender of the Unit, the obligation to pay the Monthly Fee ends and the temporary stay days will be forfeited.

(d) If Resident returns to Independent Living, Section 4.3.1 will apply.

4.3.3 Rooms – The Health Center Fee entitles Resident to a semi-private room. Resident may have a private room, if available, for an additional charge.

4.3.4 Pre-Existing Conditions – Costs related to pre-existing conditions will be excluded from coverage under this Agreement in accordance with Exhibit A attached hereto. If Resident's stay in the Health Center is due to a pre-existing condition not covered under this Agreement, Resident will pay the per diem rate applicable to non-residents staying in the Health Center ("Per Diem Rate") and is also not eligible for temporary stays. The Per Diem rate will be reviewed and revised annually.

4.3.5 Memory Loss and Dementia – If Resident has a pre-existing diagnosis of memory loss or dementia as set forth in Exhibit A, Resident will pay the Per Diem Rate for any stays in the Health Center and is not eligible for a temporary stay.

4.4 Health Center Fees Not Included – The "F" contract rate is not applicable to residents living in the Reminiscence unit and separate charges apply.

4.4.1 Services Not Provided – Sunrise will not provide medical, surgical or hospital services to Resident or physical examinations, medical consultations, drugs, medications, disposable and non-disposable supplies, x-rays, medical tests, eyeglasses or refractions, hearing aids, dentistry, dentures, inlays, prescriptions, orthopedic appliances, private duty nursing care, podiatric services, physical therapy, treatment for psychiatric disorders or alcoholism, private duty companions or any other service or supply not specifically mentioned in this Agreement. Resident shall obtain and pay for the cost of such items and services.

4.4.2 Services Away From Community – Resident will pay all costs of nursing and other medical services incurred away from the Community, whether by reason of illness or accident, unless Resident is temporarily transferred to an outside facility by Sunrise as provided in Section 4.2.

4.5 Medical and Surgical Insurance –

4.5.1 Medicare and Supplemental Coverage – Resident, if sixty-five (65) years of age or older, will obtain and maintain in force at Resident's cost Medicare Part A and Part B, or equivalent insurance coverage under a public or private insurance plan. In addition, Resident, on the Effective Date, will obtain and thereafter maintain the insurance coverage provided under the Mediplus Supplemental Insurance Plan available to members of The Retired Officers' Association, or a policy with substantially the same coverage acceptable to Sunrise. If less than sixty-five (65) years of age, Resident will obtain medical insurance coverage equivalent to the coverage described in this Section 4.5.1, satisfactory to Sunrise. Resident will provide proof of coverage as Sunrise may request.

Any amounts paid or owing to Resident from federal, state, municipal, private, or supplemental insurance plans shall be paid to Sunrise to pay for nursing, medical, or similar services provided to Resident. Resident will diligently seek to obtain all reimbursements,

payments, proceeds or other benefits available under such plans or programs and authorizes Sunrise to take such action as may be required to obtain and recover same.

4.5.2 Subrogation – In case Resident is injured as a result of an act or omission of a third-party, Resident agrees that Resident's rights against such third-party shall be subrogated to Sunrise and Sunrise shall have a lien on any judgment, settlement, or recovery for any additional expenses incurred by Sunrise in caring for Resident as a result of such injury. Resident authorizes and empowers Sunrise to serve as attorney-in-fact with respect to all such matters, including the authority to prosecute any such claim. Sunrise shall have the right to take all actions necessary to enforce Resident's and Sunrise's rights against the party responsible for such injury, including the right to compromise and settle for amounts Sunrise deems appropriate. Resident agrees to cooperate in assisting in the diligent prosecution of any claim or action against the third-party. After all costs and expenses incurred by Sunrise relating to the injury have been paid to Sunrise, the balance of any collection or settlement will be paid to Resident.

4.5.3 Persons Under Fifty-Five – Any Resident under the age of fifty-five (55) residing in the Community using the Health Center shall pay the Per Diem Rate. After reaching age fifty-five, Resident is eligible for consideration under the Community's pre-existing condition protocol and may request completion of Exhibit A. Until such time as Exhibit A is executed, Per Diem rates will continue to apply for all Health Center stays.

4.6 Mental Illness – The Community is not designed or licensed to provide hospital service or care for persons with psychosis, psychiatric disorders, alcoholism or substance abuse. If the Executive Director, after consultation with the Medical Director and Resident's family and physician, if any, determines that Resident's mental illness or condition is such that Resident's continued presence at the Community is dangerous or detrimental to the health or peace of mind of Resident or other residents, then Sunrise may request Resident to transfer from the Community to an appropriate facility for the duration of such condition. All charges for care rendered by such facility shall be Resident's responsibility. Failure of the Resident or Resident's family or guardian to consent to a transfer may constitute good cause for the termination of this Agreement.

4.7 Consent to Release of Medical Information – Resident consents to the release to Sunrise or its designee of medical information which may be requested at any time by the Medical Director or by any physician, hospital or other provider of medical services which has provided or is providing medical services or consultation to Resident.

ARTICLE V
TERMINATION OF AGREEMENT

5.1 Automatic Rescission – If Resident dies before occupying the Residence Unit or is precluded through illness, injury or incapacity from becoming a resident under the terms of this Agreement, this Agreement is automatically rescinded and the Resident or his legal representative shall receive a full refund of all money paid to Sunrise, except those costs specifically incurred by Sunrise at the request of Resident and set forth in writing in a separate addendum signed by both parties to this Agreement.

5.2 Termination by Resident – This Agreement may be rescinded in its entirety by Resident by giving written notice to Sunrise within seven (7) days of signing this Agreement. A "Notice of Right to Rescind" form is attached to this Agreement. If Resident rescinds this Agreement, Sunrise will refund all amounts paid by Resident, except for the Application Fee and non-refundable monthly Reservation Fees.

Thereafter, Resident or both Residents of a double occupied unit have the right, at any time, to terminate the Agreement by delivering a written termination notice to Sunrise, signed by the Residents. Said notice shall specify the date when termination is to be effective, which shall be not less than one hundred and twenty (120) nor more than one hundred and eighty (180) days after the date of said written notice unless such time requirement is waived by Sunrise. In case of a double occupied unit, said notice will also state whether either occupant desires to retain the Unit or another unit, if available, on a single occupancy basis. If one occupant elects to remain a Resident, the Agreement shall remain in effect with appropriate adjustment of the Monthly Fee.

Should Resident give notice of termination as provided in this Section, Resident may not thereafter cancel or withdraw such notice without Sunrise's consent.

5.3 Termination by Sunrise – Sunrise may terminate the Agreement for good cause by notice to Resident. Good cause shall include any of the following:

(a) Conduct by Resident which constitutes a danger to Resident or others;

(b) Failure to pay the Monthly Fee or Health Center Fee when due;

(c) Repeated conduct by Resident that interferes with the quiet enjoyment of the Community by other residents;

(d) Persistent refusal by Resident to comply with reasonable written Community rules and regulations;

(e) A material misrepresentation made intentionally or recklessly by the Resident in his application for residency, or related materials, regarding information which, if accurately provided, would have resulted in either a failure of the Resident to qualify for residency or a material increase in the cost of providing to the Resident the care and services provided under the Agreement; or

(f) A material breach by the Resident of the terms and conditions of the Agreement.

Sunrise will not terminate the Agreement without first notifying Resident of the nature of the default and allowing Resident sixty (60) days, or such shorter period as may be reasonable under the circumstances, within which to remedy such default. If Resident, within such time period, has not remedied the default, Sunrise may terminate the Agreement immediately.

5.4 Termination by Death – Upon Resident's death the Agreement shall terminate as soon as Resident's personal property has been removed from the Unit. The death of one Resident of a jointly occupied Unit shall not effect a termination of the Agreement.

5.5 Release Upon Termination – Upon termination of the Agreement (i) Sunrise shall take possession of the Unit and be released from all obligations to Resident except to pay or refund any amounts required to be paid or refunded to Resident hereunder, and (ii) upon payment of all amounts owed to Sunrise by Resident hereunder, Resident shall be released from further obligation to Sunrise.

5.6 Removal of Resident's Property – Within thirty (30) days after (i) Resident moves from the Unit on a permanent basis, (ii) Resident's death, or (iii) termination of the Agreement, Resident or Resident's guardian, conservator or designee, or if none is qualified, Resident's family, shall remove Resident's personal property from the Unit. If said personal property is not removed within such thirty (30) day period, Sunrise shall have the right to remove it from the Unit and place it in a public storage facility for up to six (6) months at Resident's expense, after which it shall be sold and the proceeds, after deductions for expenses, credited to Resident's account.

5.7 Cleaning Fee – Resident will be subject to a standard cleaning fee of $150.00 upon vacating unit.

5.8 Smoking – Smoking is not allowed anywhere at The Fairfax. This policy applies to all residents and visitors who smoke cigarettes, cigars and pipes. Residents and visitors who do not adhere to this policy could be subject to termination of the Residency Agreement and/or removal from The Fairfax property. In addition, Residents or any Residents' visitors who smoke in their Unit in violation of the policy may be subject to fees associated with any remediation that is needed to the apartment related to smoking.

ARTICLE VI
GENERAL

6.1 Resident's Covenant of Performance – Resident will maintain insurance as required herein and otherwise fully perform in accordance with the terms hereof and promptly pay all fees and charges required hereunder. Resident will not use or deplete Resident's assets by gifts or otherwise, so as to impair Resident's ability to pay amounts owed hereunder.

6.2 Pets – Resident may maintain a pet(s) upon the approval of and on terms prescribed by the Executive Director. Resident will be responsible for ensuring that any pet is properly cared for and does not create any disturbance or otherwise constitute a nuisance. Resident agrees to comply with applicable pet rules and regulations adopted by the Community.

6.3 Additional Occupants –

6.3.1 Increase or Change in Number of Occupants – No person other than Resident may occupy the Unit except as a temporary guest at Resident's invitation or as a new spouse. Any guest staying overnight must first register with the Community. No guest may stay for more than seven (7) nights in any thirty (30) day period except with the Executive Director's prior permission. Persons granted such permission shall acquire no rights or privileges under the Agreement. Sunrise may revoke such permission at any time upon twenty-four (24) hours notice.

6.3.2 Marriage of Two Residents – If two residents marry, either of such residents may terminate his or her Continuing Care Agreement and release the Unit subject thereto. Thereafter, the terminating resident shall become a double occupant in the occupied unit and the Monthly Fee shall be adjusted accordingly.

6.3.3 Marriage to Non-Resident – If Resident marries a non-resident and the new spouse is qualified to become a resident of the Community, the new spouse shall become a party to the Agreement. If the new spouse is not qualified to be a member of the Community, the new spouse may occupy the Unit with Resident on a non-resident basis. In both cases, the Additional Occupant Lifecare Fee shall be paid and the Monthly Fee shall be adjusted to reflect the double occupancy.

6.3.4 Other Parties – Should Resident desire to have another person, other than a spouse, live in the Unit with Resident on a permanent basis, prior written permission of the Executive Director and the Army Retirement Residence Foundation-Potomac shall be necessary. If approved, such other person will pay the Additional Occupant Lifecare Fee and the Monthly Fee shall be adjusted to reflect the double occupancy. Any person residing in the Community on a non-resident basis who desires Health Center use and services must make written arrangements with the Executive Director.

6.4 Arrangements for Guardianship or Conservatorship – If Resident becomes legally incompetent or is not able to properly care for Resident or Resident's property, and if Resident has made no other designation of a person or legal entity to serve as guardian or conservator, then Sunrise or a duly authorized officer thereof, may act a Resident's legal guardian or conservator when qualified according to law. For such purposes, Resident authorizes and empowers Sunrise to act as Resident's attorney-in-fact to make all such arrangements necessary or appropriate to care for Resident and Resident's property.

6.5 Arrangements in Event of Death – Funeral arrangements and expenses are Resident's responsibility. Sunrise will not make such arrangements or provide such services except where Resident or Resident's family fail to do so. Any expenses advanced by Sunrise relating to the funeral or burial shall become a debt of Resident's estate.

6.6 Property Rights –

6.6.1 Right of Entry – Sunrise may enter the Unit to accomplish the purposes of the Agreement including (a) performance of scheduled housekeeping duties, (b) response to medical

alert system and emergency situations, (c) response to fire alert system, (d) checking to determine if Resident is missing or why Resident does not respond to calls, and (e) performance of routine maintenance or repairs. Sunrise recognizes Resident's right to privacy and Sunrise's responsibility to limit entry only to situations such as those described above or where Sunrise deems it advisable for the best interest of Resident or the Community.

6.6.2 Ownership Rights – Resident has no ownership interest or proprietary right in the Unit, the Community's personal property, land, buildings, improvements or other Community property. The Agreement shall not be construed to be a lease or to confer any right of tenancy or ownership in Resident. Resident's rights hereunder are subject to all terms and conditions of the Agreement and subordinate to any mortgage, financing deed, deed of trust, or financing lease on Community premises. Upon request, Resident will execute and deliver any instrument requested by Sunrise or the owner or holder of any such document to effect the sale, assignment, or conveyance thereof, provided that by so doing Resident shall not be required to prejudice Resident's rights hereunder.

6.6.3 Responsibility for Damages – Any loss or damage to Sunrise's property caused by Resident's negligence shall be paid for by Resident. If negligence of another resident, invitee or person (other than an employee of Sunrise) results in injury, illness or damage to Resident or Resident's property, Sunrise assumes no responsibility therefor and Resident releases and discharges Sunrise from all liability and responsibility for same.

6.7 Rules and Regulations – Sunrise shall have the right to adopt or amend, either by itself or with or through a residents' association, such rules and regulations as may be necessary or desirable for the management and operation of the Community and the safety, health and comfort of the residents. Resident will abide by such rules and regulations.

6.8 Character, Health, Credit and Financial Conditions – Resident represents and warrants that all information that has been or will be submitted to Sunrise by Resident as required for application for residence in the Community or by the Reservation Agreement or this Agreement is true and complete. Resident acknowledges that Sunrise is relying on such information.

6.9 Changes in Service – No changes shall be made in the scope of care or services on less than sixty (60) days notice, unless required by state or federal assistance programs.

6.10 Inability to Pay – If you are not able to pay the Monthly Fee, Health Center Fees, or other amounts owed under this Agreement, Sunrise may assist you in applying for a loan or loans to meet your obligations.

6.11 Assignment – Resident's rights under the Agreement are personal to Resident and cannot be transferred or assigned by any act of Resident, or by any proceeding at law, or otherwise. Sunrise may assign the Agreement to any subsidiary or other entity, subject to the terms, conditions and limitations of the Sponsorship Agreement between Sunrise and The Army Retirement Residence Foundation-Potomac. The Agreement shall bind and inure to the benefit of Sunrise's successors and assigns and shall bind and inure to the benefit of Resident or Resident's heirs, executors and administrators in accordance with its terms.

6.12 Notices – Notices, when required hereunder, shall be in writing and mailed or hand delivered (i) to Sunrise at its address as shown below (ii) to Resident at the address shown below, or after the Occupancy Date, by depositing the notice in Resident's community mail box:

Resident:

_____
_____
_____

Sunrise:
Sunrise Continuing Care, LLC
9140 Belvoir Woods Parkway
Fort Belvoir, Virginia 22060
Attention: Executive Director – The Fairfax

The addresses may be changed from time to time by written notice to the other party as above provided.

6.13 Entire Agreement – The Agreement incorporates Exhibit A by reference as well as the Resident's application forms and Reservation Agreement. This Agreement constitutes the entire agreement between Sunrise and Resident. Sunrise is not liable for nor bound in any manner by and statements, representations or promises made by any person representing or proposing to represent Sunrise unless such statements, representations, or promises are set forth in the Agreement. Any modification of the Agreement must be in writing and signed by Sunrise and Resident.

6.14 Partial Illegality – The Agreement shall be construed in accordance with the laws of the Commonwealth of Virginia. If any portion of the Agreement shall be determined to be illegal or not in conformity with applicable laws and regulations, such portion shall be deemed to be modified so as to be in accordance with such laws and regulations, and the validity of the balance of the Agreement shall not be affected; provided, however, if Sunrise determines, in its sole discretion, that the portion of the Agreement so changed constitutes a substantial change in the Agreement, Sunrise may rescind the Agreement.

6.15 Construction – Words used in this Agreement of any gender shall be deemed to include any other gender and words in the singular shall be deemed to include the plural, when the sense requires.

6.16 Joint and Several Liability – If two parties execute the Agreement as Residents, the term Resident as used in the Agreement shall apply to both and they shall be jointly and severally liable hereunder unless otherwise provided.

IN WITNESS WHEREOF, the parties hereto have executed the Agreement the date and year first above written.

SUNRISE CONTINUING CARE, LLC

By: _____

Title: _____

WITNESS:

_____ _____
Resident

_____ _____
Resident

NOTICE OF RIGHT TO RESCIND

_____
Date rescission period begins

Resident may rescind and terminate the Continuing Care Agreement, without penalty or forfeiture, within seven (7) days of the above date. Resident is not required to move into the continuing care facility before the expiration of this seven (7) day period.

To rescind the Continuing Care Agreement, mail or deliver a signed and dated copy of this notice or any other dated written notice, letter or telegram, stating your desire to rescind to The Fairfax, 9140 Belvoir Woods Parkway, Fort Belvoir, Virginia 22060 not later than midnight of _____ (last day for rescission).

Pursuant to this notice, I hereby cancel my Continuing Care Agreement.

_____
Date

_____
Signature

_____
Signature

CONTINUING CARE AGREEMENT

THE FAIRFAX

A Sunrise Lifecare Retirement Community

Refundable Payment Plan

CONTINUING CARE AGREEMENT
(Refundable Payment Plan)

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Resident Acknowledgement

CONTINUING CARE AGREEMENT

(Refundable Payment Plan)

This Agreement ("Agreement") is made this ___ day of _____, 20__ ("Effective Date") by Sunrise Continuing Care, LLC, a Delaware limited liability company ("Sunrise") and _____ ("Resident").

Sunrise's continuing care facility is known as "The Fairfax", a Sunrise Lifecare Retirement Community located near Fort. Belvoir Military Reservation in Fairfax County, Virginia (the "Community"). Resident has applied for entry into the Community and been accepted, subject to the terms of this Agreement.

Resident and Sunrise agree as follows:

ARTICLE I
FEES, BOND, AND CHARGES

1.1 Entry Fee –

The entry fee for Resident's unit is $_____.
The additional occupant fee is $_____.
The total entry fee is $_____.

1.2 Payment Schedule -

1.2.1 Occupancy Date – The "Occupancy Date" for all purposes of this Agreement is the Effective Date.

1.2.2 Reservation Deposit – Upon signing the Wait List Priority Agreement, Resident paid Sunrise $_____.

1.2.3 Balance – The balance of Resident's total entry fee is due prior to Resident's Occupancy Date in the amount of $_____.

1.3 Application of Funds – At Resident's Occupancy Date, Resident's total payments will be applied as follows:

1.3.1 Non-Refundable Entry Fee – ("Entry Fee") The non-refundable amount of $_____. The Entry Fee is not refundable unless Resident elects to terminate this Agreement during the seven (7) day rescission period.

1.3.2 Additional Occupant Entry Fee – Payment of an "Additional Occupant Entry Fee" in the amount of _____ Dollars ($_____) for each additional occupant (if applicable). **The Additional Occupant Entry Fee is non-refundable unless Resident terminates this Agreement during the seven (7) day rescission period.**

1.3.3 Lifecare Bond – The purchase of a "Lifecare Bond", in the form attached as Exhibit A, in the principal amount of $_____. The Lifecare Bond is purchased from Sunrise and is non-negotiable and non-interest bearing. The Lifecare Bond will be repaid in full by Sunrise to Resident or Resident's estate (a) upon the termination or cancellation of this Agreement and (b) when your unit is re-occupied by another resident who is a party to a continuing care agreement.

1.4 Monthly Fee –

1.4.1 Payment of Monthly Fee – Commencing on the Occupancy Date, Resident will pay Sunrise a monthly fee ("Monthly Fee"). The Monthly Fee shall be payable in advance on or before the fifth (5th) day of each month throughout the term of the Agreement and will be deemed made when received by Sunrise. Sunrise may assess a five percent (5%) penalty charge for late payment. The Monthly Fee for the month within which the Occupancy Date falls shall be due and payable on the Occupancy Date. The Monthly Fee for that month and for the last month of the Agreement shall be prorated based upon the number of days in the first and last months of the Agreement. The Monthly Fee is not rent but is consideration for services provided to Resident as herein described.

1.4.2 Amount of Monthly Fee – The initial Monthly Fee shall be Dollars ($_____).

1.5 Adjustments of Monthly Fee and Health Center Fee –

1.5.1 Adjustments – The Monthly Fee and Health Center Fee may be adjusted from time to time. Sunrise will provide at least thirty (30) days advance written notice of any changes in the Monthly or Health Center Fee. Residents will also be given at least thirty (30) days advance notice of any changes in other fees, charges or the scope of care or services, except for changes required by state or federal assistance programs.

1.5.2 Termination of Double Occupancy – If one occupant of a double occupant Unit leaves the Community permanently or moves into the Health Center for an extended stay, effective on the first day of the following month the Monthly Fee for the remaining occupant shall be the Monthly Fee for single occupancy of the Unit. Upon termination of double occupancy under this Section 1.5.2, the remaining occupant shall have the right to move to a different or smaller unit, if or when available, and to pay the prevailing market rate Monthly Fee for single occupancy of such unit.

1.5.3 Resident's Absence – If Resident is absent from the Community for more than seven (7) consecutive days, Resident shall receive a meal credit as determined by Sunrise, provided such Resident first gives written notice to the person named by Sunrise to be the Community's Executive Director ("Executive Director") at least five (5) days prior to commencement of such absence.

1.6 Bond and Lifecare Fee Unchanged – The principal amount of the Bond and Lifecare Fee shall not be changed, unless required by state or federal assistance programs.

ARTICLE II
RESIDENCE ACCOMMODATIONS AND FACILITIES

2.1 Residence Unit – The Residence Unit selected by and assigned to Resident is Residence Unit #_____, Model Style _____, Building ____ ("Residence Unit" or "Unit"). Resident shall have the right to reside in the Unit, subject to the terms of the Agreement and the Community rules and regulations.

2.2 Property Protection – Resident will protect, preserve and not permit misuse of or damage to the Unit or any property therein.

2.3 Parking – A single motor vehicle per unit may be parked in an assigned space. Resident may contract for covered parking or second assigned space on a separate charge basis, as available. There will not be a recreational vehicle parking area.

2.4 Storage – Limited storage space will be made available to Resident. Assignment of space shall be subject to Sunrise's supervision. Resident will be responsible for securing the assigned storage area and will assume all risk of loss.

2.5 Modifications to Units – Resident shall not make any structural or physical change to the Unit without the Executive Director's written consent. Subject to Sunrise's approval, Sunrise's Contractor will perform the modification work. Resident shall be liable for all costs of restoring the Unit to the original condition as determined by the Executive Director. Title to all modifications and additions to the Unit shall vest in Sunrise when made.

ARTICLE III
NON-MEDICAL SERVICES

3.1 Meals – Sunrise will make available morning, noon, and evening meals at designated hours with nutritionally well balanced and varied menus. For the Monthly Fee, Sunrise will provide Resident one meal, breakfast, lunch or dinner, each day, in the Community dining room. Additional meals may be obtained for a reasonable fee in the dining room or other areas within the Community within which meals are served.

3.1.1 Meal Delivery – Meal delivery to the unit is available for independent living residents for a reasonable charge.

3.1.2 Special Meals – Special diet meals will be provided when ordered by attending physician.

3.1.3 Guest Meals – Residents may invite guests to any meal. Prior notice is requested. Guest meal charges will be billed to Resident as an additional charge.

3.2 Housekeeping – Sunrise will provide weekly light cleaning services. Additional housekeeping service may be contracted for an additional charge basis.

3.3 Maintenance and Repair – Sunrise will provide necessary repairs, maintenance, and replacement of Community property and equipment. Except in an emergency, such services will be provided during normal working hours, Monday through Friday. Sunrise shall have the right to charge Resident for any repairs, maintenance or replacement required as a result of negligence of Resident or Resident's invitees. Resident is responsible for maintaining, repairing and replacing Resident's property.

3.4 Security – Sunrise, as it deems necessary, will employ security personnel to supervise the Community buildings and grounds.

3.5 Buildings and Grounds – Sunrise will maintain all Community buildings, common areas and grounds, including lawns, walkways, and driveways. Landscaping and decorative plantings will be provided and maintained by Sunrise as it deems appropriate.

3.6 Utilities – Sunrise will furnish water, sewer, heat, air conditioning, electricity and garbage collection. Telephone service will be available to each unit, however, installation of telephones and service costs will be at Resident's expense. At a minimum, Resident agrees to obtain and maintain an active telephone line necessary for the installation and functioning of the Community's emergency alert system. Basic cable service is required for all independent living residences to secure discounted service rates. Additional cable services are available to each unit at the Resident's expense.

3.7 Insurance and Responsibility for Resident's Property – Resident will provide all personal property and liability insurance for Resident and Resident's property, guests and invitees. Sunrise shall not be responsible for and Sunrise insurance will not protect Resident against any loss or damage to Resident's personal property from theft, fire or other cause, nor will Sunrise insure Resident against personal liability for injury to guests or invitees within the Unit.

ARTICLE IV
HEALTH AND NURSING SERVICES

4.1 Health Center – The Community will have a Health Center staffed twenty-four (24) hours a day with nursing and healthcare personnel. The Health Center will provide assisted living care and nursing care and, to the extent of its capability, will provide first aid and emergency referral for acute medical care. Prior to admission to the Health Center, the Resident will select a personal physician who has admitting privileges or is willing to have admitting privileges for the healthcare center. The Resident shall be responsible for all costs and charges of physician care.

4.2 Transfer to and from Health Center – In case of emergency, where the consultation described below is not feasible, Sunrise may transfer you from your Unit to an appropriate facility.

Other than an emergency described above, if the Resident Care Committee, consisting of the Executive Director and healthcare professionals determines, after consulting the Resident, a member of Resident's family or Resident's designated representative:

(i) that Resident's continued occupancy of the Unit constitutes a danger or health hazard to Resident or other residents, or is detrimental to the peace or security of other residents; or

(ii) that Resident is no longer able to leave the Unit without the assistance of another during an emergency and the Unit is not approved by the State Fire Marshal for use by nonambulatory residents; or

(iii) that Sunrise does not have adequate facilities or staff to provide the nursing services or medical care needed by Resident; then Resident may be requested to transfer from the Unit to the Health Center or elsewhere for appropriate care. Failure to consent to a transfer may constitute good cause for termination of this Agreement.

Thereafter, if Resident is able to return, as determined by the Resident Care Committee, Resident may return to the same Unit if available, or if not, to the first available comparable unit. In such event, the Monthly Fee shall be the amount applicable to the new unit.

Although it is expected that Health Center bed space will be adequate to meet demand, if not available for Resident when needed, Sunrise will have the option to contract and pay for similar nursing services for Resident at an accredited outside facility. During Resident's stay in such outside facility, Resident will pay Sunrise the Monthly Fee and/or Health Center Fee as applicable. Any Resident transferred to an outside facility shall have the right, on a priority basis, to be returned to the Health Center as soon as appropriate space is available.

Sunrise may provide Nursing Services and nursing care units in the Health Center to non-residents on a daily rate basis to the extent that space and services are not fully utilized by residents.

4.3 Health Center Fees and Charges – Sunrise will provide Health Center care as hereinafter provided.

4.3.1 Temporary Stay – If Resident moves from the Unit into the Health Center and is there for less than **thirty (30) days during any ninety (90) day period** ("temporary stay"), Resident will continue to pay only the Monthly Fee plus a meal charge for two (2) additional meals per day. If Resident vacates the Independent Living Unit during a temporary stay, the remainder of the temporary stay days will be forfeited and the Health Center Fee will ensue.

4.3.2 Extended Stay – If Resident resides in the Health Center for longer than a temporary stay ("extended stay"), the fees shall be as follows:

(a) A single Resident of the Unit shall pay the Monthly Fee plus a fee ("Health Center Fee") for each day in the Health Center exceeding a temporary stay, as long as the Resident retains the Unit. The Health Center Fee shall be an amount equal to (i) the Fauquier Unit Equivalent ("F Unit Equivalent"), or the Fauquier Unit Equivalent Moderate ("F Unit Equivalent Moderate"), as applicable, in the published Care Fees for the year of admission into the Health Center, plus (ii) the charge for two additional meals per day. Upon surrender of the Unit, the Resident shall thereafter pay only the Health Center Fee and the temporary stay days will be forfeited.

(b) If one Resident of a double occupant Unit resides in the Health Center on an extended stay basis and the other Resident remains in the Unit, the Monthly Fee for the Resident remaining in the unit shall be the applicable rate for a single occupant of the unit. The Resident in the Health Center shall pay the Health Center Fee and the temporary stay days will be forfeited.

(d) If both Residents of a double occupant unit reside in the Health Center on an extended stay basis, each will pay the Health Center Fee. In addition, the Monthly Fee applicable to single occupancy of the Unit will be payable as long as the Unit is retained. Upon surrender of the Unit the obligation to pay the Monthly Fee ends and the temporary stay days will be forfeited.

(d) If Resident returns to Independent Living, Section 4.3.1. will apply.

4.3.3 Rooms – The Health Center Fee entitles Resident to a semi-private room. Resident may have a private room, if available, for an additional charge.

4.3.4 Pre-Existing Conditions – Costs related to pre-existing conditions will be excluded from coverage under this Agreement in accordance with Exhibit B attached hereto. If Resident's stay in the Health Center is due to a pre-existing condition not covered under this agreement, Resident will pay the per diem rate applicable to non-residents staying in the Health Center ("Per Diem Rate") and is also not eligible for temporary stays. The Per Diem Rate will be reviewed and revised annually.

4.3.5 Memory Loss and Dementia – If Resident has a pre-existing diagnosis of memory loss or dementia as set forth in Exhibit B, Resident will pay the Per Diem Rate for any stays in the Health Center and is not eligible for a temporary stay.

4.4 Health Center Fees Not Included – The F contract rate is not applicable to residents living in the Reminiscence unit and separate charges apply.

4.4.1 Services Not Provided – Sunrise will not provide medical, surgical or hospital services to Resident or physical examinations, medical consultations, drugs, medications, disposable and non-disposable supplies, x-rays, medical tests, eyeglasses or refractions, hearing aids, dentistry, dentures, inlays, prescriptions, orthopedic appliances, private duty nursing care, podiatric services, physical therapy, treatment for psychiatric disorders or alcoholism, or any other service or supply not specifically mentioned in this Agreement. Resident shall obtain and pay for the cost of such items and services.

4.4.2 Services Away From Community – Resident will pay all costs of nursing and other medical services incurred away from the Community, whether by reason of illness or accident, unless Resident is temporarily transferred to an outside facility by Sunrise as provided in Section 4.2.

4.5 Medical and Surgical Insurance –

4.5.1 Medicare and Supplemental Coverage – Resident, if sixty-five (65) years of age or older, will obtain and maintain in force at Resident's cost Medicare Part A and Part B, or equivalent insurance coverage under a public or private insurance plan. In addition, Resident, on

the Effective Date, will obtain and thereafter maintain the insurance coverage provided under the Mediplus Supplemental Insurance Plan available to members of The Retired Officers' Association, or a policy with substantially the same coverage acceptable to Sunrise. If less than sixty-five (65) years of age, Resident will obtain medical insurance coverage equivalent to the coverage described in this Section 4.5.1, satisfactory to Sunrise. Resident will provide proof of coverage as Sunrise may request.

Any amounts paid or owing to Resident from federal, state, municipal, private, or supplemental insurance plans shall be paid to Sunrise to pay for nursing, medical, or similar services provided to Resident. Resident will diligently seek to obtain all reimbursements, payments, proceeds or other benefits available under such plans or programs and authorizes Sunrise to take such action as may be required to obtain and recover same.

4.5.2 Subrogation – In case Resident is injured as a result of an act or omission of a third-party, Resident agrees that Resident's rights against such third-party shall be subrogated to Sunrise and Sunrise shall have a lien on any judgment, settlement, or recovery for any additional expenses incurred by Sunrise in caring for Resident as a result of such injury. Resident authorizes and empowers Sunrise to serve as attorney-in-fact with respect to all such matters, including the authority to prosecute any such claim. Sunrise shall have the right to take all actions necessary to enforce Resident's and Sunrise's rights against the party responsible for such injury, including the right to compromise and settle for amounts Sunrise deems appropriate. Resident agrees to cooperate in assisting in the diligent prosecution of any claim or action against the third-party. After all costs and expenses incurred by Sunrise relating to the injury have been paid to Sunrise, the balance of any collection or settlement will be paid to Resident.

4.5.3 Persons Under Fifty-Five – Any Resident under the age of fifty-five (55) residing in the Community using the Health Center shall pay the Per Diem Rate. After reaching age fifty-five (55), Resident is eligible for consideration under the Community's pre-existing condition protocol and may request completion of Exhibit B. Until such time as Exhibit B is executed, Per Diem rates will continue to apply for all Health Center stays.

4.6 Mental Illness – The Community is not designed or licensed to provide hospital service or care for persons with psychosis, psychiatric disorders, alcoholism or substance abuse. If the Executive Director, after consultation with the Medical Director and Resident's family and physician, if any, determines that Resident's mental illness or condition is such that Resident's continued presence at the Community is dangerous or detrimental to the health or peace of mind of Resident or other residents, then Sunrise may request Resident to transfer from the Community to an appropriate facility for the duration of such condition. All charges for care rendered by such facility shall be Resident's responsibility. Failure of the Resident or Resident's family or guardian to consent to a transfer may constitute good cause for the termination of this Agreement.

4.7 Consent to Release of Medical Information – Resident consents to the release to Sunrise or its designee of medical information which may be requested at any time by the Medical Director or by any physician, hospital or other provider of medical services which has provided or is providing medical services or consultation to Resident.

ARTICLE V
TERMINATION OF AGREEMENT

5.1 Automatic Rescission – If Resident dies before occupying the Residence Unit or is precluded through illness, injury or incapacity from becoming a resident under the terms of this Agreement, this Agreement is automatically rescinded and the Resident or his legal representative shall receive a full refund of all money paid to Sunrise, except those costs specifically incurred by Sunrise at the request of Resident and set forth in writing in a separate addendum signed by both parties to this Agreement.

5.2 Termination by Resident – This Agreement may be rescinded in its entirety by Resident by giving written notice to Sunrise within seven (7) days of signing this Agreement. A "Notice of Right to Rescind" form is attached to this Agreement. If Resident rescinds this Agreement, Sunrise will refund all amounts paid by Resident, except for the Application Fee and non-refundable monthly Reservation Fees.

Thereafter, Resident or both Residents of a double occupied unit have the right, at any time, to terminate the Agreement by delivering a written termination notice to Sunrise, signed by the Residents. Said notice shall specify the date when termination is to be effective, which shall be not less than one hundred and twenty (120) nor more than one hundred and eighty (180) days after the date of said written notice unless such time requirement is waived by Sunrise. In case of a double occupied unit, said notice will also state whether either occupant desires to retain the Unit or another unit, if available, on a single occupancy basis. If one occupant elects to remain a Resident, the Agreement shall remain in effect with appropriate adjustment of the Monthly Fee.

Should Resident give notice of termination provided in this Section, Resident may not thereafter cancel or withdraw such notice without Sunrise's consent.

5.3 Termination by Sunrise – Sunrise may terminate the Agreement for good cause by notice to Resident. Good cause shall include any of the following:

(a) Conduct by Resident which constitutes a danger to Resident or others;

(b) Failure to pay the Monthly Fee or Health Center Fee when due;

(c) Repeated conduct by Resident that interferes with the quiet enjoyment of the Community by other residents; or

(d) Persistent refusal by Resident to comply with reasonable written Community rules and regulations.

(e) A material misrepresentation made intentionally or recklessly by the Resident in his application for residency, or related materials, regarding information which, if accurately provided, would have resulted in either a failure of the Resident to qualify for residency or a material increase in the cost of providing to the Resident the care and services provided under the Agreement; or

(f) A material breach by the Resident of the terms and conditions of the Agreement.

Sunrise will not terminate the Agreement without first notifying Resident of the nature of the default and allowing Resident sixty (60) days, or such shorter period as may be reasonable under the circumstances, within which to remedy such default. If Resident, within such time period, has not remedied the default, Sunrise may terminate the Agreement immediately.

5.4 Termination by Death – Upon Resident's death the Agreement shall terminate as soon as Resident's personal property has been removed from the Unit. The death of one Resident of a jointly occupied Unit shall not effect a termination of the Agreement.

5.5 Release Upon Termination – Upon termination of the Agreement (i) Sunrise shall take possession of the Unit and be released from all obligations to Resident except to pay or refund any amounts required to be paid or refunded to Resident hereunder, and (ii) upon payment of all amounts owed to Sunrise by resident hereunder, Resident shall be released form further obligation to Sunrise.

5.6 Removal of Resident's Property – Within thirty (30) days after (i) Resident moves from the Unit on a permanent basis, (ii) Resident's death, or (iii) termination of the Agreement, Resident or Resident's guardian, conservator or designee, or if none is qualified, Resident's family, shall remove Resident's personal property from the Unit. If said personal property is not removed within such thirty (30) day period, Sunrise shall have the right to remove it from the Unit and place it in storage for up to six (6) months at Resident's expense, after which it shall be sold and the proceeds, after deductions for expenses, credited to Resident's account.

5.7 Cleaning Fee – Resident will be subject to a standard cleaning fee of $150.00 upon vacancy.

5.8 Smoking – Smoking is not allowed anywhere at The Fairfax. This policy applies to all residents and visitors who smoke cigarettes, cigars and pipes. Residents and visitors who do not adhere to this policy could be subject to termination of the Residency Agreement and/or removal from The Fairfax property. In addition, Residents or any Residents' visitors who smoke in their Unit in violation of the policy may be subject to fees associated with any remediation that is needed to the apartment related to smoking.

ARTICLE VI
GENERAL

6.1 Resident's Covenant of Performance – Resident will maintain insurance as required herein and otherwise fully perform in accordance with the terms hereof and promptly pay all fees and charges required hereunder. Resident will not use or deplete Resident's assets by gifts or otherwise, so as to impair Resident's ability to pay amounts owed hereunder.

6.2 Pets – Resident may maintain a pet(s) upon the approval of and on terms prescribed by the Executive Director. Resident will be responsible for ensuring that any pet is properly cared

for and does not create any disturbance or otherwise constitute a nuisance. Resident agrees to comply with applicable pet rules and regulations adopted by the Community.

6.3 Additional Occupants –

6.3.1 Increase or Change in Number or Occupants – No person other than Resident may occupy the Unit except as a temporary guest at Resident's invitation or as a new spouse. Any guest staying overnight must first register with the Community. No guest may stay for more than seven (7) nights in any thirty (30) day period except with the Executive Director's prior permission. Persons granted such permission shall acquire no rights or privileges under the Agreement. Sunrise may revoke such permission at any time upon twenty-four (24) hours' notice.

6.3.2 Marriage of Two Residents – If two residents marry, either of such resident may terminate his or her Continuing Care Agreement and release the Unit subject thereto and redeem the Lifecare Bond. Thereafter, the terminating resident shall become a double occupant in the occupied unit and the Monthly Fee shall be adjusted accordingly.

6.3.3 Marriage to Non-Resident – If Resident marries a non-resident and the new spouse is qualified to become a resident of the Community, the new spouse shall become a party to the Agreement. If the new spouse is not qualified to be a member of the Community the new spouse may occupy the Unit with Resident on a non-resident basis. In both cases, the Additional Occupant Lifecare Fee shall be paid and the Monthly Fee shall be adjusted to reflect the double occupancy.

6.3.4 Other Parties – Should Resident desire to have another person, other than a spouse, live in the Unit with Resident on a permanent basis, prior written permission of the Executive Director and the Army Retirement Residence Foundation-Potomac shall be necessary. If approved, such other person will pay the Additional Occupant Lifecare Fee and the Monthly Fee shall be adjusted to reflect the double occupancy. Any person residing in the Community on a non-resident basis who desires Health Center use and services must make written arrangements with the Executive Director.

6.4 Arrangements for Guardianship or Conservatorship – If Resident becomes legally incompetent or is not able to properly care for Resident or Resident's property, and if Resident has made not other designation of a person or legal entity to serve as guardian or conservator, then Sunrise or a duly authorized officer thereof, may act as Resident's legal guardian or conservator when qualified according to law. For such purposes, Resident authorizes and empowers Sunrise to act as Resident's attorney-in-fact to make all such arrangements necessary or appropriate to care for Resident and Resident's property.

6.5 Arrangements in Event in Death – Funeral arrangements and expenses are Resident's responsibility. Sunrise will not make such arrangements or provide such services except where Resident or Resident's family fail to do so. Any expenses advanced by Sunrise relating to the funeral or burial shall become a debt of Resident's estate.

6.6 Property Rights –

6.6.1 Right of Entry – Sunrise may enter the Unit to accomplish the purposes of the Agreement including (a) performance of scheduled housekeeping duties, (b) response to medical alert system and emergency situations, (c) response to fire alert system, (d) checking to determine if Resident is missing or why Resident does not respond to calls, and (e) performance of routine maintenance or repairs. Sunrise recognizes Resident's right to privacy and Sunrise's responsibility to limit entry only to situations such as those described above or where Sunrise deems it advisable for the best interest of Resident or the Community.

6.6.2 Ownership Rights – Resident has no ownership interest or proprietary right in the Unit, the Community's personal property, land, buildings, improvements or other Community property. The Agreement shall not be construed to be a lease or to confer any rights of tenancy or ownership in Resident. Resident's rights hereunder are subject to all terms and conditions of the Agreement and subordinate to any mortgage, financing deed, deed of trust, or financing lease on Community premises. Upon request, Resident will execute and deliver any instrument requested by Sunrise or the owner or holder of any such document to effect the sale, assignment, or conveyance thereof, provided that by so doing Resident shall not be required to prejudice Resident's rights hereunder.

6.6.3 Responsibility for Damages – Any loss or damage to Sunrise's property caused by Resident's negligence shall be paid for by Resident. If negligence of another resident, invitee or person (other than an employee of Sunrise) results in injury, illness or damage to Resident or Resident's property, Sunrise assumes no responsibility therefor and Resident releases and discharges Sunrise from all liability and responsibility for same.

6.7 Rules and Regulations – Sunrise shall have the right to adopt or amend, either by itself or with or through a residents' association, such rules and regulations as may be necessary or desirable for the management and operation of the Community and the safety, health and comfort of the residents. Resident will abide by such rules and regulations.

6.8 Character, Health, Credit and Financial Conditions – Resident represents and warrants that all information that has been or will be submitted to Sunrise by Resident as required for application for residence in the Community or by the Reservation Agreement or this Agreement is true and complete. Resident acknowledges that Sunrise is relying on such information.

6.9 Changes in Service – No changes shall be made in the scope of care or services on less than sixty (60) days' notice, unless required by state or federal assistance programs.

6.10 Inability to Pay – If you are not able to pay the Monthly Fee, Health Center Fees, or other amounts owed under this Agreement, Sunrise may assist you in applying for a loan or loans to meet your obligations.

6.11 Assignment – Resident's rights under the Agreement are personal to Resident and cannot be transferred or assigned by any act of Resident, or by any proceeding at law, or otherwise. Sunrise may assign the Agreement to any subsidiary or other entity, subject to the terms, conditions

and limitations of the Sponsorship Agreement between Sunrise and The Army Retirement Residence Foundation-Potomac. The Agreement shall bind and inure to the benefit of Sunrise's successors and assigns and shall bind and inure to the benefit of Resident or Resident's heirs, executors and administrators in accordance with its terms.

6.12 Notices – Notices, when required hereunder, shall be in writing and mailed or hand delivered (i) to Sunrise at its address as shown below (ii) to Resident at the address shown below, or after the Occupancy Date, by depositing the notice in Resident's community mailbox.

Resident:

_____
_____
_____

Sunrise:
Sunrise Continuing Care, LLC
9140 Belvoir Woods Parkway
Fort Belvoir, Virginia 22060
Attention: Executive Director – The Fairfax

The addresses may be changed from time to time by written notice to the other party as above provided.

6.13 Entire Agreement – The Agreement incorporates Exhibits A and B by reference as well as the Resident's application forms and Reservation Agreement. This Agreement constitutes the entire agreement between Sunrise and Resident. Sunrise is not liable for nor bound in any manner by any statements, representations or promises made by any person representing or proposing to represent Sunrise unless such statements, representations, or promises are set forth in the Agreement. Any modification of the Agreement must be in writing and signed by Sunrise and Resident.

6.14 Partial Illegality – The Agreement shall be construed in accordance with the laws of the Commonwealth of Virginia. If any portion of the Agreement shall be determined to be illegal or not in conformity with applicable laws and regulations, such portion shall be deemed to be modified so as to be in accordance with such laws and regulations, and the validity of the balance of the Agreement shall not be affected; provided, however, if Sunrise determines, in its sole discretion, that the portion of the Agreement so changed constitutes a substantial change in the Agreement, Sunrise may rescind the Agreement and redeem the Lifecare Bond.

6.15 Construction – Words used in this Agreement of any gender shall be deemed to include any other gender and words in the singular shall be deemed to include the plural, when the sense requires.

6.16 Joint and Several Liability – If two parties execute the Agreement as Residents, the term Resident as used in the Agreement shall apply to both and they shall be jointly and severally liable hereunder unless otherwise provided.

IN WITNESS WHEREOF, the parties hereto have executed the Agreement the date and year first above written.

SUNRISE CONTINUING CARE, LLC

By:_____

Title:_____

WITNESS:

_____ _____
Resident

_____ _____
Resident

Serial No. _____

EXHIBIT A
LIFECARE BOND

$_____ Fairfax, Virginia
_____, _____
[Date]

FOR VALUE RECEIVED AS MONEY LENT, the undersigned, **SUNRISE CONTINUING CARE, LLC**, a Delaware limited liability company ("Sunrise") promises to pay the principal sum of _____ Dollars ($ _____) to _____ ("Resident(s)") and _____ ("Second Party")[1] (hereinafter referred to collectively as "you" and individually as "each of you"), as joint tenants with rights of survivorship. Resident(s) (and Second Party, if applicable) reside(s)/will reside, pursuant to a Continuing Care Agreement dated _____, _____ between Resident(s) (and Second Party, if applicable) and Sunrise (the "Continuing Care Agreement"), in Residence Unit # _____ at The Fairfax ("Residence"), a lifecare retirement community in Fairfax County, Virginia.

The above principal sum shall be due and payable in full, without interest, upon (a) the termination of the Continuing Care Agreement pursuant to Article V of that Agreement and (b) when the Residence is re-occupied by another resident who is a party to a Continuing Care Agreement; provided, however, that in the event that the Lifecare Bond is issued both to Resident(s) and a Second Party, and such Second Party shared the residence with Resident(s) prior to termination of the Continuing Care Agreement, and such Second Party continues to reside at the Residence after the termination, then the above principal shall be due and payable in full without interest, upon the termination by the Second Party of the Continuing Care Agreement pursuant to Article V of the Continuing Care Agreement, and the subsequent re-occupancy of the Residence by another resident who is a party to a Continuing Care Agreement.

In the event that the Lifecare Bond is issued only to Resident(s) and not to a Second Party, then the following shall apply: (i) the term "Bond Recipient(s)" as used herein shall refer only to Resident(s); and (ii) Resident(s) agree(s) that he/she/they may not assign, pledge or otherwise encumber his/her/their interest in this Lifecare Bond unless Resident(s) gives Sunrise sixty (60) days prior written notice.

Alternatively, in the event that the Lifecare Bond is issued both to Resident(s) and a Second Party, then the following shall apply: (i) the term "Bond Recipient(s)" as used herein shall refer to both Resident(s) and Second Party; (ii) Sunrise promises to pay the principal sum to Bond Recipient(s) as joint tenants with rights of survivorship as and when due and payable pursuant to the terms hereof; (iii) Bond Recipient(s) agree and understand that as a result of holding this Lifecare Bond as joint tenants with rights of survivorship, the interest in this Lifecare Bond of the

[1] The term "Second Party" as used herein may refer to either: (i) an individual who resides with the Resident(s) in the same unit at The Fairfax and has executed the Continuing Care Agreement with the Resident(s); or (ii) an individual who does not reside with the Resident(s) at The Fairfax.

first to die will pass automatically by operation of law to the survivor; and (iv) Bond Recipient(s) jointly and severally agree that Bond Recipient(s) may not assign, pledge or otherwise encumber their interest in this Lifecare Bond unless Bond Recipient(s) give Sunrise 60 days prior written notice.

In the event that any one or more of the provisions contained in this Lifecare Bond shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Lifecare Bond and this Lifecare Bond shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Lifecare Bond may be modified or amended only by an agreement in writing signed by Sunrise and Bond Recipient(s).

This Lifecare Bond contains the entire agreement between Sunrise and Bond Recipient(s) concerning Bond Recipient(s) loan to Sunrise and Sunrise's obligation to repay such loan. The loan evidenced by this Lifecare Bond is not intended and may not be used as security for any amount due or which may become due from Bond Recipient(s) to Sunrise under the Continuing Care Agreement or any other existing agreement between Bond Recipient(s) and Sunrise, and Sunrise shall have no right to offset any amount due and payable under this Lifecare Bond by amounts due Sunrise under any other existing agreement between Bond Recipient(s) and Sunrise, including, but not limited to, the Continuing Care Agreement.

This Lifecare Bond may be prepaid at any item by Sunrise without penalty upon 30 or more days written advance notice to Bond Recipient(s), which notice period may be waived in writing by Bond Recipient(s).

This Lifecare Bond shall be governed in all respects by the laws of the Commonwealth of Virginia and shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, executors, administrators, personal representatives, successors and assigns.

Nothing in this Lifecare Bond shall preclude a wholly owned or controlled subsidiary or other affiliate of Sunrise from assuming Sunrise's obligations hereunder.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, Sunrise has executed this Lifecare Bond on the date first above written.

WITNESS	**SUNRISE CONTINUING CARE, LLC**
_____	By: _____ Name: _____ Title: _____

WITNESSES	**RESIDENT(S)**
_____	_____ Name: _____
_____	_____ Name: _____
	SECOND PARTY (if applicable)
_____	_____ Name: _____

Serial No. _____

EXHIBIT A
LIFECARE BOND

$_____ Fairfax, Virginia
_____, _____
[Date]

FOR VALUE RECEIVED AS MONEY LENT, the undersigned, **SUNRISE CONTINUING CARE, LLC**, a Delaware limited liability company ("Sunrise") promises to pay the principal sum of _____ Dollars ($_____) to _____(the "Trustee"), as Trustee of _____, _____ ("Resident(s)") resides/will reside, pursuant to a Continuing Care Agreement dated _____, _____ between Resident(s) and Sunrise (the "Continuing Care Agreement"), in Residence Unit # _____ at The Fairfax ("Residence"), a lifecare retirement community in Fairfax County, Virginia.

The above principal sum shall be due and payable in full, without interest, upon (a) the termination of the Continuing Care Agreement pursuant to Article V of the Continuing Care Agreement and (b) when the Residence is re-occupied by another resident who is a party to the Continuing Care Agreement.

The Trustee agrees that it will not assign, pledge or otherwise encumber its interest in this Lifecare Bond unless it gives Sunrise 60 days prior written notice.

In the event that any one or more of the provisions contained in this Lifecare Bond shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Lifecare Bond and this Lifecare Bond shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Lifecare Bond may be modified or amended only by an agreement in writing signed by Sunrise and the Trustee.

This Lifecare Bond contains the entire agreement between Sunrise and the Trustee concerning the loan issued to Sunrise pursuant to the Continuing Care Agreement and Sunrise's obligation to repay such loan. The loan evidenced by this Lifecare Bond is not intended and may not be used as security for any amount due or which may become due from Resident(s) to Sunrise under the Continuing Care Agreement or any other existing agreement between Resident(s) and Sunrise, and Sunrise shall have no right to offset any amount due and payable under this Lifecare Bond by amounts due Sunrise under any other existing agreement between Resident(s) and Sunrise, including, but not limited to, the Continuing Care Agreement.

This Lifecare Bond may be prepaid at any time by Sunrise without penalty upon 30 or more days written advance notice to Trustee, which notice period may be waived in writing by Resident(s).

This Lifecare Bond shall be governed in all respects by the laws of the Commonwealth of Virginia and shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, executors, administrators, personal representatives, successors and assigns.

Nothing in this Lifecare Bond shall preclude a wholly owned or controlled subsidiary or other affiliate of Sunrise from assuming Sunrise's obligations hereunder.

IN WITNESS WHEREOF, Sunrise has executed this Lifecare Bond on the date first above written.

WITNESS	**SUNRISE CONTINUING CARE, LLC**
_____	By: _____ Name: _____ Title: _____
WITNESS	**TRUST**
_____	By: _____ _____, Trustee

Serial No. _____

EXHIBIT A
LIFECARE BOND

$_____ Fairfax, Virginia
_____, _____
[Date]

FOR VALUE RECEIVED AS MONEY LENT, the undersigned, **SUNRISE CONTINUING CARE, LLC**, a Delaware limited liability company ("Sunrise") promises to pay the principal sum of _____Dollars ($_____) to _____ (Third-Party) and _____ (Third-Party) (collectively referred to as "Third-Parties"). _____ ("Resident(s)") resides/will reside, pursuant to a Continuing Care Agreement dated _____, _____ between Resident(s) and Sunrise (the "Continuing Care Agreement") in Residence Unit # _____ at The Fairfax ("Residence"), a lifecare retirement community in Fairfax County, Virginia.

The above principal sum shall be due and payable in full, without interest, upon (a) the termination of the Continuing Care Agreement pursuant to Article V of the Continuing Care Agreement and (b) when the Residence is reoccupied by another resident who is party to a Continuing Care Agreement.

The following applies for this Lifecare Bond issued to Third-Parties: (i) Sunrise promises to pay the principal sum to Third-Parties as joint tenants with rights of survivorship as and when due and payable pursuant to the terms hereof; (ii) Third-Parties agree and understand that, as a result of holding this Lifecare Bond as joint tenants with rights of survivorship, the interest in this Lifecare Bond of the first to die will pass automatically by operation of law to the survivors; and (iii) Third-Parties jointly and severally agree that the Third-Parties may not assign, pledge or otherwise encumber their interest in this Lifecare Bond unless Third-Parties give Sunrise 60 days prior written notice.

In the event that any one or more of the provisions contained in this Lifecare Bond shall for any reason be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Lifecare Bond and this Lifecare Bond shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Lifecare Bond may be modified or amended only by an agreement in writing signed by Sunrise and the Third Parties.

This Lifecare Bond contains the entire agreement between Sunrise and the Third Parties concerning the loan issued to Sunrise pursuant to the Continuing Care Agreement and Sunrise's obligation to repay such loan. The loan evidenced by this Lifecare Bond is not intended and may not be used as security for any amount due or which may become due from Resident(s) to Sunrise under the Continuing Care Agreement or any other existing agreement between Resident(s) and

Sunrise, and Sunrise shall have no right to offset any amount due and payable under this Lifecare Bond by amounts due Sunrise under any other existing agreement between Resident(s) and Sunrise, including, but not limited to, the Continuing Care Agreement.

This Lifecare Bond may be prepaid at any time by Sunrise without penalty upon thirty (30) or more days written advance notice to Third Parties, which notice period may be waived in writing by Resident(s).

This Lifecare Bond shall be governed in all respects by the laws of the Commonwealth of Virginia and shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, executors, administrators, personal representatives, successors and assigns.

Nothing in this Lifecare Bond shall preclude a wholly owned or controlled subsidiary or other affiliate of Sunrise from assuming Sunrise's obligations hereunder.

IN WITNESS WHEREOF, Sunrise has executed this Lifecare Bond on the date first above written.

WITNESS **SUNRISE CONTINUING CARE, LLC**

_____ By: _____
Name: _____
Title: _____

The Third Parties and Resident join in the execution of this Lifecare Bond for the purpose of agreeing to be bound by the provisions of this Lifecare Bond.

WITNESSES **THIRD-PARTIES:**

_____ By: _____[Name]
_____, Third-Party

_____ By: _____[Name]
_____, Third-Party

RESIDENT:

_____ By: _____[Name]
_____, Resident

NOTICE OF RIGHT TO RESCIND

_____
Date rescission period begins

Resident may rescind and terminate the Continuing Care Agreement, without penalty or forfeiture, within seven (7) days of the above date. Resident is not required to move into the continuing care facility before the expiration of this seven (7) day period.

The rescind the Continuing Care Agreement, mail or deliver a signed and dated copy of this notice or any other dated written notice, letter or telegram, stating your desire to rescind to The Fairfax, 9140 Belvoir Woods Parkway, Fort Belvoir, Virginia 22060 not later than midnight of _____ (last day for rescission).

Pursuant to this notice, I hereby cancel my Continuing Care Agreement.

_____
Date

_____
Signature

_____
Signature

RESIDENT ACKNOWLEDGMENT

_____ (hereinafter "I" or "we") has/have entered into a Continuing Care Agreement ("Agreement") with Sunrise, effective on the _____ day of _____, 20___,

This is to acknowledge that I/we have read the Acknowledgement Certificate and that I/we were afforded the opportunity to ask questions.

Resident (s)

_____
Name:_____

_____
Name:_____

EXHIBIT D

Exhibit D
The Fairfax
2019 Care Fees
Nursing, Assisted Living, Reminiscence

	Contract	Per Diem
Nursing (Per Day)		
Permanent Stay		
Semi - Private		$ 362.00
(B Unit Equivalent)	$ 131.00	
(C Unit Equivalent)	$ 144.00	
(F Unit Equivalent)	$ 144.00	
(B Unit Equivalent Moderate)	$ 169.00	
(C Unit Equivalent Moderate)	$ 182.00	
(F Unit Equivalent Moderate)	$ 172.00	
Private		$ 411.00
(B Unit Equivalent)	$ 234.00	
(C Unit Equivalent)	$ 248.00	
(F Unit Equivalent)	$ 249.00	
(B Unit Equivalent Moderate)	$ 272.00	
(C Unit Equivalent Moderate)	$ 285.00	
(F Unit Equivalent Moderate)	$ 276.00	
Assisted Living (Per Day)		
Standard Rooms		
Permanent Stay		
Assisted Living Private		$ 168.00
(B Unit Equivalent)	$ 131.00	
(C Unit Equivalent)	$ 144.00	
(F Unit Equivalent)	$ 144.00	
(B Unit Equivalent Moderate)	$ 169.00	
(C Unit Equivalent Moderate)	$ 182.00	
(F Unit Equivalent Moderate)	$ 172.00	
Assisted Living Grand Suite		$ 193.00
(B Unit Equivalent)	$ 198.00	
(C Unit Equivalent)	$ 209.00	
(F Unit Equivalent)	$ 203.00	
(B Unit Equivalent Moderate)	$ 235.00	
(C Unit Equivalent Moderate)	$ 246.00	
(F Unit Equivalent Moderate)	$ 232.00	
Deluxe Models (Per Day)		
Permanent Stay		
Private		
Denver	$206 - $271	$177 - $239
2 Room Suite	$244 - $293	$216 - $261
Large Suite	$236 - $264	$195 - $219
Medium Suite	$205 - $236	$174 - $202
Semi - Private		
Denver	$128 - $168	$110 - $148
2 Room Suite	$151 - $181	$134 - $162
Large Suite	$146 - $163	$121 - $136
Medium Suite	$127 - $146	$108 - $125
If a standard room is not available to resident at contract rates - Resident will be offered any available room at the contract rate until such room comes available		

	Contract	Per Diem
Reminiscence (Per Day)		
Single-Suite Fee	$ 150.00	$ 186.00
Two Room Suite	$ 301.00	$ 317.00

Extra Services (Per Day)	**Contract**	**Per Diem**
Level of Care Fees (For Assisted Living Residents)		
AL Select	$ 25.00	$ 25.00
AL Plus	$ 45.00	$ 45.00
AL Plus Plus	$ 75.00	$ 75.00
AL Enhanced	$ 114.00	$ 114.00
Program Care (For Reminiscence Residents)		
LEVEL 1	$ 70.00	$ 70.00
LEVEL 2	$ 95.00	$ 95.00
LEVEL 3	$ 125.00	$ 125.00
REM Enhanced	$ 146.00	$ 146.00
Medication Administration (Assisted Living Residents)		
LEVEL 1	$ 24.00	$ 24.00
LEVEL 2	$ 27.00	$ 27.00
LEVEL 3	$ 32.00	$ 32.00
Medication Administration (Reminiscence)		
LEVEL 1	$ 29.00	$ 29.00
LEVEL 2	$ 32.00	$ 32.00
LEVEL 3	$ 37.00	$ 37.00
Incontinence Fee (Reminiscence & Assisted Living Residents)		
LEVEL 1	$ 6.00	$ 6.00
LEVEL 2	$ 13.00	$ 13.00
LEVEL 3	$ 17.00	$ 17.00

ADDITIONAL MEALS (Per Day) for Residents utilizing Life Free Benefits		
Two additional meals during temporary stay (contract residents only)	$ 10.00	

EXHIBIT E

Exhibit E
The Fairfax
Nursing and Assisted Living
Year Over Year Increases of Daily Rate

	2015	2016	2017	2018	2019
	Original Contract				
Nursing					
Semi Private	$ 3.00	$ 3.00	$ 4.00	$ 4.00	$ 4.00
Private	$ 4.00	$ 4.00	$ 17.00	$ 63.00	$ 7.00
Assisted Living					
Private	$ 3.00	$ 3.00	$ 4.00	$ 4.00	$ 4.00
Suite (discontinued 2007)					
Grand Suite	$ 5.00	$ 5.00	$ 1.00	$ 9.00	$ 6.00
	Moderate Contract				
Nursing					
Semi Private	$ 4.00	$ 5.00	$ 5.00	$ 3.00	$ 5.00
Private	$ 5.00	$ 5.00	$ 20.00	$ 62.00	$ 8.00
Assisted Living					
Private	$ 4.00	$ 5.00	$ 4.00	$ 3.00	$ 5.00
Suite (discontinued 2007)					
Grand Suite	$ 6.00	$ 6.00	$ 5.00	$ 7.00	$ 7.00
	Per Diem				
Nursing					
Semi Private	$ 9.00	$ 9.00	$ 10.00	$ 10.00	$ 17.00
Private	$ 10.00	$ 11.00	$ 11.00	$ 11.00	$ 20.00
Assisted Living					
Private	$ 4.00	$ 7.00	$ 7.00	$ 5.00	$ 9.00
Suite (discontinued 2007)					
Grand suite	$ 5.00	$ 8.00	$ 5.00	$ 5.00	$ 10.00

EXHIBIT F

Belvoir Woods Health Care Center

2019 Health Care, Assisted Living and Reminiscence Ancillary Fees

Dining Services	Charges
(Sales tax not included in dining service charges)	
Breakfast	Ala Carte
Guest Lunch	$ 16.26
Guest Dinner	$ 16.26
Guest Brunch	$ 21.51
Guest Meals for Holidays and Special Events	$ 24.79
Kids Meal	Half Price
Children - Ages 1 - 3	No Charge
Except for Holidays and Special Events, up to 5 resident meals may be used to pay for Guest Lunch and Dinner. Resident will be charged a surcharge for guest brunch	
Guest Brunch Surcharge from meal swap	$ 5.25
Room Service (Room services charges waived for the first three deliveries during during a short illness)	$ 3.82
Beer, Wine and Liquor	**Prices available upon request**
Catering Services	**Cost based on agreed upon services**

Oxygen	Charges
Oxygen Concentrator	$ 7.00 / day
Nebulizer	$ 4.00 / day
Oxygen E - Tank	$ 55.00 / Tank
Suction Machine	$ 2.00 / day

Blood Test and Injections	Charges
Accucheck	$ 5.00 / Test
Injections	$ 5.00 / Injection
Ear Irrigation	$ 7.00 / Injection
Blood Draw	$ 10.00 /draw

Ambulatory and Positioning Products	Charges
Wheel Chair - Rental	$ 3.00 / day
Walker	$ 1.00 / day
Reclining Geri Chair	$ 4.00 / day
Over The Bed Trapeze	$ 1.00 / day

Incontinence Care and Miscellaneous Supplies ***		*Charges (Subject to change according to supplier of products)*
Briefs:		
Brief, Clothlike	XXlarge	$ 13.44 / pkg of 20
	Xlarge	$ 10.65 / pkg of 20
	Medium	$ 6.65 / pkg of 20
	Large	$ 8.87 / pkg of 20
	Regular	$ 7.98 / pkg of 20
Protectective Undergarment:		
Underwear Pull up	Xlarge	$ 14.72 / pkg of 20
	Medium	$ 9.65 / pkg of 20
	Large	$ 10.85 / pkg of 20
Bladder Control Pad:		
Liner Incontinent Regular		$ 4.38 / pkg of 28
Wipes:		
Adult, 9" x 13"		$ 2.65 / pkg of 68
Gloves		$ 11.96 / Box of 150

Additional Items based on Residents Individual Needs & Pricing provided by Health Care Center

Belvoir Woods Health Care Center

2019 Health Care, Assisted Living and Reminiscence Ancillary Fees

Additional Services (Per Day) (Effective 1/1/2019)	
Level of Care Fee (For AL Residents)	
AL Select	$ 25.00
AL Plus	$ 45.00
AL Plus+	$ 75.00
AL Enhanced	$ 114.00
Incontinence Fee (For AL Residents)	
Level 1	$ 6.00
Level 2	$ 13.00
Level 3	$ 17.00
Program Care (For Reminiscence Residents)	
Level 1 / Rem Base	$ 70.00
Level 2 / Rem Plus	$ 95.00
Level 3 / Rem Plus+	$ 125.00
Rem Enhanced	$ 146.00
Medication Administration Fee (For AL Residents)	
Level 1	$ 24.00
Level 2	$ 27.00
Level 3	$ 32.00
Medication Administration Fee (For REM Residents)	
Level 1	$ 29.00
Level 2	$ 32.00
Level 3	$ 37.00

Pathways to Fitness Program	**Charges**
Monthly program package	$ 36.00 / month
Individual Class	$ 7.50 / class

Restorative Nursing Aide	**Charges**
Restorative Nursing Aide	$ 20.00 / 30 minute unit

Therapy Services	**Charges**
Physical, Occupational and speech evaluations and services	Charges based on Medicare Regulated Rates

Housekeeping	
Laundry Services (HC and AL)	$ 18.00 /Load

Transportation	
Dulles Airport	$ 50.00 Each Way
National Airport	$ 40.00 Each Way
Amtrak Alexandria	$ 35.00 Each Way
Union Station	$ 55.00 Each Way
Doctors in Alexandria	$ 35.00 Round Trip
Old Towne Alexandria	$ 30.00 Round Trip
Alexandria Hospital	$ 35.00 Round Trip
Arlington Hospital	$ 40.00 Round Trip
Fairfax Hospital	$ 35.00 Round Trip

Beauty and Barber	Based on services provided

Miscellaneous Charges	**Charges**
Cox Cable TV	$27.50
Additional services available by ordering through Cox Communications	
Telephone system charges	$20.00 per month for local calls
Remote TV control	$20.00 (Refundable upon return)
Guest apartments	$ 95.00 /day

***** ***Additional services may be available and billed by the provider*** *****

EXHIBIT G

Army Retirement Residence Foundation – Potomac

9140 Belvoir Woods Parkway, Fort Belvoir, VA 22060
Email: contactus@arrfp.org **Phone:** (703) 781-2460 **Web:** www.arrfp.org

LIFETIME MEMBERSHIP APPLICATION

I/We hereby apply for membership to the Army Retirement Residence Foundation – Potomac (ARRF-P), and understand that the assigned membership priority number will govern relative standing when applying for residency at The Fairfax.

PRIORITY NUMBER

OFFICER/SPONSOR/PRIMARY APPLICANT INFORMATION:
Sponsor served as an officer (or comparable government service grade) and is drawing retirement pay as a commissioned or warrant officer (or comparable government grade).

RANK/GOVT. GRADE _____ LAST NAME _____ FIRST NAME _____ M.I. ___

SSN _____ DATE OF BIRTH _____ DATE OF DEATH _____

ACTIVE ☐ RETIRED ☐ SINGLE ☐ MARRIED ☐ DIVORCED ☐ WIDOWED ☐

BRANCH OF SERVICE:

USA ☐ USN ☐ USAF ☐ USMC ☐ USCG ☐ US FOREIGN SERVICE ☐

FEDERAL GOVT. ☐ GOVT BRANCH: _____

ALL PERSONS: PLEASE PROVIDE A COPY OF RECORD OF TOTAL SERVICE – DD 214 OR EQUIVALENT.

SPOUSE/SECONDARY APPLICANT INFORMATION:

LAST NAME _____ FIRST NAME _____ M.I. ___

SSN _____ DATE OF BIRTH _____ DATE OF DEATH _____

STREET ADDRESS _____ APT. # _____

CITY _____ STATE _____ ZIP _____

CELL PHONE _____ HOME PHONE _____ EMAIL _____

CELL PHONE - SPOUSE _____ EMAIL - SPOUSE _____

POINT OF CONTACT (1):

_____ _____ _____
LAST NAME FIRST NAME RELATIONSHIP

_____ _____
STREET ADDRESS APT. #

_____ _____ _____
CITY STATE ZIP

_____ _____ _____
CELL PHONE HOME PHONE EMAIL

POINT OF CONTACT (2):

_____ _____ _____
LAST NAME FIRST NAME RELATIONSHIP

_____ _____
STREET ADDRESS APT. #

_____ _____ _____
CITY STATE ZIP

_____ _____ _____
CELL PHONE HOME PHONE EMAIL

According to the bylaws of the ARRF-P, revised October 2018, eligibility for residence is stated below. Individuals who are qualified to become Eligible Members of the Foundation pay the "Membership Fee"; a one-time charitable, tax-deductible contribution of $1,000 (or $1,500 for a married couple) to the Foundation that shall be permanently retained by the Foundation for its purposes. Please make checks payable to **ARRF-P**.

ARTICLE IV. ELIGIBILITY AND PRIORITY FOR RESIDENCE

Section 1. Eligibility. A person who meets any of the following criteria shall be an Eligible Member and may apply for residence in the Community:

(a) an officer of any component (e.g., Regular, Reserve, or National Guard) of the U.S. Uniformed Services entitled to a retirement payment as a commissioned or warrant officer [hereinafter referred to as an "Officer"]; or

(b) an un-remarried surviving spouse of an Eligible Member who was lawfully married to such Eligible Member at the time of such member's death; or

(c) a career Federal employee with a grade equivalent to officer levels of the U.S. Uniformed Services , and entitled to receive a retirement payment; or

(d) a parent or parents of a retired or active duty officer of the U.S. Uniformed Services; or

(e) a person who has had a significant special relationship with the community of Officers or Officers' spouses and who is declared by the Board of Directors on a case-by-case basis to be eligible for residence in the Community as an exception to the eligibility criteria listed in clauses (a) through (d) immediately above; or

(f) the divorced spouse of an Eligible Member, if such Eligible Member is not a member of the Community at the time of divorce may be an Eligible Member if qualified under clause (e) above; or

(g) the divorced spouse of an Eligible Member, if such spouse is a member of the Community at the time of divorce.

Section 2. Exceptions. A person other than somebody meeting the criteria above may occupy an Independent Living Unit in the Community with an Eligible Member on a temporary basis when approved by the Board of Directors. The term and duration of such occupancy, including a determination of whether such a person is eligible for residence in the Community on a permanent basis, will be decided by the Board of Directors on a case-by-case basis.

_____	_____	_____	_____
OFFICER/SPONSOR/PRIMARY APPLICANT SIGNATURE	**DATE**	**SPOUSE/SECONDARY APPLICANT SIGNATURE**	**DATE**

For further information, please call (703) 781-2460, or email us at contactus@arrfp.org.

FOR OFFICE USE ONLY

APPLICATION RECEIVED ☐ **CHECK RECEIVED** ☐ **DD 214 (or equivalent) RECEIVED** ☐

AMOUNT: _____ **CHECK #:** _____ **DATE:** _____

NOTES:

The Fairfax

Application for Residency

FOR OFFICE USE ONLY:

Name: _____

Priority Number: _____

Date Received: _____

Counselor: _____

Plan Selected: _____

Unit Selected: _____

Date Approved: _____

Other Information: _____

9140 Belvoir Woods Parkway • Fort Belvoir,VA 22060-2703 • 703-799-1200
www.arrfp.org • www.sunriseseniorliving.com

PERSONAL INFORMATION RECORD

Name: _____

Spouse: _____

Address: _____
Street

_____
City State Zip

Phone: ( ) _____ Cell: ( ) _____

U.S. Military Service _____ Military Rank at Retirement (if applicable): _____

Social Security Number: _____ Spouse: _____

Medicare Number: _____ Spouse: _____

Driver's License Number: _____ Spouse: _____

Date of Birth: _____ Spouse: _____

Place of Birth: _____ Spouse: _____

Religious Preference: _____ Spouse: _____

E-mail: _____

Marital Status:

☐ Single ☐ Married ☐ Widowed ☐ Divorced ☐ Anniversary Date: _____

Please list names of children:

Name: _____ Name: _____

Address: _____ Address: _____

_____ _____

Phone: _____ Phone: _____

Cell: _____ Cell: _____

E-mail: _____ E-mail: _____

Name: _____ Name: _____

Address: _____ Address: _____

_____ _____

Phone: _____ Phone: _____

Cell: _____ Cell: _____

E-mail: _____ E-mail: _____

EMERGENCY CONTACTS

Name: _____ Name: _____

Address: _____ Address: _____

_____ _____

Phone: _____ Phone: _____

PERSONAL FINANCIAL STATEMENT OF

Name:_____ Date: _____

INCOME	Monthly	Yearly
Social Security:	$_____	$_____
Spouse:	$_____	$_____
Pension:	$_____	$_____
Spouse:	$_____	$_____
Other Income *(Please specify)* _____	$_____	$_____
	Total Yearly Income:	**$**

ASSETS	
Checking Account:	$_____
Savings Account:	$_____
Securities (Stocks, Bonds, etc.):	$_____
Certificate of Deposit:	$_____
Annuities:	$_____
Real Estate (Fair Market Value):	$_____
Primary Residence	$_____
Vacation Home	$_____
Rental Property	$_____
Other Assets *(List)* _____	$_____
_____	$_____
Total Assets:	**$**

LIABILITIES

List all other obligations and liabilities (including loans, amounts owed, notes, and accounts payable) stating principal amount, where due, and amount of monthly or periodic payments.

Mortgage Notes:

Lender:	Balanced Owed	Monthly Payment
_____	$_____	$_____
_____	$_____	$_____
Credit Card Debt:	$_____	$_____

Other Liabilities:

Lender:	Secured By:	Balanced Owed	Monthly Payment
_____		$_____	$_____
_____		$_____	$_____
	Total Liabilities:	**$**	**$**

Release:

- ☐ **Yes**, you may use my/our name(s) when communicating with my personal contacts.
- ☐ **Yes**, you may use my/our name(s) in material directly associated with The Fairfax.
- ☐ **Yes**, I hereby authorize a licensed credit agency to release to Sunrise Senior Living any available information on my financial history.

_____ _____

Signature Date Signature Date

The Fairfax

THE FAIRFAX
WAITING LIST REQUESTS/CHANGES

NAME(S): _____

REQUEST:

☐ FIRST PRIORITY -
Health Care Center Resident and Other
Compassionate Reasons — Request Date: _____

☐ SECOND PRIORITY -
Residents Who Request Smaller Units — Request Date: _____

☐ THIRD PRIORITY -
Residents Who Recorded Preferred Units
Within 30 Days of Move In — Wait List Date: _____

☐ FOURTH PRIORITY -
Non-Resident Active Wait List — Wait List Date: _____

ARRF-P #: _____

UNIT WAIT LISTED FOR:		**COMMENTS:**
Floor Plan Type	_____	_____
Specific Floor	_____	_____
Building	_____	_____
Exposure	_____	_____

CHANGE:

- ❑ Please withdraw my/our name(s) from the wait list for the following unit(s) at The Fairfax: _____
- ❑ I/We wish to continue on the wait list for _____, as previously noted.

- ***It is your responsibility to keep the Sales Department apprised of your current address and telephone number.***

_____ Resident/Future Resident — _____ Date

_____ Resident/Future Resident — _____ Date

_____ Director of Sales & Marketing — _____ Date

9140 Belvoir Woods Parkway • Fort Belvoir,VA 22060-2703 • 703-799-1200

The Fairfax

PRE-RESIDENCE PERSONAL MEDICAL HISTORY AND EXAMINATION

DATE:

9140 Belvoir Woods Parkway • Fort Belvoir,VA 22060-2703
703-781-2405 • 703-799-1200 Community Center

APPLICANT

As part of the admissions process, you are required to complete a personal history and a medical examination. Please answer the first eight (8) questions on this form. Please have your personal physician fill out the remaining part of the form through Question 6. When form is complete, please return to the sales office.

❶ Name: _____
Last First Middle Initial

❷ Date of Birth: _____ ❸ Place of Birth: _____

❹ General Condition of Health: ☐ Excellent ☐ Good ☐ Fair ☐ Poor

❺ Do you have any physical limitations: ☐ Yes ☐ No

If yes, please explain: _____

❻ Do you have any allergies: ☐ Yes ☐ No

If yes, please list: _____

❼ Please list any current health insurance plans: _____

❽ Please list all current medications:

MEDICATION	DOSE	MEDICATION	DOSE
1.		6.	
2.		7.	
3.		8.	
4.		9.	
5.		10.	

_____ _____
Applicant's Signature Date

PERSONAL PHYSICIAN

Please answer the following questions through Question 6 on the last page and return to the applicant.

❶ Current or concomitant conditions:

D/O – Please indication date of onset

A – Please indicate: **1.** Mild **2.** Moderate **3.** Severe

B – Please indicate if the condition is under continuous treatment and controlled by:
1. Medication **2.** Diet **3.** Other Medical Treatment **4.** No Treatment

CATEGORY A	D/O	A	B
a. Endocrine disorders			
☐ Diabetes			
☐ Thyroid disease			
☐ Adrenal disorder			
☐ Pituitary disorder			
☐ Other *(specify)*			
b. Stable rheumatologic disease			
☐ Rheumatoid arthritis			
☐ Osteoarthritis			
☐ Gout			
☐ Other *(specify)*			
c. Gastrointestinal disease			
☐ Peptic ulcer disease			
☐ Diverticular disease			
☐ Inflammatory bowel disease			
☐ Other *(specify)*			
d. Stable heart disease			
☐ Congestive heart disease			
☐ S/P therapy of CAD			
☐ Treated cardiac arrhythms			
☐ Hypertension			
☐ Post pacemaker insertion			
☐ Post myocardial infarction			
☐ Other *(specify)*			
e. Stable or reversible neurologic disease			
☐ Post stroke or post stroke syndrome			
☐ Myasthenia gravis			
☐ Other *(specify)*			
f. Alcoholism			
☐ Alcoholism			

CATEGORY B	D/O	A	B
a. Chronic lung disease			
☐ Emphysema			
☐ Bronchiectasis			
☐ Toxic lung disease			
☐ Lung disease secondary to lupus			
☐ Amyloidosis			
☐ Environmental lung disease			
☐ Bronchitis			
☐ Other *(specify)*			
b. Chronic renal disease			
☐ Amyloidosis			
☐ Chronic glomerulonephritis			
☐ Chronic uremia			
☐ Chronic pyelonephritis			
☐ Chronic renal failure			
☐ Other *(specify)*			
c. Active malignant diseases			
☐ *(Specify)*			
d. Progressive neurologic disease			
☐ Amyotrophic lateral sclerosis			
☐ Parkinson's disease			
☐ Myopathies/neuropathies			
☐ Multiple sclerosis			
☐ Huntington's chorea			
☐ Other *(specify*			

CATEGORY C	D/O	A	B
a. Chronic brain disease (dementia)			
☐ Chronic dementias			
☐ Alcoholic psychoses			
☐ Organic brain syndrome associated with using drugs			
☐ Korsakoff's syndrome			
☐ Alzheimer's disease			
☐ Short term memory loss			
☐ Other *(specify)*			

❶ Please list any other medically related circumstances which should be considered:

a. _____ c. _____

b. _____ d. _____

❷ Are you aware of all patient's current medications as listed on page 1 of this form?:

☐ Yes ☐ No

Please list additions and changes, if any: _____

_____

_____

_____

❸ Surgeries: *(Within the last 5 years)*

Dates	Reason	Hospital & Treating Physician

❹ Hospitalizations, rehabilitation, long term care or similar confinements or periods of home health care: *(Within the last 5 years)*

Dates	Reason	Treating Physician

❺ Functional assessment: Please indicate below your assessment of the applicant's functional status

	Independent	Needs Assistance	Dependent
Bathing	☐	☐	☐
Dressing	☐	☐	☐
Transferring	☐	☐	☐
Eating	☐	☐	☐
Mobility	☐	☐	☐
Toileting	☐	☐	☐
Ambulation	☐	☐	☐

Continence:

Bowl ☐ Continent ☐ Incontinent

Bladder ☐ Continent ☐ Incontinent

Vision ☐ Good ☐ Fair ☐ Poor ☐ Glasses

Hearing ☐ Good ☐ Fair ☐ Poor ☐ Hearing Aid

Is this individual capable of living independently without the assistance of another individual?

☐ Yes ☐ No

❻ Personal Physician:

_____ _____ _____

Name Signature Date

EXHIBIT A / B

COMMUNITY REPRESENTATIVES:

Medical Director: Please list pre-existing conditions. If deferred from coverage, please indicate date of review.

Pre-Existing Conditions	Covered (Contract Rate)	Not Covered (Market Rate)	Deferred Coverage	Review Date

MEDICAL DIRECTOR

Name _____ Signature _____ Date _____

Availability of coverage will be determined by The Fairfax Medical Review Committee's assessment of pre-existing conditions, continuous treatment, and control as of review date.

HEALTHCARE ADMINISTRATOR

Name _____ Signature _____ Date _____

DIRECTOR OF SALES & MARKETING

Name _____ Signature _____ Date _____

EXECUTIVE DIRECTOR

Name _____ Signature _____ Date _____

The foregoing has been reviewed and agreed to by the undersigned

RESIDENT

Name _____ Signature _____ Date _____

EXHIBIT H

RESIDENCE UNIT RESERVATION AGREEMENT

This Residence Unit Reservation Agreement ("Reservation Agreement") is entered into by and between _____ ("Applicant") and Sunrise Continuing Care, LLC ("Sunrise"), a limited liability company organized and existing under the laws of the State of Delaware and authorized to transact business in the State of Virginia.

Sunrise operates a continuing care retirement community known as "The Fairfax", a Sunrise Lifecare Retirement Community (the "Community") in Fairfax County, Virginia primarily for members of The Army Retirement Residence Foundation-Potomac ("Foundation") and their spouses. Applicant desires to select a residence unit in the Community.

Applicant and Sunrise hereby agree as follows:

1. Residence Unit Selection

1.1 Residence Unit - Applicant hereby selects for residence in the Community a _____type residence unit ("Residence Unit"), Unit #_____, Building _____.

1.2 Payment Plan - Applicant has the option to select the 90% Refundable Plan with an Entrance Fee of $_____, the 50% ($_____) or the 0% ($_____) Payment Plan without penalty at any time prior to signing the Continuing Care Agreement.

1.3 Additional Occupant Entry Fee - The Additional Occupant Entry Fee of $_____ (as applicable) is due upon the signing of the Continuing Care Agreement.

2. Requirements for Community Residence

2.1 Members of the Foundation, Spouses, Widows and Widowers - Unless approved by the Executive Director of the Community, on a case-by-case basis, to be considered for residence as a special exception, applicant is or will be by the Occupancy Date (as defined in the Continuing Care Agreement), a member of the Foundation and at least fifty-five (55) years of age, or a person with long and close association with the Army, approved by the Foundation and at least fifty-five (55) years of age, or a spouse, widow or widower of one of the above when applicable.

2.2 Physical

A. Applicant will submit an updated Pre-Admissions Physician's Report Form completed by The Fairfax Medical Director not earlier than thirty (30) days before the Occupancy Date. Such report will be based on a complete physical examination of Applicant by a licensed physician (M.D.) of Applicant's choice.

B. If Sunrise requests, Applicant will submit additional information relating to condition of health or will submit to an additional physical examination.

C. Applicants with certain chronic illnesses or other pre-existing physical or mental conditions may be subject to additional charges. Sunrise will notify Applicant of any pre-existing conditions that will be excluded from coverage under the Continuing Care Agreement. Thereafter, Applicant will be admitted to residence in the Community notwithstanding any subsequent changes or decline in Applicant's health or physical condition.

2.3 Financial - Applicant will have sufficient assets and income to pay the Entrance Fee and the Monthly Fees due under the Continuing Care Agreement and pay normal expenses for items and services not provided by the Community.

2.4 Other

A. If applicable, Applicant will provide satisfactory evidence of enrollment in the Defense Enrollment Eligibility Reporting System (DEERS).

B. Applicants and spouses age 65 or older will be enrolled in Medicare, both Part A and Part B, and a supplemental health insurance program comparable in coverage to the Retired Officers Association Mediplus Supplemental Insurance Plan. Any applicant or spouse under sixty-five (65) must provide medical coverage comparable to the above, satisfactory to Sunrise.

C. Applicant must be able, as determined by Sunrise and the Foundation, to live harmoniously in the Community.

3. Reservation Fee - Upon the Effective Date of this Reservation Agreement, Applicant will begin payment of non-refundable monthly reservation fees ("Reservation Fees"). The monthly Reservation Fee shall be an amount equal to 50% of the monthly fee for one person associated with the Residence Unit under a Continuing Care Agreement. This fee is paid monthly for the first two months, thereafter, the monthly Reservation Fee shall be an amount equal to 100% of the monthly fee for one person associated with the Residence Unit under a Continuing Care Agreement.

4. Continuing Care Agreement - The Reservation Agreement contains the complete understanding between Applicant and Sunrise with respect to the subject matter herein. Applicant will execute a Continuing Care Agreement by the Occupancy Date. The Reservation Agreement and the completed application forms will be made part of the Continuing Care Agreement by reference.

5. Termination and Refunds - Applicant may terminate this Reservation Agreement at any time prior to execution of the Continuing Care Contract. In such event, Applicant may receive a refund of the Wait List Deposit in accordance with the terms of the Wait List Policy. The Application Fee and the Reservation Fees are non-refundable.

The parties have executed this Agreement which will be effective on the date executed by Sunrise Continuing Care, LLC ("Effective Date").

_____	_____
Date	Applicant(s)
_____	_____
Date	Applicant(s)

Sunrise Continuing Care, LLC hereby executes this Apartment Reservation Agreement the ___ day of _____**, 20__**.

SUNRISE CONTINUING CARE, LLC

By:_____

Title: Director of Sales and Marketing

EXHIBIT I

The Fairfax

2019 Entry & Monthly Fees

FLOOR PLAN	CONTRACT OPTIONS	2019 ENTRY FEE RANGE Based on View and Location		2019 MONTHLY FEE, First Person* *Second Person: $1,279
One Bedroom / One Bath				
Alexandria	90% Refundable	186,000	232,000	3,184
1 Br/1 Bath	50% Refundable	131,000	163,000	3,184
605 Sq. Ft.	0% Refundable	90,000	111,000	3,184
Barcroft	90% Refundable	215,000	284,000	3,348
1 Br/1 Bath	50% Refundable	150,000	199,000	3,348
722 Sq. Ft.	0% Refundable	103,000	136,000	3,348
Chantilly	90% Refundable	267,000	353,000	3,641
1 Br/1 Bath/Den	50% Refundable	187,000	247,000	3,641
887 Sq. Ft.	0% Refundable	128,000	169,000	3,641
Danville	90% Refundable	245,000	334,000	3,479
1 Br/1 Bath/Den	50% Refundable	172,000	234,000	3,479
816 Sq. Ft.	0% Refundable	117,000	160,000	3,479
Edinburg	90% Refundable	286,000	384,000	3,803
1 BR/2Bath/Den	50% Refundable	202,000	269,000	3,803
890 Sq. Ft.	0% Refundable	138,000	183,000	3,803
Two Bedroom / Two Bath				
Fauquier	90% Refundable	379,000	398,000	4,031
2 Br/2 Bath	50% Refundable	266,000	278,000	4,031
1,010 Sq. Ft.	0% Refundable	181,000	191,000	4,031
Gadsby	90% Refundable	388,000	455,000	4,355
2 Br/2 Bath	50% Refundable	271,000	318,000	4,355
1,109 Sq. Ft.	0% Refundable	179,000	218,000	4,355
Gunston	90% Refundable	373,000	457,000	4,518
2 Br/2 Bath	50% Refundable	262,000	320,000	4,518
1,175 Sq. Ft	0% Refundable	185,000	218,000	4,518

Add $85 per month for full patio or balcony enclosure

Additional monthly fee for cable television billed separately

Second Person: Add $18,000. (Non-Refundable) and Monthly Fee of $1,279

* Fees are subject to change

The Fairfax

2019 Entry & Monthly Fees

FLOOR PLAN	CONTRACT OPTIONS	2019 ENTRY FEE RANGE Based on View and Location		2019 MONTHLY FEE, First Person* *Second Person: $1,279
Hampton	90% Refundable	339,000	440,000	4,290
2 Br/2 Bath	50% Refundable	237,000	308,000	4,290
1,039 Sq. Ft.	0% Refundable	163,000	210,000	4,290
Jamestown	90% Refundable	460,000	487,000	4,486
2 Br/2 Bath	50% Refundable	323,000	341,000	4,486
1,189 Sq. Ft.	0% Refundable	220,000	233,000	4,486
Kent	90% Refundable	404,000	507,000	4,388
2 Br/2 Bath	50% Refundable	283,000	355,000	4,388
1,152 Sq. Ft.	0% Refundable	194,000	243,000	4,388
Two Bedroom / Den or Three Bedroom / Two Bath				
Merrifield/ Monticello	90% Refundable	501,000	607,000	4,778
2 Br/2 Bath/Den	50% Refundable	352,000	425,000	4,778
1,402 Sq. Ft.	0% Refundable	240,000	290,000	4,778
Norfolk	90% Refundable	529,000	650,000	5,006
3 Br/2 Bath	50% Refundable	371,000	456,000	5,006
1,500 Sq. Ft.	0% Refundable	253,000	311,000	5,006
Cottages				
Potomac	90% Refundable	460,000	488,000	4,388
2 Br/2 Bath	50% Refundable	323,000	341,000	4,388
1,140 Sq. Ft.	0% Refundable	220,000	234,000	4,388
Randolph	90% Refundable	594,000	642,000	4,908
2 Br/2 Bath/Den	50% Refundable	416,000	449,000	4,908
1,358 Sq. Ft.	0% Refundable	285,000	307,000	4,908
Stratford	90% Refundable	650,000	699,000	5,102
3 Br/2 Bath	50% Refundable	456,000	492,000	5,102
1,527 Sq. Ft.	0% Refundable	311,000	357,000	5,102

Add $85 per month for full patio or balcony enclosure

Additional monthly fee for cable television billed separately

Second Person: Add $18,000. (Non-Refundable) and Monthly Fee of $1,279

* Fees are subject to change

EXHIBIT J

Sunrise Continuing Care, LLC

Consolidated Financial Statements as of and for the Years Ended December 31, 2018 and 2017, Combining Supplemental Schedules as of and for the Year Ended December 31, 2018, and Independent Auditors' Report

SUNRISE CONTINUING CARE, LLC

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INDEPENDENT AUDITORS' REPORT

Management of Sunrise Continuing Care, LLC:

We have audited the accompanying consolidated financial statements of Sunrise Continuing Care, LLC and its subsidiaries, (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, changes in member's deficit, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sunrise Continuing Care, LLC, as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 5 of the consolidated financial statements, which describes the effects of an agreement with a related party that resulted in certain assets and liabilities of two communities within the Company to be classified as held for sale as of December 31, 2017. The two communities were deconsolidated as of December 31, 2018. Our opinion is not modified in respect of this matter.

Report on Supplemental Schedules

Our audits were conducted for the purpose of forming an opinion on the 2018 consolidated financial statements as a whole. The supplemental schedules, listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the consolidated financial statements. These schedules are the responsibility of the Company's management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such 2018 schedules have been subjected to the auditing procedures applied in our audits of the 2018 consolidated financial statements and certain additional procedures, including comparing and reconciling such schedules directly to the underlying accounting and other records used to prepare the 2018 consolidated financial statements or to the 2018 consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such 2018 schedules are fairly stated in all material respects in relation to the 2018 consolidated financial statements as a whole.

Deloitte & Touche LLP

April 19, 2019

SUNRISE CONTINUING CARE, LLC

BALANCE SHEETS
AS OF DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ -	$ 4
Accounts receivable—net of allowance for doubtful accounts of $301 and $453 for 2018 and 2017, respectively	3,170	2,943
Indemnification receivable—lifecare bonds	1,315	1,774
Assets held for sale	-	13,984
Prepaid expenses and other current assets	1,394	1,378
Total current assets	5,879	20,083
RESTRICTED CASH:		
The Quadrangle statutory minimum liquid reserve	3,449	3,368
Other restricted cash reserves	1,080	1,122
Total restricted cash	4,529	4,490
LEASEHOLD IMPROVEMENTS AND EQUIPMENT:		
Leasehold improvements	35,515	32,285
Furniture and equipment	6,075	7,129
Construction in progress	1,351	347
Total leasehold improvements and equipment	42,941	39,761
Less accumulated depreciation	(23,992)	(21,439)
Leasehold improvements and equipment—net	18,949	18,322
OTHER LONG-TERM ASSETS		
Indemnification receivable—lifecare bonds	4,889	6,105
TOTAL ASSETS	$ 34,246	$ 49,000
LIABILITIES AND MEMBER'S DEFICIT		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	$ 3,395	$ 3,147
Accrued rent payable	6,752	9,725
Liabilities associated with assets held for sale	-	13,196
Notes payable to landlord—net	1,953	2,660
Deferred revenue	-	172
Lifecare bonds	1,315	1,774
Security and reservation deposits	337	266
Total current liabilities	13,752	30,940
LONG-TERM LIABILITIES:		
Deferred revenue—endowment	58,526	64,827
Other long-term liabilities	266	273
Lifecare bonds	4,889	6,105
Deferred rent	291	-
Total long-term liabilities	63,972	71,205
TOTAL LIABILITIES	$ 77,724	$102,145
MEMBER'S DEFICIT	(43,478)	(53,145)
TOTAL LIABILITIES AND MEMBER'S DEFICIT	$ 34,246	$ 49,000

See notes to consolidated financial statements.

SUNRISE CONTINUING CARE, LLC

STATEMENTS OF OPERATIONS
AS OF DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
OPERATING REVENUE:		
Resident fees	$ 65,170	$ 84,510
Health care revenue	20,012	25,993
Amortization of deferred revenue from entrance fees	19,904	10,622
Total operating revenue	105,086	121,125
OPERATING EXPENSES:		
Labor	33,198	42,183
Rent	22,247	28,238
Ancillary expenses	8,145	9,940
General and administrative	4,254	5,390
Repairs and maintenance	3,734	5,216
Food	3,969	5,177
Depreciation	3,236	4,471
Taxes and license fees	3,313	4,002
Utilities	2,733	3,444
Insurance	1,782	2,332
Advertising and marketing	712	922
Bad debt	158	37
Total operating expenses	87,481	111,352
INCOME FROM OPERATIONS	17,605	9,773
OTHER INCOME:		
Other expense	(5)	(10)
Gain on termination of leases	1,430	-
Interest expense	(40)	(50)
Interest income	42	18
Total other income (expenses)	1,427	(42)
NET INCOME	$ 19,032	$ 9,731

See notes to consolidated financial statements.

SUNRISE CONTINUING CARE, LLC

STATEMENTS OF CHANGES IN MEMBER'S DEFICIT
AS OF DECEMBER 31, 2018 AND 2017
(In thousands)

MEMBER'S DEFICIT—January 1, 2017	$ (52,487)
Net income	9,731
Distributions	(132,744)
Contributions	122,355
MEMBER'S DEFICIT—December 31, 2017	(53,145)
Net income	19,032
Distributions	(109,811)
Contributions	100,446
MEMBER'S DEFICIT—December 31, 2018	$ (43,478)

See notes to consolidated financial statements.

SUNRISE CONTINUING CARE, LLC

STATEMENTS OF CASH FLOWS
AS OF DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 19,032	$ 9,731
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	3,236	4,471
Loss on disposal of assets	6	27
Provision for bad debts	158	37
Amortization of deferred revenue from entrance fees	(19,904)	(10,622)
Amortization of leases	292	(3,092)
Gain on termination of leases	(1,430)	-
Changes in operating assets and liabilities:		
Accounts receivable	(298)	(84)
Prepaid expenses and other current assets	(566)	46
Change in Bedford Court working capital reserves	(3)	-
Change in The Quadrangle statutory minimum liquid reserve	(81)	-
Accounts payable and accrued expenses	(597)	359
Accrued rent payable	(4,501)	256
Deferred revenue	13,432	15,062
Security and reservation deposits	79	(25)
Net cash provided by operating activities	8,855	16,166
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in other restricted cash reserves	42	(77)
Purchases of leasehold improvements and equipment	(4,024)	(3,927)
Net cash used in investing activities	(3,982)	(4,004)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payment on capital leases	(115)	(104)
Distributions to member	(104,271)	(132,744)
Contributions from member	99,033	119,766
Proceeds from lifecare bonds	476	920
Net cash used in financing activities	(4,877)	(12,162)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(4)	-
CASH AND CASH EQUIVALENTS—Beginning of year	4	4
CASH AND CASH EQUIVALENTS—End of year	$ -	$ 4
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid for interest	$ 40	$ 50
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING INFORMATION		
Accrued capital expenditures	$ 292	$ (527)
Assets held for sale	$ -	$ 13,984
Liabilities associated with assets held for sale	$ -	$ (13,196)
SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING INFORMATION		
Proceeds from notes payable to landlord	$ 8,062	$ 8,688
Repayments of notes payable to landlord	$ (8,771)	$ (8,863)
Refunds of lifecare bonds	$ (2,383)	$ (4,956)
Reimbursement from lessor for indemnification	$ 1,677	$ 2,542
Proceeds received by parents related to sale of assets held for sale	$ 5,000	$ -

See notes to consolidated financial statements.

1. ORGANIZATION

On March 28, 2003, Sunrise Senior Living, Inc. (SSLI) acquired Marriott Continuing Care, LLC (MCC) through the acquisition of Marriott Senior Living Services, Inc. On April 9, 2003, the name of the limited liability company was changed to Sunrise Continuing Care, LLC ("SCC", "Company", "us", or "we").

Sunrise Senior Living, LLC ("Sunrise") was formed as successor by conversion of SSLI on January 9, 2013. Red Fox Holding Corporation ("Red Fox") acquired SSLI's management business through Sunrise on January 9, 2013, from Welltower, Inc., f/k/a Health Care REIT, Inc. ("Welltower"), with Welltower retaining an approximate 20% interest in Red Fox.

On April 21, 2014, pursuant to a unit purchase and merger agreement dated December 20, 2013, Red Fox Acquisition Company, Inc. (RFAC), an entity primarily owned by Revera Health Services, Inc. ("Revera"), and an affiliate of Welltower and a member of Sunrise's senior management, acquired the remaining 80% interest in Red Fox. After the transaction, Welltower owned a 24% indirect interest in Red Fox with Revera owning a 75.3% indirect interest and a member of Sunrise's senior management owning the remaining 0.7% indirect interest in Red Fox.

On April 28, 2017, Revera sold 12.5% of its interest in RFAC to the Welltower affiliate that already owned a 5% interest. Following this sale of interest, Welltower's indirect interest in Red Fox increased to 34% and Revera's indirect interest decreased to 65.3% with Sunrise LLC's senior management indirect interest in Red Fox remaining unchanged at 0.7%.

The Company leased four independent full-service and assisted living communities and provided related senior care services. As of December 31, 2018, only The Fairfax and The Quadrangle remain. These communities contain 1,712 units and are as follows:

Communities	Unit Count	Location
Bedford Court	354	Maryland
The Cononnades	303	Virginia
The Fairfax	513	Virginia
The Quadrangle	542	Pennsylvania

The Company has management agreements with Sunrise Senior Living Services, Inc., a wholly owned subsidiary of Sunrise, to manage the facilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting—The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP).

Use of Estimates—The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the accompanying notes. Significant estimates and assumptions have been made with respect to the useful lives of assets, recoverability of investments in leasehold improvements and equipment, recoverable amounts of receivables, amortization rate of deferred revenue, and the present value of estimated costs to be incurred under continuing care agreements. Actual results could differ from those estimates.

Leasehold Improvements and Equipment—Leasehold improvements and equipment are recorded at cost. Maintenance and repairs are charged to expense as incurred. Depreciation is computed using the straight-line method over the estimated useful lives of equipment and the lesser of the estimated useful lives or remaining lease term for leasehold improvements as follows:

Leasehold improvements	5–15 years
Furniture and equipment	3–10 years

Depreciation is discontinued when a community is identified as held for sale. Leasehold improvements and furniture and equipment are reviewed for impairment whenever events or circumstances indicate that the carrying value may not be recoverable. Impairment is recognized when the asset's undiscounted expected cash flows are not sufficient to recover its carrying amount. The Company measures an impairment loss for such assets by comparing the fair value of the asset to its carrying amount. No impairment charge was recorded in 2018 or 2017.

Assets Held for Sale—We classify long-lived assets as held for sale when (i) management commits to a plan to sell the property, (ii) it is unlikely that the disposal plan will be significantly modified or discontinued, (iii) the property is available for immediate sale in its present condition, (iv) actions required to complete the sale of the property have been initiated, (v) sale of the property is probable and expected to be completed within one year, and (vi) the property is actively being marketed for sale at a price that is reasonable given its current market value. Assets classified as held for sale are reported at the lower of their carrying value or fair value, less costs to sell and are no longer depreciated upon their classification as held for sale. In 2018, the sale of two communities identified as held for sale at December 31, 2017, was completed (see Note 5).

Cash and Cash Equivalents—Cash and cash equivalents include all highly liquid investments with a maturity of three months or less at the date of purchase.

Restricted Cash

Working Capital Reserves—Restricted cash represents cash reserves for working capital required by the state of Pennsylvania for The Quadrangle, as of December 31, 2018 and 2017, and by the state of Maryland for Bedford Court, as of December 31, 2017. Certain reserves totaling approximately $3,449,000 and $6,843,000 were held at banks as of

December 31, 2018 and 2017, respectively. The reserve requirements under state statutes are calculated by applying a certain percentage to the applicable communities' net operating expenses, as defined by the state statutes.

The Company is required under the Commonwealth of Pennsylvania's regulations governing lifecare communities to separately disclose its calculation of the statutory minimum liquid reserve (SMLR) for The Quadrangle for the most recent calendar year. Under the Commonwealth of Pennsylvania's regulations, the Company must maintain a SMLR for The Quadrangle in an amount equal to or exceeding the greater of (i) the total of all principal and interest payments during the next 12 months on account of any mortgage loan or other long-term financing of the facility or (ii) 10% of the projected annual operating expenses of the facility exclusive of depreciation. The Company does not have mortgage debt, and therefore, it follows the second requirement. Approximately $3,449,000 and $3,368,000 was held at the bank as of December 31, 2018 and 2017, respectively.

The SMLR calculations for The Quadrangle for 2018 and 2017 are the following (in thousands):

	2018	**2017**
Annual operating expenses exclusive of depreciation	$37,126	$34,310
Required minimum reserve percentage	10 %	10 %
Statutory minimum liquid reserve	3,713	3,431
Reserve balance as of December 31, 2018 and 2017	3,449	3,368
Shortfall	$ (264)	$ (63)

On March 05, 2018, the Company funded $64,000 to the reserve account to bring the reserve balance to $3,432,000 which is in excess of the required outstanding reserve balance as of December 31, 2017.

On April 16, 2019, the Company funded $264,000 to the reserve account to bring the reserve balance to the statutory minimum liquid reserve of $3,713,000.

Per an Agreement of Undertaking between SCC and Sunrise, SCC agrees to maintain in the Bedford Court reserve account an amount at all times equal to the greater of (i) the principal amount of the outstanding lifecare bonds (Note 4) or (ii) the minimum operating reserve required by Maryland law. As of December 31, 2017, the Bedford Court required reserve of approximately $3,475,000 was maintained in an account held at a bank and classified under assets held for sale (Note 5).

The Bedford Court reserve calculations were as follows for 2017 (in thousands):

	2017
Total operating expenses	$20,574
Less: depreciation	(585)
Net operating expenses—as defined	19,989
Required reserve percentage	15 %
(1) State minimum operating reserves as of December 31	$ 2,998
(2) Outstanding lifecare bonds	$ 3,365
Required reserves equal to greater of (1) or (2) above	$ 3,365
Reserve balance as of December 31, 2017	3,475
Excess (shortfall)	$ 110

Other Restricted Cash Reserves—Restricted cash includes, among other accounts, cash reserved under a working capital requirement for a previously leased community. Approximately $1,051,000 and $1,037,000 were held at a bank as of December 31, 2018 and 2017, respectively.

In addition to working capital reserves, a pooled furniture, fixtures, and equipment escrow exists for The Fairfax and The Quadrangle, which is also included in restricted cash in the accompanying balance sheets. The balances of approximately $16,000 and $74,000 as of December 31, 2018 and 2017, respectively, represent funding from operations, net of fixed-asset purchases, and are required under the lease agreements.

Allowance for Doubtful Accounts—The Company provides an allowance for doubtful accounts on its outstanding receivables based on an analysis of collectability, including its collection history, age of the account, and payer type and generally do not require collateral to support outstanding balances. Write-offs of accounts are made after collection efforts have been exhausted.

Revenue Recognition and Deferred Revenue—Operating revenue consists of resident fee revenue, which is recognized monthly as services are provided. Agreements with residents are generally for a term of one year and are cancelable by residents with 30 to 90 days' notice. The Company bills the residents one month in advance of the services being rendered, and therefore, cash payments received for services are recorded as deferred revenue until the services are rendered and the revenue is earned.

Health care revenue is recorded at established rates with contractual adjustments deducted to arrive at net health care revenue. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. Health care services rendered to Medicare beneficiaries are paid on a Prospective Payment System (PPS). Fee amounts are determined annually and are based on the acuity level of the resident. As a result, the PPS does not have estimated annual settlements. Medicaid payment methodologies vary by state. Most state Medicaid programs will perform desk

reviews of all submitted cost reports and audit only selected providers. Differences between the estimated amounts accrued and interim and final settlements are reported in operations in the year of settlement. There are no receivables for estimated Medicare or Medicaid settlements as of December 31, 2018 and 2017.

Future Service Obligation on Continuing Care Agreement—Nonrefundable portions of entrance fees are deferred and recognized as revenue using the straight-line method over the actuarially determined expected term of each resident's contract.

When the present value of estimated costs to be incurred under Care Agreements exceeds the present value of estimated revenues, the present value of such excess costs is accrued. The calculation is performed annually and assumes a future increase in the monthly revenue commensurate with the monthly costs. The calculation, which uses a 6% discount rate, results in a positive net present value of cash flow and, as such, no liability was recorded as of December 31, 2018 and 2017.

Income Taxes—No provision has been made for federal or state income taxes, since the liability for such taxes, if any, is that of the member and not the Company. The Company has no uncertain tax positions that require accrual as of December 31, 2018.

The Pennsylvania statute of limitations for the periods included in the consolidated financial statements expires on October 15, 2020. Tax years December 31, 2015, through December 31, 2016, remain subject to audit.

On December 22, 2017, the Tax Cuts and Job Act (HR.1), the tax reform bill (the "Act"), was signed into law. The new Act took effect on January 1, 2018. The Act adopts a new territorial tax system and subjects US parent corporation to current tax on its "global intangible low-taxed income" (GILTI) and imposes a base erosion and anti-abuse tax ("BEAT") that taxes certain payments from corporations subject to US tax to related foreign subsidiaries. The new territorial tax system went into effect for tax years beginning after January 1, 2018. We have analyzed the impact of the Act and the Act did not have a material impact on the Partnership for the year 2018. To the extent that we incur tax expense related to GILTI, we will account for GILTI in the year that tax is incurred.

New Accounting Standards

The following Accounting Standards Updates (ASUs) was issued in 2018:

ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity would initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In addition, ASU No. 2018-11 provides lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and instead, to account for those components as a single component if certain conditions are met. The effective date and transition requirements for the amendments in ASU No. 2018-11 are the same as those in ASU No. 2016-02, *Leases (Topic 842)*. We are currently in the process of assessing whether we will elect to apply the new transition method and practical expedient in ASU No. 2018-11 in our adoption of the new leases standard.

The following ASUs were issued in 2016:

ASU No. 2016-18, *Restricted Cash (Topic 230)*, will require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU No. 2016-18 is effective for financial statements issued for fiscal years beginning after December 15, 2018, on a retrospective basis. Upon adoption of ASU No. 2016-18, restricted cash will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown in the statement of cash flows.

ASU No. 2016-02, *Leases (Topic 842)*, increases transparency and comparability among organizations by requiring lessees to recognize lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Topic 842 defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. ASU No. 2016-02 is effective for the Company on January 1, 2020, on a retrospective basis using a modified retrospective approach. The Company is currently in the process of assessing all of the potential impacts of ASU 2016-02 on its financial position, results of operations, cash flows, and disclosures.

The following ASU was issued in 2015:

ASU No. 2015-14, *Revenue from Customers (Topic 606): Deferral of the Effective Date*, deferred the effective date of ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, by one year. ASU No. 2014-09 supersedes the revenue recognition requirements in Accounting Standards Codification (ASC) Topic 605, *Revenue Recognition*, as well as most industry-specific guidance and significantly enhances comparability of revenue recognition practices across entities and industries by providing a principles-based comprehensive framework for addressing revenue recognition issues. In order for a provider of promised goods or services to recognize as revenue the consideration that it expects to receive in exchange for the promised goods or services, the provider should apply the following five steps: (1) identify the contract with a customer(s), (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU No. 2014-09 also specifies the accounting for some costs to obtain or fulfill a contract with a customer and provides enhanced disclosure requirements. ASU No. 2014-09 will now be effective for the Company on January 1, 2019, on a retrospective basis using either a full retrospective or modified retrospective method. The Company is still in the process of assessing all of the potential impacts that ASU No. 2014-09 (and related clarifying guidance issued by the Financial Accounting Standards Board (FASB) and FASB Transition Group) will have on its financial position, results of operations, cash flows, and disclosures.

3. TRANSACTIONS WITH AFFILIATES

The Company obtained workers' compensation, professional and general liability, and property coverage through Sunrise Senior Living Insurance, Inc., an affiliate of Sunrise. Related expenses totaled $1,782,000 and $2,332,000 in 2018 and 2017, respectively.

The Company and Sunrise do not settle cash received or paid in affiliated transactions at the subsidiary level; therefore, the affiliated activities between Sunrise and the Company have been included in contributions in the statements of changes in member's deficit for the years ended December 31, 2018 and 2017. Distributions represent cash collected from

residents and subsequently remitted to Sunrise and also includes the disposal of the net assets and liabilities held for sale at December 31, 2017 (see Note 5). Contributions represent the net of all other operating activities recorded through intercompany and paid by Sunrise, in addition to noncash financing activities.

4. CONTINUING CARE AGREEMENTS

Residents of the communities are required to sign a continuing care agreement (the "Care Agreements") with the Company. The Care Agreements stipulate, among other things, the amount of all entrance fees and monthly fees, the type of residential unit being provided, and the Company's obligation to provide both health care and nonhealth care services. In addition, the Care Agreements provide the Company with the right to increase future monthly fees. The Care Agreements are terminated upon the receipt of written termination notice from the resident or the death of the resident.

The components of the entrance fees for the communities are as follows:

a. ***Lifecare Bonds***—This component is refundable to the resident or the resident's estate upon termination or cancellation of the Care Agreement and occupancy of the unit by another resident. The lifecare bonds are primarily noninterest bearing. Depending on the type of plan, lifecare bonds are equal to either 100%, 95%, 90%, or 50% of the total entrance fee, less any additional occupant lifecare fees. Since these obligations are considered security deposits, interest is not imputed on these obligations in accordance with ASC 835, *Imputation of Interest*. There is an automatic rescission of the Care Agreement if the resident is precluded from moving in by illness, injury, or death, in which case the lifecare bonds would be refunded. Refundable entrance fees subject to repayment upon contract termination and not contingent upon reoccupancy of the unit were $2,930,000 or 47.2% at December 31, 2018, and 3,690,000 or 46.8% at December 31, 2017.

   Indemnification Agreement—In conjunction with the acquisition of MCC in 2003, the Company assumed the entrance fee liabilities related to The Fairfax and The Quadrangle. The lessor of the communities agreed to indemnify the Company for the liability. Therefore, the Company had indemnification receivables of $6,203,000 (including a short-term receivable of $1,315,000 and a long-term receivable of $4,889,000) and $7,879,000 (including a short-term receivable of $1,774,000 and a long-term receivable of $6,105,000) as of December 31, 2018 and 2017, respectively, from the lessor, which equaled the amounts of the entrance fee liabilities for these two communities as of December 31, 2018 and 2017, respectively. As these obligations are discharged during the normal course of business, the associated receivables will be reimbursed, accordingly, through reimbursements from the lessor.

b. ***Additional Occupant Lifecare Fee***—This is a nonrefundable fee for each additional occupant in a residential unit.

c. ***Lifecare Fee***—This component is nonrefundable and equals the total entrance fee, less the two components described in a. and b. above, if any.

Nonrefundable portions of entrance fees are deferred and recognized as revenue using the straight-line method over the actuarially determined expected term of each resident's contract.

The Fairfax and The Quadrangle act as agents for the landlord and collect and disburse lifecare bond proceeds from and to the residents. Monthly, the net funds are paid to or received from the landlord. The net accompanying balances due to or from the landlord are reported as notes payables to landlord—net.

5. LEASES

Bedford Court and The Colonnades Leases—Bedford Court and The Colonnades were leased from SPTMRT Properties Trust, an unrelated third party, and guaranteed by Marriott International, Inc. ("Marriott"). Marriot also guaranteed the leases of two affiliated communities. Under the terms of the leases, communities were required to pay (i) fixed rentals and (ii) additional rentals equal to 4.5% of annual operating revenues in excess of a specified amount. The leases had an initial term of 20 years, matured on December 31, 2013, with renewal options for an additional 20 years in four five-year increments, subject to third-party approval. At December 31, 2017, the Company's obligations under the lease agreements were guaranteed by Red Fox and Sunrise.

In 2011, through closing of the Agreement Regarding Leases (ARL), Marriott consented to the extension of the term of the leases for Bedford Court, The Colonnades, and the two affiliated leased communities for an additional five-year term commencing January 1, 2014, and ending December 31, 2018 (the "Extension Term").

In December 2013, Marriott consented to a second extension ("Second Extension Term") of the term of the leases for an additional five-year term commencing January 1, 2019, and ending December 31, 2023.

During the Extension Term and Second Extension Term, Sunrise was required to pay Marriott an annual payment equal to 30% of net cash flow as defined in the ARL, subject to a $1,000,000 annual minimum from the pooled cash flow of these four communities. The allocation of the minimum payment to the four communities was based on the letter of credit available amount reductions from Schedule 4 of the ARL. The Company's share of the minimum payment was $562,000 per year of the Extension Term.

On November 23, 2016, the leases were extended for an additional five-year term commencing January 1, 2019, and ending December 31, 2023.

On December 29, 2017, Welltower agreed to acquire the four properties guaranteed by Marriott from the current owner and assume the leases. Pursuant to a letter agreement dated December 29, 2017, Welltower also agreed to terminate the leases once its acquisition of all of the properties is complete and pay Sunrise an aggregate termination fee of $10,000,000 upon termination of the leases. In connection with the acquisition of these properties and the termination of each lease, Sunrise will concurrently enter into new 25-year management agreements for each of the properties. The acquisition of one of the four properties closed on December 29, 2017, and obligated Welltower to purchase the remaining three properties, including Bedford Court and The Colonnades, by March 30, 2018. The Colonnades purchase was settled on March 29, 2018, and the parties agreed to extend the purchase date for Bedford Court to be no later than 60 days from the original March 30, 2018, date. On May 18, 2018, Welltower closed on the acquisition Bedford Court and terminated both leases. The acquisition price was $5,000,000 for both communities ($2,500,000 each) and the Company recorded a gain of $1,400,000 in 2018. Property and equipment, restricted cash accounts, entrance fee liabilities, net working capital, and other assets and liabilities of the two communities were sold to/assumed by Welltower.

Included in amortization of deferred revenue from entrance fees in 2018 was $9,900,000 of revenue from nonrefundable entrance fees upon the acquisition of the communities by Welltower, as the Company was relived from the obligation to provide any further services covered by the entrance fee liabilities and $300,000 for acceleration of unamortized community fees at the acquisition date.

The following table presents information related to the major classes of assets and liabilities that were classified as assets and liabilities held for sale in the Company's balance sheet (in thousands) as of December 29, 2017:

	Bedford Court	The Colonnades	Total
Assets held for sale			
Accounts receivable—net of allowance for doubtful accounts	$ 775	$1,248	$ 2,023
Prepaid expenses and other current assets	523	230	753
Bedford Court working capital reserves	3,475	-	3,475
Other restricted cash reserves	2	143	145
Leasehold improvements and equipment—net	2,721	4,867	7,588
Total assets held for sale	$7,496	$6,488	$13,984
Liabilities associated with assets held for sale			
Accounts payable and accrued expenses	$ 897	$1,278	$ 2,175
Accrued rent payable	918	1,290	2,208
Lifecare bonds	990	1,092	2,082
Security and reservation deposits	52	213	265
Other long-term liabilities	57	114	171
Lifecare bonds	2,376	3,919	6,295
Total liabilities associated with assets held for sale	$5,290	$7,906	$13,196

The Colonnades Land Lease—The Company also has a land lease agreement associated with The Colonnades with an unrelated third party. Under the terms of the lease, the Company is required to pay (i) $80,000 per year and (ii) additional rentals equal to the sum of 1.8% of annual operating revenues and 14% of nonrefundable lifecare fees. The initial term of the lease matures September 2036, and there are two renewal options for an additional 25 years each. This Company terminated the lease in 2018 following Welltower's acquisition of the property.

The Fairfax and The Quadrangle Leases—The Fairfax and The Quadrangle are leased from HCP, Inc., another unrelated party. Under the terms of the lease, communities are required to pay a percentage of the adjusted landlord's basis, as defined in the lease. The adjusted landlord's basis increases by 3% per year. All nonrefundable entrance fees are applied to rent due. The leases have an initial term of 15 years, maturing on December 3, 2018, for The Fairfax and The Quadrangle, with an option for one 10-year first extension and then an option for a 59-month second extension. The leases have been extended to

December 2, 2028. Additional rent may be due if cash flow after consideration of nonrefundable fees is positive and is based on the nonrefundable portion of partially refundable lifecare fees. Rent credits are also provided for these two leases equal to the nonrefundable entrance fees. Rent credits for the years ended December 31, 2018 and 2017, were $12,064,000 and $11,782,000, respectively.

Rent Expenses and Minimum Future Obligations—The Company recognizes the effects of fixed and determinable scheduled rent increases for these leases on a straight-line basis over the noncancelable term of each lease. Deferred rent in the accompanying balance sheets represents the cumulative effect of straight lining the leases over their terms and is computed as the difference between expenses accrued on a straight-line basis and contractual rent payments. For the years ended December 31, 2018 and 2017, rent expenses for these four communities, including contingent rent of approximately $1,540,000 and $4,056,000, respectively, were approximately $22,247,000 and $28,238,000, respectively.

The Company's minimum future obligations under operating leases, as of December 31, 2018, are as follows (in thousands):

2019	$ 21,586
2020	22,234
2021	22,901
2022	23,588
2023	24,296
Thereafter	130,745
Total	$245,350

Vehicle Leases—Certain vehicles are leased for use in operations under capital leases. Capital lease amounts included in furniture and equipment are as follows (in thousands):

	2018	**2017**
Vehicle leases	$ 577	$ 736
Accumulated depreciation	(331)	(325)
Total	$ 246	$ 411

6. CONTINGENCIES

The Company is involved in claims and lawsuits incidental to the ordinary course of business. While the outcome of these claims and lawsuits cannot be predicted with certainty, management of the Company does not believe the ultimate resolution of these matters will have a material adverse effect on the Company's financial position.

Pennsylvania Subpoena—The US Attorney's Office for the Eastern District of Pennsylvania issued a subpoena to SSLI in 2011 for certain documents relating to resident care at The Quadrangle. Sunrise and the Company are cooperating with the US Attorney's Office and have produced the requested documents. There have been no activities from or claims made by the US Attorney's Office since 2012.

7. SUBSEQUENT EVENTS

The Company evaluated subsequent events for disclosure from the balance sheet date through April 19, 2019, the date at which the Company's consolidated financial statements were available to be issued, and determined that there are no items to disclose.

* * * * * *

SUPPLEMENTAL SCHEDULES

SUNRISE CONTINUING CARE, LLC

COMBINING BALANCE SHEET
AS OF DECEMBER 31, 2018
(In thousands)

	Bedford Court	The Colonnades	The Fairfax	The Quadrangle	SCC	Total
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents	$ -	$ -	$ -	$ -	$ -	$ -
Accounts receivable—net of allowance for doubtful accounts	-	-	1,054	2,116	-	3,170
Indemnification receivable—lifecare bonds	-	-	468	847	-	1,315
Assets held for sale	-	-	-	-	-	-
Prepaid expenses and other current assets	-	-	259	1,135	-	1,394
Total current assets	-	-	1,781	4,098	-	5,879
RESTRICTED CASH:						
The Quadrangle statutory minimum liquid reserve	-	-	-	3,449	-	3,449
Other restricted cash reserves	-	-	29	-	1,051	1,080
Total restricted cash	-	-	29	3,449	1,051	4,529
LEASEHOLD IMPROVEMENTS AND EQUIPMENT:						
Leasehold improvements	-	-	17,036	18,479	-	35,515
Furniture and equipment	-	-	1,173	4,902	-	6,075
Construction in progress	-	-	1,175	176	-	1,351
Total leasehold improvements and equipment	-	-	19,384	23,557	-	42,941
Less accumulated depreciation	-	-	(10,642)	(13,350)	-	(23,992)
Leasehold improvements and equipment—net	-	-	8,742	10,207	-	18,949
OTHER LONG-TERM ASSETS						
Indemnification receivable—lifecare bonds	-	-	1,411	3,478	-	4,889
TOTAL ASSETS	$ -	$ -	$11,963	$21,232	$1,051	$34,246

(Continued)

SUNRISE CONTINUING CARE, LLC

COMBINING BALANCE SHEET
AS OF DECEMBER 31, 2018
(In thousands)

	Bedford Court	The Colonnades	The Fairfax	The Quadrangle	SCC	Total
LIABILITIES AND MEMBER'S CAPITAL (DEFICIT)						
CURRENT LIABILITIES:						
Accounts payable and accrued expenses	$ -	$ -	$ 1,264	$ 2,131	$ -	$ 3,395
Accrued rent payable	-	-	5,497	1,255	-	6,752
Liabilities associated with assets held for sale	-	-	-	-	-	-
Notes payable to landlord—net	-	-	(109)	2,062	-	1,953
Deferred revenue	-	-	-	-	-	-
Lifecare bonds	-	-	468	847	-	1,315
Security and reservation deposits	-	-	221	116	-	337
Total current liabilities	-	-	7,341	6,411	-	13,752
LONG-TERM LIABILITIES:						
Deferred revenue—endowment	-	-	30,144	28,382	-	58,526
Other long-term liabilities	-	-	159	107	-	266
Lifecare bonds	-	-	1,411	3,478	-	4,889
Deferred rent	-	-	136	155	-	291
Total long-term liabilities	-	-	31,850	32,122	-	63,972
TOTAL LIABILITIES	-	-	39,191	38,533	-	77,724
MEMBER'S CAPITAL (DEFICIT)	-	-	(27,228)	(17,301)	1,051	(43,478)
TOTAL LIABILITIES AND MEMBER'S CAPITAL (DEFICIT)	$ -	$ -	$11,963	$21,232	$1,051	$34,246

See independent auditors' report. (Concluded)

SUNRISE CONTINUING CARE, LLC

COMBINING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In thousands)

	Bedford Court	The Colonnades	The Fairfax	The Quadrangle	SCC	Total
OPERATING REVENUE:						
Resident fees	$5,748	$ 6,889	$23,448	$29,085	$ -	$ 65,170
Health care revenue	2,200	1,310	6,756	9,746	-	20,012
Amortization of deferred revenue from entrance fees	-	10,816	4,766	4,322	-	19,904
Total operating revenues	7,948	19,015	34,970	43,153	-	105,086
OPERATING EXPENSE:						
Labor	3,304	2,949	11,507	15,432	6	33,198
Rent	1,887	1,872	8,883	9,605	-	22,247
Ancillary expenses	510	530	2,023	5,082	-	8,145
General and administrative	412	386	1,498	1,944	14	4,254
Repairs and maintenance	271	294	1,540	1,629	-	3,734
Food	353	308	1,396	1,912	-	3,969
Depreciation	-	-	1,534	1,702	-	3,236
Taxes and license fees	279	210	899	1,925	-	3,313
Utilities	279	216	1,238	1,000	-	2,733
Insurance	141	80	513	1,048	-	1,782
Advertising and marketing	69	43	304	296	-	712
Bad debt	35	13	28	82	-	158
Total operating expense	7,540	6,901	31,363	41,657	20	87,481
INCOME FROM OPERATIONS	408	12,114	3,607	1,496	(20)	17,605
OTHER INCOME:						
Other expense	-	(2)	-	(3)	-	(5)
Gain on termination of leases	(413)	1,843	-	-	-	1,430
Interest expense	(16)	(2)	(12)	(10)	-	(40)
Interest income	5	-	-	23	14	42
Total other income	(424)	1,839	(12)	10	14	1,427
NET INCOME	$ (16)	$13,953	$ 3,595	$ 1,506	$ (6)	$ 19,032

See independent auditors' report.

SUNRISE CONTINUING CARE, LLC

COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In thousands)

	Bedford Court	The Colonnades	The Fairfax	The Quadrangle	SCC	Total
CASH FLOWS FROM OPERATING ACTIVITIES:						
Net income	$ (16)	$ 13,953	$ 3,595	$ 1,506	$ (6)	$ 19,032
Adjustments to reconcile net income to net cash provided by (used in) operating activities:						
Depreciation	-	-	1,534	1,702	-	3,236
Loss on disposal of assets	-	2	1	3	-	6
Provision for bad debts	35	13	28	82	-	158
Amortization of deferred revenue from entrance fees	-	(10,816)	(4,766)	(4,322)	-	(19,904)
Amortization of leases	-	-	136	156	-	292
Gain on termination of leases	413	(1,843)	-	-	-	(1,430)
Changes in operating assets and liabilities:						
Accounts receivable	(28)	67	(149)	(188)	-	(298)
Prepaid expenses and other current assets	(163)	(387)	6	(22)	-	(566)
Change in Bedford Court working capital reserves	(3)	-	-	-	-	(3)
Change in The Quadrangle statutory minimum liquid reserve	-	-	-	(81)	-	(81)
Accounts payable and accrued expenses	(177)	(379)	(47)	6	-	(597)
Accrued rent payable	(697)	(831)	(2,187)	(786)	-	(4,501)
Deferred revenue	1	1,432	7,034	4,965	-	13,432
Security and reservation deposits	10	(2)	71	-	-	79
Net cash provided by/ (used in) operating activities	(625)	1,209	5,256	3,021	(6)	8,855
CASH FLOWS FROM INVESTING ACTIVITIES:						
Change in other restricted cash reserves	-	1	54	-	(13)	42
Purchases of leasehold improvements and equipment	(156)	(385)	(1,545)	(1,938)	-	(4,024)
Net cash used in provided by investing activities	(156)	(384)	(1,491)	(1,938)	(13)	(3,982)
CASH FLOWS FROM FINANCING ACTIVITIES:						
Principal payment on capital leases	(6)	(9)	(48)	(52)	-	(115)
Distributions to member	(8,849)	(10,468)	(40,302)	(44,652)	-	(104,271)
Contributions from member	9,160	9,649	36,585	43,620	19	99,033
Proceeds from lifecare bonds	476	-	-	-	-	476
Net cash provided by/ (used in) financing activities	781	(828)	(3,765)	(1,084)	19	(4,877)

(Continued)

SUNRISE CONTINUING CARE, LLC

COMBINING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In thousands)

	Bedford Court	The Colonnades	The Fairfax	The Quadrangle	SCC	Total
NET DECREASE IN CASH AND CASH EQUIVALENTS	$ -	$ (3)	$ -	$ (1)	$ -	$ (4)
CASH AND CASH EQUIVALENTS—Beginning of year	-	3	-	1	-	4
CASH AND CASH EQUIVALENTS—End of year	$ -	$ -	$ -	$ -	$ -	$ -
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION						
Cash paid for interest	$ 16	$ 2	$ 12	$ 10	$ -	$ 40
SUPPLEMENTAL DISCLOSURES OF NONCASH INVESTING INFORMATION:						
Accrued capital expenditures	$ -	$ -	$ 155	$ 137	$ -	$ 292
Assets held for sale	$ -	$ -	$ -	$ -	$ -	$ -
Liabilities associated with assets held for sale	$ -	$ -	$ -	$ -	$ -	$ -
SUPPLEMENTAL DISCLOSURES OF NONCASH FINANCING INFORMATION:						
Proceeds from notes payable to landlord	$ -	$ -	$ 6,134	$ 1,928	$ -	$ 8,062
Repayments of notes payable to landlord	$ -	$ -	$ (6,887)	$ (1,884)	$ -	$ (8,771)
Refunds of Lifecare bonds	$ (418)	$ (288)	$ (624)	$ (1,053)	$ -	$ (2,383)
Reimbursement from lessor for indemnification	$ -	$ -	$ 624	$ 1,053	$ -	$ 1,677
Proceeds received by parents related to sale of assets held for sale	$ -	$ -	$ 2,500	$ 2,500	$ -	$ 5,000

See independent auditors' report. (Concluded)

EXHIBIT K

Red Fox Holding Corporation and its Wholly Owned Subsidiary, Sunrise Senior Living, LLC

Consolidated Financial Statements as of and for the Years Ended December 31, 2018 and 2017, Supplemental Consolidating Financial Information as of and for the Years Ended December 31, 2018 and 2017, and Independent Auditors' Report

RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY, SUNRISE SENIOR LIVING, LLC

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INDEPENDENT AUDITORS' REPORT

Management of Red Fox Holding Corporation
and Sunrise Senior Living, LLC.

We have audited the accompanying consolidated financial statements of Red Fox Holding Corporation and its wholly-owned subsidiary Sunrise Senior Living, LLC (the "Company"), which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income, changes in stockholder's equity, and cash flows for the years then ended and the related notes to the consolidated financial statements ("the consolidated financial statements").

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by Management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Red Fox Holding Corporation and its wholly owned subsidiary Sunrise Senior Living, LLC as of December 31, 2018 and 2017, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Supplementary Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information on pages 45-55 is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and are not a required part of the consolidated financial statements. This information is the responsibility of the Company's Management and was derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, such information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Deloitte & Touche LLP

March 15, 2019

RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY, SUNRISE SENIOR LIVING, LLC

CONSOLIDATED BALANCE SHEETS
AS OF DECEMBER 31, 2018 AND 2107
(In thousands, except share amounts)

	2018	2017
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 44,409	$ 47,651
Accounts receivable, net	30,866	36,472
Due from affiliates	17,843	33,142
Restricted cash	20,303	24,709
Assets held for sale	-	26,822
Prepaid expenses and other current assets	22,498	12,637
Total current assets	135,919	181,433
PROPERTY AND EQUIPMENT, Net	48,288	46,228
NOTES RECEIVABLE	1,617	1,293
INTANGIBLE ASSETS, Net	168,278	198,516
GOODWILL	92,307	92,441
INVESTMENT IN EQUITY INTEREST	8,451	8,858
RESTRICTED CASH	93,367	83,222
RESTRICTED INVESTMENTS IN MARKETABLE SECURITIES	2,483	7,487
DUE FROM AFFILIATES	12,516	12,043
OTHER ASSETS, Net	10,469	9,586
TOTAL ASSETS	$573,695	$641,107
LIABILITIES AND EQUITY		
CURRENT LIABILITIES:		
Outstanding draws on bank credit facility	$ -	$ 65,000
Accounts payable and accrued expenses	141,381	132,709
Due to affiliates	324	-
Liabilities associated with assets held for sale	-	16,822
Deferred revenue	1,998	3,778
Entrance fees	1,315	1,775
Self-insurance liabilities	24,161	24,955
Total current liabilities	169,179	245,039
OUTSTANDING DRAWS ON BANK CREDIT FACILITY	65,000	-
SELF-INSURANCE LIABILITIES	67,338	60,140
DEFERRED INCOME TAX LIABILITIES, Net	6,078	6,930
OTHER LONG-TERM LIABILITIES, Net	169,534	161,079
Total liabilities	477,129	473,188
EQUITY:		
Common stock, $0.01 par value, 722,765 shares issued and outstanding	7	7
Additional paid-in capital	172,289	186,559
Accumulated deficit	(73,137)	(18,162)
Accumulated other comprehensive loss	(8,426)	(6,306)
Total stockholders' equity	90,733	162,098
Noncontrolling interests	5,833	5,821
Total equity	96,566	167,919
TOTAL LIABILITIES AND EQUITY	$573,695	$641,107

See notes to consolidated financial statements.

RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY, SUNRISE SENIOR LIVING, LLC

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
OPERATING REVENUE:		
Management fees	$ 112,960	$ 115,812
Resident fees for consolidated communities	161,918	223,821
Ancillary services	8,255	7,829
Professional fees from development, marketing, and other	9,146	8,150
Sunrise Advantage Plan revenue	2,542	-
Reimbursed costs incurred on behalf of managed communities	1,098,223	1,009,889
Total operating revenue	1,393,044	1,365,501
OPERATING EXPENSES:		
Community expense for consolidated communities	107,124	156,749
Community lease expense	37,605	44,164
Depreciation and amortization	28,424	23,694
Impairment of leases	8,694	14,469
Ancillary expenses	8,279	7,454
Provision for doubtful accounts	380	342
General and administrative	100,969	94,419
Share-based and incentive compensation expense	29,607	56,689
Development and idle land costs	3,169	2,172
Provision for abandoned projects	1,430	3,054
Transaction costs	-	457
Start-up costs	-	4,064
Loss on financial guarantees	1,239	5,000
Contract modification costs	2,000	-
Sunrise Advantage plan expense	5,932	-
Costs incurred on behalf of managed communities	1,105,186	1,008,425
Total operating expenses	1,440,038	1,421,152
Loss from operations	(46,994)	(55,651)
OTHER NONOPERATING INCOME (EXPENSE):		
Interest income	1,136	188
Interest expense	(4,069)	(2,554)
Other expense	(3,461)	(1,510)
Total other non-operating expense	(6,394)	(3,876)
(LOSS) GAIN ON SALE OF REAL ESTATE	(51)	14,196
LOSS FROM INVESTMENT IN EQUITY INTEREST	(407)	(755)
LOSS BEFORE (PROVISION FOR) BENEFIT FROM INCOME TAXES	(53,846)	(46,086)
(PROVISION FOR) BENEFIT FROM INCOME TAXES	(2,182)	9,843
NET LOSS	(56,028)	(36,243)
LESS LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS, Net of tax	1,053	869
NET LOSS ATTRIBUTABLE TO STOCKHOLDERS	$ (54,975)	$ (35,374)

See notes to consolidated financial statements.

RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY, SUNRISE SENIOR LIVING, LLC

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
NET LOSS	$(56,028)	$(36,243)
OTHER COMPREHENSIVE (LOSS) INCOME:		
Foreign currency translation adjustments	(1,437)	1,719
Unrealized (loss) gain on investments	(6)	132
COMPREHENSIVE LOSS	(57,471)	(34,392)
LESS COMPREHENSIVE LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	1,059	737
COMPREHENSIVE LOSS ATTRIBUTABLE TO STOCKHOLDERS	$(56,412)	$(33,655)

See notes to consolidated financial statements.

RED FOX HOLDING CORPORATION AND ITS
WHOLLY OWNED SUBSIDIARY, SUNRISE SENIOR LIVING, LLC

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands)

	Common Stock	Additional Paid-In Capital	Accumulated Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Equity Attributable to Noncontrolling Interests	Total Equity
BALANCE AT JANUARY 1, 2017	$ 7	$216,559	$ 17,212	$(8,157)	$225,621	$ 4,940	$230,561
Net loss	-	-	(35,374)	-	(35,374)	(869)	(36,243)
Dividends to stockholders	-	(30,000)	-	-	(30,000)	-	(30,000)
Contributions from noncontrolling interests	-	-	-	-	-	3,488	3,488
Return of contributions from noncontrolling interests	-	-	-	-	-	(1,112)	(1,112)
Distributions on behalf of noncontrolling interests	-	-	-	-	-	(626)	(626)
Foreign currency translation adjustments	-	-	-	1,719	1,719	-	1,719
Unrealized gain on investments	-	-	-	132	132	-	132
BALANCE AT DECEMBER 31, 2017	7	186,559	(18,162)	(6,306)	162,098	5,821	167,919
Net loss	-	-	(54,975)	-	(54,975)	(1,053)	(56,028)
Dividends to stockholders	-	(15,000)	-	-	(15,000)	-	(15,000)
Sale of asset under common control, net of tax	-	730	-	-	730	-	730
Contributions from noncontrolling interests	-	-	-	-	-	889	889
Distributions on behalf of noncontrolling interests	-	-	-	-	-	(745)	(745)
Termination of leases	-	-	-	-	-	(141)	(141)
Foreign currency translation adjustments	-	-	-	(1,437)	(1,437)	-	(1,437)
Unrealized loss on non-equity investments of noncontrolling interests	-	-	-	(6)	(6)	(5)	(11)
Cumulative adjustment	-	-	-	(677)	(677)	1,067	390
BALANCE AT DECEMBER 31, 2018	$ 7	$172,289	$(73,137)	$(8,426)	$ 90,733	$ 5,833	$ 96,566

See notes to consolidated financial statements.

RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY, SUNRISE SENIOR LIVING, LLC

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands)

	2018	2017
OPERATING ACTIVITIES:		
Net loss	$(56,028)	$(36,243)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Loss (gain) on sale of real estate	51	(14,196)
Loss from investment in equity interest	407	755
Depreciation and amortization	28,424	23,694
Impairment of leases	8,694	14,469
Amortization of future performance obligation	(4,083)	(4,684)
Amortization of deferred endowment	(13,839)	(4,983)
Amortization of other deferred revenue	(1,567)	(1,327)
Provision for abandoned projects	1,430	3,054
Provision for doubtful accounts	380	342
Amortization of leases, including above- and below-market lease intangibles	4,006	(2,374)
Interest accretion on notes receivable	(123)	(112)
Amortization of loan issue costs	477	422
Deferred income taxes	(84)	(12,439)
Share-based and incentive compensation expense	29,607	56,689
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	9,771	5,392
Due from/due to affiliate	18,854	(5,469)
Prepaid expenses and other current assets	(3,214)	(2,254)
Restricted cash held by the Captive	(7,732)	(7,616)
Other assets	(89)	-
(Decrease) increase in:		
Accounts payable, accrued expenses, and other liabilities	(2,192)	2,046
Share-based and incentive compensation liability	(2,626)	(883)
Self-insurance liabilities	6,404	3,900
Deferred revenue	(1,030)	(101)
Net cash provided by operating activities	15,898	18,082
INVESTING ACTIVITIES:		
Proceeds from termination of leases	9,630	-
Sale of assets to RealCo	3,479	5,094
Sale of Severna Park	(586)	3,000
Developer incentive fee on sale of RealCo assets to Welltower	-	9,414
Proceeds from sale of land parcels	-	12,321
Acquisition of management contracts	(29)	-
Investment in equity interest	-	(235)
Capital expenditures	(18,562)	(27,978)
Change in restricted cash	3,787	(7,276)
Increase in notes receivable	(209)	(230)
Payments from notes receivable	1	435
Net cash used in investing activities	(2,489)	(5,455)
FINANCING ACTIVITIES:		
Dividends to stockholders	(15,000)	(30,000)
Borrowings on credit facility	65,000	35,000
Repayment of credit facility	(65,000)	-
Loan issue costs paid	(1,651)	(2)
Net cash (used in) provided by Financing activities	(16,651)	4,998
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(3,242)	17,625
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	47,651	30,026
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 44,409	$ 47,651
SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION		
Decrease in accrued capital expenditures	$ (139)	$ (43)

See notes to consolidated financial statements.

RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY, SUNRISE SENIOR LIVING, LLC

CONSOLIDATED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

1. ORGANIZATION AND PRESENTATION

Organization—Red Fox Holding Corporation ("Red Fox") through its wholly owned subsidiary, Sunrise Senior Living, LLC ("Sunrise LLC" or "Sunrise" and collectively with Red Fox, "we," "us," or the "Company") is a provider of senior living services in the United States (US), Canada, and the United Kingdom (UK). We offer a full range of personalized senior living services, including independent living, assisted living, care for individuals with Alzheimer's and other forms of memory loss, nursing, rehabilitative care, and home health care. At December 31, 2018, we operated 327 communities; 266 communities in the US, 15 communities in Canada, and 46 communities in the UK, with a total unit capacity of approximately 29,300.

Sunrise LLC was formed as successor by conversion of Sunrise Senior Living, Inc. ("Sunrise Inc.") on January 9, 2013, under the laws of the State of Delaware. Red Fox acquired Sunrise Inc.'s management business through Sunrise LLC on January 9, 2013, from Welltower, Inc., f/k/a Health Care REIT, Inc. ("Welltower"), with Welltower retaining an approximate 20% indirect interest in Red Fox.

On April 21, 2014, pursuant to a unit purchase and merger agreement dated December 20, 2013, Red Fox Acquisition Company, Inc. (RFAC), an entity primarily owned by Revera Health Services, Inc. ("Revera"), and an affiliate of Welltower and a member of Sunrise LLC's senior management, acquired the remaining 80% interest in Red Fox. After the transaction, Welltower owned a 24% indirect interest in Red Fox with Revera owning a 75.3% indirect interest and a member of Sunrise LLC's senior management owning the remaining 0.7% indirect interest in Red Fox. We, the acquiree, elected to apply pushdown accounting with respect to the acquisition of Red Fox as of April 21, 2014.

On April 28, 2017, Revera sold 12.5% of its interest in RFAC to the Welltower affiliate that already owned a 5% interest. As a result, Welltower's indirect interest in Red Fox increased to 34% and Revera's indirect interest decreased to 65.3% with a member of Sunrise LLC's senior management's indirect interest in Red Fox remaining unchanged at 0.7%.

Business Lines—We derive the majority of our income from our core management business of managing senior living communities under long-term management contracts. In 2014, with approval of the Board of Managers ("Board"), we implemented a growth plan involving the acquisition of strategic sites for development, construction, preopening and lease-up of Sunrise communities with potential sale upon stabilization, collaborating with existing owners to acquire additional management contracts and exploring other selective investments into complementary business lines.

Development and Management of Communities—In December 2016, Sunrise LLC's owners, Revera, Welltower, and a member of Sunrise LLC's senior management, formed multiple partnerships ("RealCo") with identical ownership interests that they had in Red Fox in December 2016. Our continued growth plan involving the development of Sunrise communities will primarily occur within the RealCo structure. In October 2017, Revera sold 10% of its interest in RealCo to Welltower which changed RealCo's ownership structure to be identical to Red Fox's current ownership interests. We are currently developing or have

entered into agreements to develop 10 communities wholly owned by RealCo or in joint ventures in which RealCo has a minority interest.

The following table reflects the impact of our growth plan on the number of communities managed and number of development contracts for the year ended December 31, 2018:

	Operating					Development Contracts with Third Parties
	Owned/ Leased	Managed			Total Operating	
	US	US	Canada	UK	All	US
Community count at December 31, 2017	16	246	15	45	322	5
Management contracts new opening [1]	-	3	-	-	3	(3)
New management contracts[2]	-	6	-	-	6	-
Gracewell contracts new opening	-	-	-	2	2	-
Gracewell contracts terminated	-	-	-	(1)	(1)	-
New management contracts upon lease termination [3]	(4)	4	-	-	-	-
Lease term expirations [4]	(5)	-	-	-	(5)	-
New development contracts [5]	-	-	-	-	-	8
Community count at December 31, 2018	7	259	15	46	327	10

[1] Management contracts entered into upon opening of newly developed communities.

[2] Management contracts entered into upon transition of communities owned by an existing owner.

[3] Management contracts entered into upon termination of leases, which were included as held for sale at December 31, 2017 and subsequently sold in 2018.

[4] Management contracts and leases expired on April 30, 2018.

[5] Includes one Canadian contract.

Captive—We utilize large deductible blanket insurance programs in order to contain costs for certain lines of insurance risks, including workers' compensation and employers' liability risks, automobile liability risk, employment practices liability risk, and general and professional liability risks ("Self-Insured Risks"). We have self-insured a portion of the Self-Insured Risks through our wholly owned captive insurance subsidiary, Sunrise Senior Living Insurance, Inc. (the "Captive"). The Captive receives premiums and issues policies of insurance on behalf of us and each US community we operate. The Captive pays the costs for each claim above a deductible up to a per-claim limit. Third-party insurers are responsible for claim costs above this limit. These third-party insurers carry an A.M. Best rating of A-/VII or better.

Captive revenue and expense are reported net and are included in "Costs incurred on behalf of managed of managed communities" in the consolidated statement of operations. The details of Captive revenue and expense for the years ended December 31, 2018 and 2017, are as follows (in thousands):

	Year Ended December 31,	
	2018	**2017**
Revenue	$ 31,218	$ 34,710
Expense	(30,449)	(28,402)
Income	$ 769	$ 6,308

In March 2018, the Captive's board of directors recommended a discretionary, $5 million premium incentive rebate, recorded as a reduction of Captive revenue, to covered communities in the US with favorable claims experience over the last two years.

Sunrise Advantage Plans—On January 1, 2018, operations commenced for Sunrise Medicare Advantage and Sunrise Medicare Advantage Special Needs Plans (SAPs) doing business in the states of Illinois, Pennsylvania, New York, and Virginia. SAPs are organized in a joint venture with Sunrise's partner, AllyAlign Health, a managed care company out of Richmond, Virginia. Through the joint venture, Sunrise owns 79% effective ownership of the SAPs and AllyAlign Health owns 21%. SAPs operate as licensed Health Maintenance Organizations in their respective states.

In 2018, SAPs had a quota share reinsurance policy in place with GenRe which covered 66.67% of the part C claims of SAPs covered under the Medicare program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation—The consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). All material intercompany transactions and balances have been eliminated in consolidation.

Our consolidated financial statements include all normal recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the results for the years ended December 31, 2018 and 2017, in accordance with GAAP. We have adjusted certain amounts to conform with the current-year presentation.

The consolidated financial statements include the accounts of the Company, its wholly owned subsidiaries, entities in which we have a controlling financial interest, entities in which we own more than 50% of the voting interests, and an equity method investment.

The determination of a controlling financial interest is based upon the terms of the governing agreements of the respective entities, including the evaluation of rights held by other ownership interests. If the entity is considered to be a variable interest entity (VIE), we determine whether we are the primary beneficiary, and then consolidate those VIEs for which we have determined we are the primary beneficiary. If the entity in which we hold an interest does not meet the definition of a VIE, we evaluate whether we have a controlling financial interest through our voting rights in the entity. We consolidate entities when we own more than 50% of the voting interests of a company or otherwise have a controlling financial interest.

Use of Estimates—Management is required to make estimates and assumptions in the preparation of financial statements in conformity with GAAP. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from management's estimates. Management believes that the assumptions and estimates used in preparation of the underlying consolidated financial statements are reasonable.

Cash and Cash Equivalents—We consider cash and cash equivalents to include currency on hand, demand deposits, and all highly liquid investments with a maturity of three months or less at the date of purchase.

Allowance for Doubtful Accounts—We provide an allowance for doubtful accounts on our outstanding receivables based on an analysis of collectability, including our collection history, age of the account, and payer type and generally do not require collateral to support outstanding balances. Write-offs of accounts are made after collection efforts have been exhausted.

Due from Affiliates—Current due from affiliates represents amounts due from affiliated entities and the communities we manage and develop for them. Amounts due from affiliates, long term, represent an indemnification receivable from Welltower related to our uncertain tax positions.

Restricted Cash—The details of our restricted cash, as of December 31, 2018 and 2017, are as follows (in millions):

	December 31,	
	2018	**2017**
Self-insurance restricted cash	$ 98.4	$ 90.7
Sunrise Advantage Plans cash	5.4	5.7
Cash held by controlled entities	3.6	5.1
Other restricted cash	6.3	6.4
	$ 113.7	$ 107.9

Restricted cash held by the Captive was $98.4 million and $90.7 million at December 31, 2018 and 2017, respectively. As of December 31, 2018, $80.7 million was invested in two certificates of deposit maturing in 2019. It is our intent to reinvest the funds upon maturity in a similar manner. Of the total restricted cash held by the Captive, $80.7 million is held as collateral for the self-insurance liabilities and has been allocated between current term and long term based on the classification of the liabilities. The fair value of the certificates of deposit approximates cost. The earnings from the investment of the restricted cash of the Captive are used to reduce future costs and pay the liabilities of the Captive.

Property and Equipment—Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the lesser of the estimated useful lives of the related assets or the remaining lease term. Depreciation is discontinued when a property is identified as held for sale. Repairs and maintenance are charged to expense as incurred.

Impairment of Long-Lived Assets—We assess the carrying value of held for use assets when events or changes in circumstances indicate that the carrying value may not be recoverable. We test the related assets held for use for impairment by comparing the sum of the expected future undiscounted cash flows to the carrying value of the related assets. The expected future undiscounted cash flows are calculated utilizing the lowest level of identifiable cash flows that are largely independent of the cash flows of other assets and liabilities. If the carrying value exceeds the expected future undiscounted cash flows, an impairment loss will be recognized to the extent that the carrying value of the real estate and related assets are greater than their fair values. In 2018, we recognized an impairment loss of approximately $1.6 million related to a leased community as the carrying amount of leasehold improvement assets at this community exceeded their fair value. This lease expires in 2023. In 2017, we recognized an impairment loss of approximately $0.6 million related to a leased asset portfolio consisting of three communities under a single master lease and two communities under individual leases, as the carrying amount of leasehold improvement assets at these communities exceeded their fair value (see Note 9). The term of these leases ended on April 30, 2018.

Assets Held for Sale—We classify long-lived assets as held for sale when (i) management commits to a plan to sell the property, (ii) it is unlikely that the disposal plan will be significantly modified or discontinued, (iii) the property is available for immediate sale in its present condition, (iv) actions required to complete the sale of the property have been initiated, (v) sale of the property is probable and expected to be completed within one year, and (vi) the property is actively being marketed for sale at a price that is reasonable given its current market value. Assets classified as held for sale are reported at the lower of their carrying value or fair value less costs to sell and are no longer depreciated upon their classification as held for sale. We recorded an impairment charge of $5.8 million and $13.7 million during the years ended December 31, 2018 and 2017, respectively, related to a portfolio of four leased communities classified as assets held for sale at December 31, 2017 and sold in 2018 (see Notes 3 and 10).

Reserve for Abandoned Projects—In conjunction with the potential acquisition of land to be developed, preacquisition costs are expensed as incurred until we determine that the costs are directly identifiable with a specific property. The costs are then capitalized once we enter into a letter of intent to acquire a land parcel. Our purchase contracts typically provide for a due diligence period and certain other conditions before we are obligated to close on the property. Upon contracting for the potential land acquisition, we commence capitalization of all direct costs clearly associated with the acquisition and entitlement of the land for our needs. Our strategy is to acquire land in markets that have high barriers to entry to maintain a competitive advantage, however, the entitlement process can be riskier and over a longer term which typically incurs higher costs. We provide a reserve for costs related to our pipeline of projects that may ultimately need to be abandoned primarily due to the unsuccessful entitlement efforts. The reserve amounts are based on where each property is in the process before construction is started, with lesser reserve amounts for projects that have moved further along in the process. The reserve balance was $1.6 million and $1.2 million at December 31, 2018 and 2017, respectively, and is recorded in “Property and equipment, net” in the consolidated balance sheets.

Intangible Assets—We capitalize costs incurred to acquire management, development, and other contracts. Management contracts acquired outside of a business combination are recorded at fair value based on the actual incremental direct acquisition costs incurred. Management contracts acquired as part of a business combination are valued using the acquisition method of accounting in determining the allocation of the purchase price to net tangible and intangible assets acquired. We make estimates of the fair value of the

tangible and intangible assets using information obtained as a result of preacquisition due diligence, marketing, leasing activities, and independent appraisals.

Intangible assets are valued using expected discounted cash flows and are amortized using the straight-line method over the remaining contract term, generally ranging from one to 30 years. The carrying amounts of amortizing intangible assets are reviewed for impairment when indicators of impairment are identified. If the carrying amount of the asset (group) exceeds the undiscounted expected cash flows that are directly associated with the use and eventual disposition of the asset (group), an impairment charge is recognized to the extent the carrying amount of the asset exceeds the fair value. In 2018, we recognized an impairment loss of approximately $1.3 million related to a leased community as the carrying amount of leasehold intangible assets associated with this community exceeded their fair value. This lease expires in 2023. In 2017, we recognized an impairment loss of approximately $0.2 million related to a leased asset portfolio consisting of three communities under a single master lease and two communities under individual leases, as the carrying amount of leasehold intangible assets associated with these communities exceeded their fair value (see Note 9). The term of these leases ended on April 30, 2018.

We determined our company trade name, Sunrise Senior Living, and one of our UK management companies, Gracewell Healthcare Limited ("Gracewell")'s trade name, have an indefinite economic life and are not amortized into results of operations. On an annual basis, a qualitative assessment is performed to determine whether it is more likely than not that this indefinite-lived intangible is impaired. If this qualitative assessment indicates any potential impairment, a quantitative fair value measurement calculation is required. If the carrying amount of the trademark exceeds the calculated fair value, an impairment charge is recognized in an amount equal to the excess. At year-end 2018, we determined that the estimated fair value of our Sunrise Senior Living trade name exceeded its carrying amount and that there is no impairment as of December 31, 2018. We concluded, based on a qualitative analysis, that our Gracewell trade name is not impaired as of December 31, 2018.

Goodwill—Goodwill relates to the closing of the unit purchase and merger agreement on April 21, 2014, and the acquisition of Gracewell on August 14, 2014, and represents the costs of the business acquisitions in excess of the fair value of identifiable net assets acquired.

Goodwill is reviewed for impairment annually as of December 31 using data available as of the consolidated balance sheet date. We have goodwill recorded in two reporting units. On an annual basis, a qualitative assessment is performed to determine whether it is more likely than not that goodwill is impaired. For 2018, we performed a qualitative assessment for our Gracewell reporting unit. For our Sunrise Senior Living reporting unit, we elected to bypass this qualitative assessment and proceed directly to performing the quantitative impairment test. The quantitative goodwill impairment test, which is used to identify both the existence of impairment and the amount of impairment loss, compares the estimated fair value of a reporting unit with its carrying value, including goodwill. If the estimated fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired. We determined that the estimated fair value of our Sunrise Senior Living reporting unit exceeded its carrying amount and that there is no goodwill impairment as of December 31, 2018. We also concluded, based on a qualitative assessment, that our Gracewell reporting unit is not impaired as of December 31, 2018.

Equity Method Investment—Equity investments in unconsolidated entities for which the investee maintains specific ownership accounts are reported under the equity method of accounting. Under the equity method of accounting, our share of the investee's earnings or losses is included in our consolidated statements of income. The initial carrying value of the equity method investment is based on the amount paid to purchase the equity interest. We evaluate our equity method investment for impairment based upon a comparison of the fair value of the equity method investment to its carrying value. When we determine a decline in the fair value of an equity method investment below its carrying value is other-than-temporary, an impairment charge is recorded. No impairment was recorded in 2018 or 2017.

In 2017, we invested an additional $0.2 million, bringing our total equity interest to approximately 9%, in Spectrum Equity LLC ("Spectrum") a company that provides rehabilitative therapy management and consulting services. Our investment in Spectrum is recorded net of $1.8 million of losses to date.

Start-up Costs—Costs incurred in connection with our development of Medicare Advantage and Medicare Advantage Special Needs Plans (SAPs) in several states and markets throughout the United States have been expensed as start-up costs. The start-up costs primarily relate to fees paid under an agreement with AllyAlign Health, a company with experience in establishing SAPs, for the preparation and submission of regulatory applications necessary to operate our SAPs. Start-up costs, including legal fees, were $4.1 million for the year ended December 31, 2017. See AllyAlign Health section in Note 16.

Debt Issuance Costs—Costs incurred in connection with obtaining financing are deferred and amortized over the term of the financing. Deferred debt issuance costs related to line-of-credit arrangements are included in "Other assets" in the consolidated balance sheets and are subsequently amortized ratably over the term of the arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. In 2018, we entered into a new line-of-credit facility with a greater borrowing capacity than the old line of credit and paid $1.7 million in financing costs (see Note 12). The Company treated this as a debt modification and accordingly, the remaining unamortized deferred costs relating to the old line-of-credit facility were deferred and will be amortized over the term of the new line-of-credit facility. Unamortized debt issuance costs related to our line-of-credit were $1.4 million and $0.3 million at December 31, 2018 and 2017, respectively.

Loss Reserves for Certain Self-Insured Programs—Through our Captive, we offer a variety of insurance programs to the communities we operate. These programs include property insurance, general and professional liability insurance, excess/umbrella liability insurance, crime insurance, automobile liability and physical damage insurance, workers' compensation, and employers' liability insurance and employment practices liability insurance (the "Insurance Program"). Substantially all of the communities we operate participate in the Insurance Program and are charged their proportionate share of the cost of the Insurance Program.

We utilize large deductible blanket insurance programs in order to contain costs for certain of the lines of insurance risks in the Insurance Program, including Self-Insured Risks. The design and purpose of a large deductible insurance program is to reduce overall premium and claim costs by internally financing lower-cost claims that are more predictable from year to year, while buying insurance only for higher-cost, less predictable claims.

We record outstanding losses and expenses for all Self-Insured Risks and for claims under insurance policies based on management's best estimate of the ultimate liability after considering all available information, including expected future cash flows and actuarial analyses. The recorded liability for Self-Insured Risks was approximately $90.6 million and $85.1 million at December 31, 2018 and 2017, respectively, based on an actuarial valuation. We review our sensitivity analysis annually, and our annual estimated cost for Self-Insured Risks is determined using management's judgment, including actuarial analyses at various confidence levels. Our confidence level, based on our annual review, is currently at 55% ("expected"). We believe the expected confidence level provides our best estimate of our expected liability due to our sufficient history of paid and incurred claims associated with the Captive. The confidence level is the likelihood that the recorded expense will exceed the ultimate incurred cost. If we had used a 75% confidence level, the recorded liability would be approximately $104.8 million. If we had used a 90% confidence level, the recorded liability would be approximately $119.5 million.

We believe that the allowance for outstanding losses and expenses is appropriate to cover the ultimate cost of losses incurred at December 31, 2018, based on our best estimate at that date. The allowance may ultimately be settled for a greater or lesser amount. Any subsequent changes in estimates are recorded in the period in which they are determined and will be shared with the communities participating in the Insurance Program based on the proportionate share of any changes.

Loss Reserves for Sunrise Advantage Plans—We record medical liabilities for reported claims not yet paid as well as claims incurred but not yet reported (IBNR) based on management's best estimate after considering all available information and actuarial analyses. The IBNR reserve at December 31, 2018, was $0.7 million based on an actuarial valuation. This amount is recorded in "Self-insurance liabilities, current" in our consolidated balance sheet.

Employee Health, Dental, and Short-Term Disability Benefits—We offer employees an option to participate in our self-insured health, dental, and short-term disability plans. The cost of our employee health and dental benefits, net of employee contributions, is shared between us and the communities based on the respective number of participants working either at our community support office or at the communities. Funds collected are used to pay the actual program costs, including estimated annual claims, third-party administrative fees, network provider fees, communication costs, and other related administrative costs incurred by us. Claims are paid as they are submitted to the plan administrator. We also record a liability for outstanding claims and claims that have been incurred but not yet reported. This liability is based on the historical claim reporting lag and payment trends of health insurance claims. The recorded liability for these claims was $6.2 million and $5.4 million at December 31, 2018 and 2017, respectively, and is included in "Accounts payable and accrued expenses" on our consolidated balance sheets. We believe that the liability for outstanding losses and expenses is adequate to cover the ultimate cost of losses incurred, but actual claims may differ. Any subsequent changes in estimates are recorded in the period in which they are determined and will be shared with the communities participating in the program based on their proportionate share of any changes. The self-insured short-term disability plan only includes eligible community support office team members.

Continuing Care Agreements and Future Service Obligation—We lease two communities under operating leases that provide life care services under various types of entrance fee agreements with residents ("Entrance Fee Communities" or "Continuing Care Retirement Communities"). Residents of Entrance Fee Communities are required to sign a

continuing care agreement with us. The care agreement stipulates, among other things, the amount of all entrance and monthly fees, the type of residential unit being provided, and our obligation to provide both health care and nonhealth care services. In addition, the care agreement provides us with the right to increase future monthly fees. The care agreement is terminated upon the receipt of a written termination notice from the resident or the death of the resident. Refundable entrance fees are returned to the resident or the resident's estate depending on the form of the agreement either upon re-occupancy or termination of the care agreement.

Refundable entrance fees are primarily noninterest bearing and, depending on the type of plan, can range from 50% to 95% of the total entrance fee, less any additional occupant entrance fees. As these obligations are considered security deposits, interest is not imputed on these obligations. Current and long-term refundable entrance fees were $1.3 million and $4.9 million, respectively, at December 31, 2018, and $1.8 million and $6.1 million, respectively, at December 31, 2017. Long-term refundable entrance fees are included in other long-term liabilities, net in the consolidated balance sheets. The current portion of refundable fees was determined based upon each community's preceding 12-month historical refund experience as of December 31, 2018 and 2017. In conjunction with a prior acquisition, we assumed the entrance fee liability for two leased communities. The lessor of the communities agreed to indemnify us for the liability. Therefore, we have a receivable from the lessor of $6.2 million and $7.9 million at December 31, 2018 and 2017, respectively, which is equal to the amount of the entrance fee liability for these two communities. The current portion of the receivable is recorded in "Accounts receivable, net and the long-term portion is recorded in "Other assets, net" in our consolidated balance sheets. As these obligations are discharged during the normal course of business, the associated receivable will be relieved as we are reimbursed from the lessor. Refundable entrance fees subject to repayment upon contract termination and not contingent upon re-occupancy of the unit were $2.9 million or 47.2% at December 31, 2018, and $3.7 million or 46.8% at December 31, 2017.

Nonrefundable portions of entrance fees are deferred and recognized as revenue using the straight-line method over the actuarially determined expected term of each resident's contract.

When the present value of estimated costs to be incurred under care agreements exceeds the present value of estimated revenues, the present value of such excess costs is accrued. The calculation is performed annually and assumes a future increase in the monthly revenue commensurate with the monthly costs. The calculation, which uses a 5% discount rate, currently results in an expected positive net present value cash flow, and as such, no liability was recorded as of December 31, 2018 or 2017.

In conjunction with RFAC's acquisition of us in 2014, we recorded a $43.5 million liability representing the fair value of the future performance obligation to residents in place at the acquisition date. The liability is being amortized over the estimated expected remaining lives of the residents. The liability for future performance obligation was $16.0 million and $20.1 million at December 31, 2018 and 2017, respectively. We recorded amortization income of $4.1 million and $4.7 million for the years ended December 31, 2018 and 2017, respectively. The amortization income is recorded in "Resident fees from consolidated communities."

Income Taxes—Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. We record the current-year amounts

payable or refundable as well as the consequences of events that give rise to deferred tax assets and liabilities based on differences in how these events are treated for tax purposes versus for book purposes. We base our estimate of deferred tax assets and liabilities on current tax laws and rates and, in certain cases, business plans and other expectations about future outcomes. We release income tax effects from accumulated other comprehensive income using the security-by-security approach. We provide a valuation allowance against the net deferred tax assets when it is more likely than not that sufficient taxable income will not be generated to utilize the net deferred tax assets.

Liability for Possible Tax Contingencies—Liabilities for tax contingencies are recognized based on the requirements of the Accounting Standards Codification (ASC) Income Tax Topic. This topic requires us to analyze the technical merits of our tax positions and determine the likelihood that these positions will be sustained if they were ever examined by the taxing authorities. If we determine that it is unlikely that our tax positions will be sustained, a corresponding liability is created and the tax benefit of such position is reduced for financial reporting purposes.

Interest and Penalties—We are also required to accrue interest and penalties that, under relevant tax law, we would incur if the uncertain tax positions ultimately were not sustained. Accordingly, interest would start to accrue for financial statement purposes in the period in which it would begin accruing under relevant tax law, and the amount of interest expense to be recognized would be computed by applying the applicable statutory rate of interest to the difference between the tax position recognized and the amount previously taken or expected to be taken in a tax return. Penalties would be accrued in the first period in which the position was taken on a tax return that would give rise to the penalty.

Assumptions—In determining whether a tax benefit can be recorded, we must make assessments of a position's sustainability and the likelihood of ultimate settlement with a taxing authority. Changes in our assessments would cause a change in our recorded position, and changes could be significant. We had recorded liabilities for possible losses on uncertain tax positions, including related interest and penalties of $18.6 and $17.6 million as of December 31, 2018 and 2017, respectively. We have a receivable from Welltower, recorded as "Due from affiliates, long term," equal to the amount of the liabilities under an indemnification agreement with Welltower.

Revenue Recognition—"Management fees" are composed of fees from management agreements for operating communities owned by third parties, which consist of base management fees and incentive management fees. The management fees are generally between 5% and 7% of a managed community's total operating revenue. Fees are recognized in the month they are earned in accordance with the terms of the management agreement.

"Resident fees from consolidated communities" are recognized monthly as services are provided. Agreements with residents are generally for a term of one year and are cancelable by residents with 30 days' notice for mansion communities and 90 days' notice for Continuing Care Retirement Communities. Approximately 12% and 13% of our resident fees from our consolidated communities for the years ended December 31, 2018 and 2017, respectively, were derived from governmental reimbursement programs. Revenues from these programs are recorded net of contractual adjustments as dictated under the specific program guidelines. Retroactive adjustments or assessments from program cost report audits conducted by governmental agencies are recorded against net revenues in the

month we are given notice, without regard to whether we intend to appeal such assessments.

“Ancillary services” are composed of fees for providing home health-assisted living services.

“Professional fees from development, marketing, and other” are composed of development fees and preopening service fees for communities being developed on behalf of third parties and fees received for renovation projects. Development fees are recognized on the basis of completion over the construction period, which is generally 12 to 18 months. Preopening service fees are recognized over the term of the preopening period, which is generally six to ten months. Fees for renovation projects are recognized at various stages of the project when earned.

“Medicare Advantage revenue” consists of premium payments from governmental reimbursement programs. The premium revenue recorded is based on plan membership as reported by the governmental reimbursement programs. Plan enrollments are submitted to the governmental reimbursement programs throughout the month but are only included in the reimbursements up to a particular cut-off date each month. Revenues are accrued based on the date of each enrollee’s coverage period. Premium revenue is reported net of contractual adjustments. The adjustments are recorded in the period in which they are reported by the governmental reimbursement programs. Premium revenue is also reported net of reinsurance fees.

“Reimbursed costs incurred on behalf of managed communities” are composed of reimbursements for expenses incurred by us, as the primary obligor, on behalf of communities operated by us under long-term management agreements. Revenue is recognized when the costs are recorded on the books of the managed communities and we are due the reimbursement. The related costs are included in “Costs incurred on behalf of managed communities.”

We considered the indicators in ASC Revenue Recognition Topic, in making our determination that revenues should be reported gross versus net. Specifically, we are the primary obligor for certain expenses incurred at the communities, including payroll costs, insurance, and items such as food and medical supplies purchased under national contracts entered into by us. We, as manager, are responsible for setting prices paid for the items underlying the reimbursed expenses, including setting pay scales for our employees. We select the supplier of goods and services to the communities for the national contracts that we enter into on behalf of the communities. We are responsible for the scope, quality, and extent of the items for which we are reimbursed. Based on these indicators, we have determined that it is appropriate to record revenues gross versus net.

The following table summarizes revenue earned from the following owners of communities we manage as a percent of operating revenue:

	Year Ended December 31,	
	2018	2017
Welltower	42 %	38 %
Ventas, Inc. ("Ventas")	25	26
Healthcare Property Investors, Inc.	17	16
All others	16	20

Share-Based Compensation—We record compensation expense for warrants and phantom stock units granted under our Phantom Equity Plan in accordance with the ASC Equity Topic. The warrants and units are cash settled and, thus, are liability-classified awards whose value is remeasured at the end of each reporting period with the expense being recognized over the requisite service period.

As a nonpublic entity, as defined in the ASC Equity Topic, we have elected to measure all liabilities relating to the units and warrants at intrinsic value with changes in the intrinsic value of the liabilities recognized as compensation cost in the consolidated statements of operations and comprehensive income over the requisite service period. For the years ended December 31, 2018 and 2017, we recorded compensation expense related to the phantom equity plan of $12.0 million and $16.2 million, respectively, and compensation expense related to the warrants of $1.4 million and $3.9 million, respectively. These amounts are included in "Share-based and incentive compensation expense" in our consolidated statements of operations (see Note 14).

Development Incentive Plan—The liability for cash-based compensation awards is measured based on the award's fair value and the fair value is remeasured at each reporting date until the date of settlement. Compensation expense for each period until settlement is based on the change (or a portion of the change, depending on the percentage of the requisite service that has been rendered at the reporting date) in the fair value of the award for each reporting period. Compensation expense for awards is recognized over the requisite service period when the amounts to be paid become probable and reasonably estimable. If such amount is not probable or reasonably estimable, no compensation expense for these awards is recognized. If and when the amounts to be paid become probable and reasonably estimable, compensation expense equal to the percentage of the requisite service that has been rendered at the reporting date is recorded. For the years ended December 31, 2018 and 2017, we recorded compensation expense related to the development incentive plan of $16.3 million and $36.6 million, respectively. These amounts are included in "Share-based and incentive compensation expense" in our consolidated statements of operations.

Foreign Currency Translation—Our reporting currency is the US dollar. Certain of our subsidiaries' functional currencies are the local currency of their respective country. In accordance with ASC Foreign Currency Matters Topic, balance sheets prepared in their functional currencies are translated to the reporting currency at exchange rates in effect at the end of the accounting period, except for stockholders' equity accounts, which are translated at rates in effect when these balances were originally recorded. Revenue and expense accounts are translated at a weighted average of exchange rates during the period. The cumulative effect of the translation is included in "Accumulated other

comprehensive income" in the consolidated balance sheets. Monetary assets and liabilities denominated in foreign currencies including intercompany accounts with consolidated subsidiaries are revalued to US dollars at the functional currency rate of exchange at the consolidated balance sheet date. These realized foreign exchange gains and losses are recorded as "Other expense" in the consolidated statements of operations.

Advertising Costs—We expense advertising costs as incurred. Total advertising expense for the years ended December 31, 2018 and 2017, was $1.0 million and $1.5 million, respectively.

Legal Contingencies—We are subject to various legal proceedings and claims, the outcomes of which are subject to significant uncertainty. We record an accrual for loss contingencies when a loss is probable and the amount of the loss can be reasonably estimated. We review these accruals quarterly and make revisions based on changes in facts and circumstances. As of December 31, 2017, we had $1.8 million recorded in "Accounts payable and accrued expenses" in our consolidated balance sheet related to legal settlements. We funded the settlement payments to class members on February 5, 2018, and our liability was $0 as of December 31, 2018 (see Note 15).

New Accounting Standards—The following Accounting Standards Updates ("ASUs") were issued in 2018:

ASU No. 2018-11, *Leases (Topic 842): Targeted Improvements*, provides entities with an additional (and optional) transition method to adopt the new leases standard. Under this new transition method, an entity would initially apply the new leases standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. In addition, ASU No. 2018-11 provides lessors with a practical expedient, by class of underlying asset, to not separate nonlease components from the associated lease component and instead, to account for those components as a single component if certain conditions are met. The effective date and transition requirements for the amendments in ASU No. 2018-11 are the same as those in ASU No. 2016-02. We are currently in the process of assessing whether we will elect to apply the new transition method and practical expedient in ASU No. 2018-11 in our adoption of the new leases standard.

The following ASUs were adopted in 2018:

ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)*, addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments with the objective of enhancing the reporting model for financial instruments to provide users of financial statements with more decision-useful information. ASU No. 2016-01 requires equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. Prior to the issuance of ASU No. 2016-01, these unrealized holding gains and losses were recognized in other comprehensive income. It does not change the guidance for classifying and measuring investments in debt securities or loans. ASU No. 2016-01 was effective for us on January 1, 2018. At adoption, we recorded a cumulative-effect adjustment, net of taxes, to our consolidated balance sheet of approximately $0.7 million related to the marketable equity securities of a consolidated entity in which we have control, but no ownership interest.

ASU No. 2017-04, *Simplifying the Test for Goodwill Impairment (Topic 350)*, simplifies how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. ASU No. 2017-04 is effective for financial statements issued for fiscal years beginning after December 15, 2019, on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We adopted this ASU for our annual impairment test for the year ended December 31, 2018, and the adoption had no impact on our consolidated financial position, results of operation, cash flows, and disclosures.

The following ASUs were issued in 2016:

ASU No. 2016-18, *Restricted Cash (Topic 230)*, will require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. ASU No. 2016-18 is effective for nonpublic entities financial statements issued for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, on a retrospective basis. Upon adoption of ASU No. 2016-18, restricted cash will be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows.

ASU No. 2016-02, *Leases (Topic 842)*, increases transparency and comparability among organizations by requiring lessees to recognize lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Topic 842 defines a lease as a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration. We plan to adopt ASU No. 2016-02 on January 1, 2019, on a retrospective basis using a modified retrospective approach. We are currently in the process of assessing all of the potential impacts of ASU No. 2016-02 on our consolidated financial position, results of operations, cash flows, and disclosures.

The following ASUs were issued in 2015:

ASU No. 2015-14, *Revenue from Customers (Topic 606): Deferral of the Effective Date*, deferred the effective date of ASU No. 2014-09 by one year. ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), supersedes the revenue recognition requirements in ASC Topic 605, *Revenue Recognition*, as well as most industry-specific guidance and significantly enhances comparability of revenue recognition practices across entities and industries by providing a principles-based comprehensive framework for addressing revenue recognition issues. In order for a provider of promised goods or services to recognize as revenue the consideration that it expects to receive in exchange for the promised goods or services, the provider should apply the following five steps: (1) identify the contract with a customer(s); (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. ASU No. 2014-09 also specifies the accounting for some costs to obtain or fulfill a contract with a customer and provides enhanced disclosure requirements. ASU No. 2014-09 will now be effective for us on January 1, 2019, on a retrospective basis using either a full retrospective or modified retrospective method. We are still in the process of assessing all of the potential impacts that ASU No. 2014-09 (and related clarifying guidance issued by the Financial Accounting Standards Board (FASB) and FASB Transition Group) will have on our consolidated financial position, results of operations, cash flows, and disclosures.

3. TERMINATION OF LEASES AND SALE OF ASSETS TO WELLTOWER

Background—We leased four properties for which the leases were guaranteed by Marriott. In 2011, Marriott consented to the extension of the term of the four leases guaranteed by it for a five-year term commencing January 1, 2014, and ending December 31, 2018. In return for its consent to the lease extension and its maintenance of a guarantee of our lease payments, we provided Marriott with a letter of credit issued by KeyBank with a face amount of $85 million to secure Marriott's exposure under the guarantees. During the lease term, we were required to pay Marriott an annual payment based on the cash flow of the leased facilities, subject to a $1 million annual minimum. Marriott could draw on the letter of credit in order to pay any obligations if not paid by us when due. Marriott agreed to reduce the face amount of the letter of credit proportionally on a quarterly basis during the lease term as we paid our rental obligations. In October 2014, Welltower took on the letter of credit as an obligation under their line of credit removing this obligation from Sunrise.

In December 2013, Marriott consented to a second extension of the term of the four leases for an additional five-year term commencing January 1, 2019, and ending December 31, 2023. In return for its consent to the lease extension and its maintenance of a guarantee, Welltower provided Marriott with a letter of credit issued by Credit Agricole with a face amount of $87.6 million to secure Marriott's exposure under the guarantees. We would have been required to pay Marriott an annual payment based on the cash flow of the leased facilities, subject to a $1 million annual minimum similar to the terms of the first extension. On November 23, 2016, the lease extensions were exercised for an additional five-year term commencing January 1, 2019, and ending December 31, 2023.

Assets Held for Sale—On December 29, 2017, Welltower agreed to acquire the four properties guaranteed by Marriott from the current owner and assume the leases. The acquisition of one of the four properties closed on December 29, 2017, and obligated Welltower to purchase the remaining three properties by March 30, 2018. Pursuant to a letter agreement dated December 29, 2017, Welltower agreed to terminate the leases once its acquisition of all of the properties was complete and pay us an aggregate termination fee of $10 million upon termination of the leases. We reclassified the assets of the four properties net of liabilities to assets held for sale and liabilities associated with assets held for sale on our consolidated balance sheet as of December 31, 2017, and recognized an impairment loss of approximately $13.7 million.

We also revised the amortization period of the leasehold intangible assets, including above- / below-market lease and in-place lease intangible assets, relating to these four properties on our consolidated balance sheet to reflect the use of the assets over their shortened useful life. As a result, we recognized approximately $0.6 million of additional amortization expense in the year ended December 31, 2017.

Sale Transaction—On March 29, 2018, Welltower closed on the acquisition of two of the remaining three properties. The parties agreed to extend the purchase date for the last remaining property to be no later than 60 days from the original March 30, 2018, deadline. On May 18, 2018, Welltower closed on the acquisition of the last remaining property and terminated all the leases. We recorded an additional impairment loss of $5.8 million during 2018 related to the net assets held for sale. Welltower paid us $9.6 million representing the aggregate termination fee of $10 million less agreed-upon adjustments related to net operating income and capital expenditures during the transition period between December 29, 2017, and the final lease termination date. Property and equipment, restricted cash accounts, entrance fee liabilities, net working capital, and other assets and

liabilities of the four properties were sold to/assumed by Welltower. Concurrently, we entered into new 25-year management agreements for each of the properties.

In accordance with the revised amortization period, we recognized approximately $13.2 million of amortization expense related to the in-place lease intangible assets and $6.4 million of amortization expense (recorded as lease expense) related to the below-market lease intangible assets during the year ended December 31, 2018 (see Note 11).

Included in resident fees for consolidated communities in 2018 is $8.4 million of revenue from nonrefundable entrance fees recognized upon the acquisition of the communities by Welltower, as we were relieved from the obligation to provide any further services covered by the entrance fee liabilities, and $0.3 million for acceleration of unamortized community fees at the acquisition date.

Included in other income (expense) is $1 million for the payment of an early termination fee to Marriott for the early release of Marriott's guarantee obligations relating to these leases and a $0.5 million loss on deconsolidation of an entity associated with one of the communities purchased by Welltower that was previously consolidated by us due to control, which transferred to Welltower upon their acquisition.

The following table presents balances related to the major classes of assets and liabilities that were classified as assets and liabilities held for sale in the consolidated balance sheet (in thousands):

	December 29, 2017
Assets held for sale:	
Accounts receivable, net	$ 4,446
Prepaid expenses and other current assets	1,362
Property and equipment, net	13,812
Restricted cash	7,075
Other assets, net	127
Total assets held for sale	$26,822
Liabilities associated with assets held for sale:	
Accounts payable and accrued expenses	$ 7,742
Deferred revenue	130
Entrance fees	8,375
Other long-term liabilities, net	575
Total liabilities associated with assets held for sale	$16,822

4. DISPOSITIONS

Sale of Severna Park Community—On June 17, 2016 ("Closing Date"), pursuant to a membership interest purchase agreement dated June 16, 2016, we sold our membership interests in North Arundel Senior Living, LLC and in NAH/Sunrise Severna Park LLC to Welltower for $72 million. The entities own and operate one senior living facility in Severna Park, MD. We recognized a gain of approximately $17.7 million in connection with the sale.

In addition, we were entitled to receive additional consideration of up to $3 million if certain income thresholds were met by the Severna Park community during the first year after the Closing Date. Based on the calculation of agreed-upon income thresholds for the 12 months ended June 30, 2017, and Welltower's acknowledgement that the thresholds were met, we recognized the full $3 million of additional consideration earned in 2017. The additional consideration of $3 million was received in July 2017. Also, as of June 17, 2016, we deferred a gain of approximately $0.6 million due to a clawback provision in the management agreement whereby we agreed to reimburse Welltower up to a maximum of the management fees paid to us for the Severna Park community during the first year after the Closing Date if certain income thresholds were not met. Income during the first year exceeded the thresholds and the deferred gain of $0.6 million was recognized in 2017.

Sale of Assets to Ventas—On July 27, 2017, we sold two land parcels for $12.3 million representing our costs incurred on the acquisition and subsequent entitlement of the two land parcels, to a joint venture ("Ventas/Suntas") between an affiliate of Ventas, Inc. ("Ventas"), which has a 90% ownership interest in the joint venture, and Suntas Sunrise Member PropCo, LLC ("Suntas"), which has a 10% ownership interest in the joint venture. Suntas is owned indirectly by Welltower, Revera, and a member of Sunrise LLC's senior management. The ownership percentages in Suntas are the same as the ownership percentages in Red Fox effective April 28, 2017 (see Note 1). In conjunction with the sale, previously capitalized interest of $0.2 million was written off to gains from sale of real estate. We incurred transaction costs of $0.3 million related to this transaction.

The land parcels were sold to the Ventas/Suntas joint venture as part of the Development Pipeline Agreement entered into between Sunrise and Ventas in September 2016 whereby Sunrise agreed to provide Ventas the opportunity to make an offer to participate in Sunrise's development of new senior housing projects until the earlier of (i) September 30, 2023 or (ii) Ventas having participated with Sunrise in development projects having an aggregate cost to complete of at least $125 million.

In November 2017, the Ventas/Suntas joint venture purchased a land parcel and reimbursed Sunrise $2.0 million for search costs incurred and deposits we had placed on the land parcel. These costs were removed from "Property and equipment, net" when we were reimbursed.

In March 2018, a Ventas/Suntas joint venture purchased a land parcel and reimbursed Sunrise LLC $1.9 million for search costs incurred and deposits we had placed on the land parcel. These costs were removed from "Property and equipment, net" and "Prepaid expenses and other current assets" when we were reimbursed.

As of December 2018, the Ventas/Suntas joint ventures have entered into agreements with us to develop four senior housing projects with an aggregate cost to complete in excess of $125 million, thereby fulfilling the commitment under the Development Pipeline Agreement.

Concurrent with the 2017 and 2018 transactions, the Ventas/Suntas joint venture entered into development agreements, preopening and management agreements, accounting services agreements, and incentive fee agreements with us whereby we will earn fees as agreed upon within the various agreements during the development, construction, preopening, subsequent long-term management and eventual sale of the three senior living communities to be built on the land parcels. We provided a completion guarantee in conjunction with the development of the senior living communities and have also agreed to fund any cost overruns with a maximum exposure of up to the development fees to be

paid to us (see Note 15). As of December 2018, management has estimated that total costs to complete one of the communities will exceed total budgeted costs and we will be required to fund under our completion guarantee. Total costs include hard costs, soft costs, contingencies, and interest and operating reserves. We recorded a liability for $1.2 million related to the completion guarantee which is included in our December 31, 2018, balance sheet within accounts payable and accrued expenses. This amount is also reflected in our statement of operations as a loss on financial guarantees for the year ended December 31, 2018.

5. FAIR VALUE MEASUREMENTS

Fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The ASC, Fair Value Measurements Topic, established a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels. These levels, in order of highest priority to lowest priority, are described below:

Level 1—Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2—Prices determined using other significant observable inputs that other market participants would use in pricing a security, including quoted prices for similar assets and liabilities.

Level 3—Prices determined using significant unobservable inputs for the asset or liability; that is, inputs that reflect the reporting entity's own assumptions about the factors market participants would use in pricing the asset or liability, and would be based on the best information available in the circumstances.

Restricted Investments in Marketable Securities—Restricted investments in marketable securities relate to a consolidated entity in which we have control, but no ownership interest and a consolidated entity in which we have an 79% ownership interest. The following table details the restricted investments in marketable securities measured at fair value as of December 31, 2018 (in thousands):

		Fair Value Measurements at Reporting Date Using		
	December 31, 2018	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Restricted investments in marketable securities	$2,483	$2,033	$ 450	$ -

Available-for-sale securities, such as exchange-traded securities, are recorded at fair value on a recurring basis. Fair value measurement is based upon various sources of market pricing. We use quoted prices in active markets, where available, and classify such instruments within Level 1 of the fair value hierarchy.

Investment securities traded in secondary markets, such as municipal bonds, are considered Level 2 assets and are typically valued using prices obtained from third-party pricing services or brokers. While the input amounts used by the pricing vendor in

determining fair value are not provided, and therefore unavailable for our review, we review recent transaction prices on a specific instrument-by-instrument basis.

Other Fair Value Information—Cash equivalents, certificates of deposit, accounts receivable, notes receivable, accounts payable and accrued expenses, other current assets and liabilities, and outstanding draws on bank credit facility are carried at amounts that reasonably approximate their fair values.

6. ACCOUNTS RECEIVABLE

Accounts receivable consist of the following (in thousands):

	December 31,	
	2018	**2017**
Accounts receivable:		
Resident receivables	$ 6,537	$ 7,592
Receivables from managed communities	12,500	24,585
Receivable from The Carlisle	6,717	-
Litigation indemnification receivables	-	1,804
Other receivables	5,640	3,633
Total accounts receivable	31,394	37,614
Allowance for doubtful accounts	(528)	(1,142)
Total accounts receivable, net	$30,866	$36,472

Receivables from Managed Communities—The communities we manage are required to fund the biweekly payroll in advance of the pay date to ensure funding is available. At December 31, 2018, the communities had funded the biweekly payroll that was subsequently processed on January 3, 2019.

Receivable from The Carlisle—A wholly owned subsidiary of the Company owns all easements and rights for The Carlisle, a licensed residential care facility in San Francisco, specifically to provide management services at The Carlisle. The individual condominium units are owned by independent third-party condominium owners. As a condition of ownership, each condominium owner is required to make payments into The Carlisle Reserve Fund Trust (Trust) to fund structural upgrades to the building and replace fixtures and equipment.

In 2016, it was determined that repairs to the exterior walls of the building were necessary with an estimated total cost of approximately $15 million to be funded from available funds in the Trust and monthly fee increases and special assessment payments from the condominium owners. The Homeowners' Association of The Carlisle subsequently filed a lawsuit against the Company and others alleging that the Company breached the management agreement by failing to properly maintain the exterior walls of the building (see Note 15, Legal Proceedings).

Repairs to the building have been ongoing since the discovery of the damage with Sunrise paying for the cost of the repairs. As of December 31, 2018, Sunrise had spent

approximately $6.7 million for repairs to the building which is recorded as an outstanding receivable balance due from the Trust and the condominium owners at The Carlisle.

In December 2016, the Company reached a settlement with a third party in which that party agreed to indemnify the Company for the costs of defending and resolving the Pay Card Class Action. On December 21, 2017, the Court entered the final approval order for the settlement in the amount of $1.8 million. The indemnifying third party reimbursed those funds to us on January 16, 2018, and we funded the settlement payments to class members on February 5, 2018.

7. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Allowance for doubtful accounts consists of the following (in thousands):

Balance at December 31, 2016	$1,594
Provision for doubtful accounts	342
Write-offs	(794)
Balance at December 31, 2017	1,142
Provision for doubtful accounts	380
Write-offs	(994)
Balance at December 31, 2018	$ 528

8. NOTES RECEIVABLE

In conjunction with the April 21, 2014, acquisition of Red Fox by RFAC, the Chief Executive Officer of Sunrise (CEO) acquired an approximate 1% interest in RFAC for $1.1 million.

We have two notes receivable from our CEO related to the RealCo transaction in December 2016 (see Note 1) for his share of the purchase price. These two notes totaling $0.7 million bear interest at the USD 1-year London Interbank Offered Rate at note inception (reset annually) (LIBOR), plus 4% and are due to mature in December 2023. We received principal and interest payments related to the two notes of $0.4 million and $0.02 million, respectively, during the year ended December 31, 2017. No principal and interest payments were received during the year ended December 31, 2018.

In 2017, we accepted eight new notes receivable from the CEO related to transactions with RealCo and Suntas (see Notes 1 and 4). These eight notes totaling $0.2 million bear interest at LIBOR plus 4% and are due to mature from July to December 2024.

In 2018, we accepted 17 new notes receivable from the CEO related to transactions with RealCo and Suntas. These 17 notes totaling $0.2 million bear interest at LIBOR plus 4% and are due to mature from March to December 2025.

The above notes had a carrying value of $0.8 million and $0.5 million at December 31, 2018 and 2017, respectively.

We have a note receivable from Greystone Partners II, LP related to the sale of certain subsidiary companies in 2009. The note is a $2.5 million earn-out, non-interest-bearing

note due to mature on March 31, 2029. This note had a carrying value of $0.8 million at December 31, 2018 and 2017.

9. LEASE IMPAIRMENT

We recorded an impairment charge of $5.8 million and $13.7 million in the years ended December 31, 2018 and 2017, respectively, related to the portfolio of four leased communities terminated and sold in 2018 (see Note 3).

We recorded an impairment charge of $2.9 million related to a leased community in the year ended December 31, 2018. Forecasts for this community indicated the cash flow would not be sufficient to recover the carrying amount of the associated leasehold improvements and lease intangible assets as of December 31, 2018. Based on the calculated fair value of the underlying assets, we recorded an impairment charge of $1.3 million related to the leasehold intangibles and $1.6 million related to the leasehold improvements and other property and equipment relating to this leased community in the year ended December 31, 2018. This lease expires in 2023.

We recorded an impairment charge of $0.8 million related to a leased asset portfolio consisting of three communities under a single master lease and two communities under individual leases in the year ended December 31, 2017. Forecasts for these communities indicated the cash flow would not be sufficient to recover the carrying amount of the associated leasehold improvements and lease intangible assets as of December 31, 2017. Based on the calculated fair value of the underlying assets, we recorded an impairment charge of $0.2 million related to the leasehold intangibles and $0.6 million related to the leasehold improvements and other property and equipment relating to these leased communities in the year ended December 31, 2017. The term of these leases ended on April 30, 2018.

10. PROPERTY AND EQUIPMENT

Property and equipment consist of the following, excluding the assets held for sale (in thousands):

	Asset Lives	December 31, 2018	December 31, 2017
Land and land improvements	15 years	$ 8,870	$ 11,679
Building and building improvements	5–40 years	30,528	5,987
Furniture and equipment	3–10 years	20,734	35,617
Construction in progress		17,029	17,202
Total property and equipment		77,161	70,485
Less accumulated depreciation		(28,873)	(24,257)
Property and equipment—net		$ 48,288	$ 46,228

We recognized $6.8 million and $11.0 million of depreciation expense for the years ended December 31, 2018 and 2017, respectively.

We wrote off capitalized costs of $1.4 million and $3.1 million for the years ended December 31, 2018 and 2017, respectively, associated with projects for which we

ultimately could not obtain all the necessary entitlements to proceed with further development or we no longer intend to pursue. The write-offs were recorded against our reserve for abandoned projects.

11. INTANGIBLE ASSETS AND LIABILITIES

Intangible assets consist of the following (in thousands):

	Estimated Useful Lives	December 31, 2018	December 31, 2017
Management contracts, less accumulated amortization of $34,009 and $26,955 as of December 31, 2018 and 2017, respectively	4–30 years	$116,138	$124,615
Leaseholds, less accumulated amortization of $3,286 and $31,403 as of December 31, 2018 and 2017, respectively	4–5 years	1,222	16,532
Below-market lease intangible, less accumulated amortization of $45 and $11,116 as of December 31, 2018 and 2017, respectively	5 years	44	6,460
Trademark	Indefinite	50,874	50,909
		$168,278	$198,516

Intangible liabilities included in other long-term liabilities, net, consist of the following (in thousands):

	Estimated Useful Lives	December 31, 2018	December 31, 2017
Above-market lease liability less accumulated amortization of $2,121 and $10,393 as of December 31, 2018 and 2017, respectively	4–5 years	$1,709	$2,957

We recognized $21.4 million and $12.5 million of amortization expense related to our acquired management contracts and leaseholds for the years ended December 31, 2018 and 2017, respectively (see Note 3). We recognized $5.4 million and $1.5 million of net amortization expense (and recorded as lease expense) related to our below-market lease asset and above-market lease liabilities for the years ended December 31, 2018 and 2017, respectively (see Note 3). Estimated aggregate amortization expense (revenue) for the next five years is as follows (in thousands):

	Management Contracts Amortization	Leaseholds Amortization	Below-Market Lease Intangible Amortization	Above-Market Lease Liability Amortization
2019	$ 6,975	$ 376	$10	$ 454
2020	6,622	376	10	454
2021	6,559	376	10	454
2022	6,470	94	10	323
2023	6,404	-	4	24
Thereafter	83,108	-	-	-
	$116,138	$1,222	$44	$1,709

Loss on Financial Guarantee—On September 30, 2016, we entered into an amendment to our management agreements with Ventas. The amendment required, among other things, a one-time payment to Ventas for the amount, if any, by which the total actual 2017 net income is less than 102% of the total actual 2016 net income. The amount of the one-time payment is the lesser of the above deficiency, if any, or $5 million to be paid in 2018. Based on the Ventas portfolio's operating results for 2017, we accrued a $5 million loss on financial guarantee for the year ended December 31, 2017. On February 5, 2018, we paid Ventas $5 million.

12. BANK CREDIT FACILITY

On July 31, 2018, we entered into a $150 million revolving credit facility with Bank of America (BoA) which includes a sublimit of $25 million for letters of credit. This credit facility replaced the $100 million revolving credit facility with BoA entered into in 2015. The credit facility has an initial term of three years and has a one-year extension option subject to a 25-basis-point extension fee. The credit facility has an initial interest rate, at our option, of LIBOR plus 3% or prime rate plus 2%. The unused fee is 35 basis points if usage is less than 50% and 30 basis points if usage is greater than or equal to 50%. Interest-only payments are due monthly with all principal due at maturity and the credit facility may be prepaid at any time.

Financial covenants associated with the credit facility are as follows:

- Maximum net total debt (including recourse project financing) to adjusted earnings before interest, taxes, depreciation, and amortization of 3.75x;

- Maximum net senior debt (excluding any project financing) to adjusted earnings before interest, taxes, depreciation, and amortization ("Senior Leverage Ratio") of 3.25x;

- Minimum fixed charge coverage ratio of total adjusted earnings before interest, taxes, depreciation, amortization, and rent expense to fixed charges of not less than 2.5x; and

- Distributions are unrestricted while the Senior Leverage Ratio is less than or equal to 2.25x or restricted to 50% of excess cash after fixed charges and investments while the Senior Leverage Ratio is above 2.25x, with liquidity of at least $20 million.

At December 31, 2018, we had $65 million drawn on the revolving credit facility and we had utilized $4.2 million of the letter of credit availability, leaving us with undrawn capacity under the revolving credit facility of $19.9 million. We were in compliance with all financial covenants at December 31, 2018.

We paid $3.4 million and $2.1 million in interest on the credit facilities for the years ended December 31, 2018 and 2017, respectively. We capitalized $0 and $0.2 million of interest for the years ended December 31, 2018 and 2017, respectively.

In 2018, we paid $1.7 million of finance costs related to the credit facility with the unamortized balance of $1.4 million included in other assets, net as of December 31, 2018.

13. INCOME TAXES

On December 22, 2017, the Tax Cuts and Jobs Act (H.R. 1), the tax reform bill (the “Act”), was signed into law. The Act includes numerous changes in existing tax law, including a permanent reduction in the federal corporate income tax rate from 35% to 21%. The rate reduction took effect on January 1, 2018. In accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 118, *Income Tax Accounting Implications of the Tax Cuts and Jobs Act*, a provisional amount may be recorded if we are able to determine a reasonable estimate but do not have the necessary information available, prepared, and analyzed in reasonable detail to complete our accounting for the Act. We recorded an additional tax provision of approximately $0 and $3.9 million for the years ending December 31, 2018 and 2017 related to the revaluation of our deferred tax assets and liabilities.

The Act adopts a new territorial tax system and subjects US parent corporation to current tax on its “global intangible low-taxed income” (GILTI) and imposes a base erosion and anti-abuse tax (BEAT) that taxes certain payments from corporations subject to US tax to related foreign subsidiaries. The new territorial tax system goes into effect for tax years beginning after December 31, 2017. We have analyzed the impact of BEAT and GILTI and do not expect to have significant adjustments. To the extent that we incur tax expense related to GILTI, we will account for GILTI in the year the tax is incurred.

The provision for (benefit from) income taxes related to continuing operations was $2.2 and ($9.8) million for the years ended December 31, 2018 and 2017, respectively. The provision for income taxes related to minority interest was $0 and $0.4 million for the years ended December 31, 2018 and 2017, respectively. Our effective tax rate for continuing operations was (4.1)% and 21.4% for the years ended December 31, 2018 and 2017, respectively. Our tax provision is related primarily to taxes in the federal and state jurisdictions, the impact of the Act, foreign rate differentials, distributions from foreign subsidiaries, work opportunity tax credits, disallowed meals and entertainment, interest and penalties for uncertain tax positions, foreign tax credits, and a valuation reserve against the net deferred tax assets in the US.

The 2018 provision reflects the following current rates for the US states and the foreign jurisdictions: 21% for US federal, 6.5% for the US-blended state rate—net of federal benefit, 19% for the UK, and 31% for Canada. The 2017 provision reflects the following current rates for the US states and the foreign jurisdictions: 35% for US federal, 4.8% for the US-blended state rate—net of federal benefit, 19.25% for the UK, and 31% for Canada.

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amount recognized for income tax purposes. Our deferred tax assets consist primarily of general operating accruals, deferred revenue, deferred compensation, capitalized startup costs, taxes and interest for uncertain tax positions, investments in joint ventures, and federal and state net operating loss carryforwards. Total deferred tax assets net of valuation allowance as of December 31, 2018 and 2017, were $49.0 million and $50.9 million, respectively. Our deferred tax liabilities primarily consist of the difference between the book and tax basis in intangible property and prepaid expenses. The deferred tax liability primarily relates to purchase accounting. The transaction with Revera was a stock purchase, and therefore, there is no tax step up in the Sunrise's assets; however, GAAP standards revalue Sunrise's assets and liabilities to fair value. Total deferred tax liabilities as of December 31, 2018 and 2017, were $55.1 million and $57.8 million, respectively.

The 2018 provision reflects the following deferred rates for the US states and the foreign jurisdictions: 21% for US federal, 7.0% for the US-blended state rate—net of federal benefit, 19% for the UK, and 31% for Canada.

All available sources of positive and negative evidence were evaluated to determine if there should be a valuation allowance on our net deferred tax asset. In 2017, a full valuation allowance was recorded on the net deferred tax assets of the US Management Company and certain US subsidiaries, as deferred tax assets in excess of reversing deferred tax liabilities were not likely to be realized. In 2018, we reassessed the realizability of our net deferred tax assets and determined that a valuation allowance is required. No valuation allowance was recorded in Canada and the UK in either 2018 or 2017. At December 31, 2018 and 2017, our total valuation allowance on our net deferred tax asset was $26.9 million and $9.1 million, respectively.

At December 31, 2018, we have estimated US federal net operating loss carryforwards of $44.6 million, of which $41.5 million relate to our US consolidated return and $3.1 million relate to other separate company returns, which are carried forward to offset future taxable income in the US for up to 20 years. The preacquisition net operating losses are subject to an annual Section 382 limitation. Therefore, the Company is only permitted to use $2.3 million of loss generated before January 9, 2013, on an annual basis. At December 31, 2018, we had various state net operating loss carryforwards resulting in an ending deferred tax asset of $3.3 million. The deferred tax asset resulting from state net operating losses is based on the blended state tax rate while all other net operating loss carryforwards are gross and not tax effected. At December 31, 2018, we had Canadian net operating loss carryforwards of $0.3 million to offset future foreign taxable income, which are carried forward to offset future taxable income in Canada for up to 20 years. At December 31, 2018, we have no UK net operating loss carryforwards to offset future foreign taxable income, which have an unlimited carryforward period. In 2018, we provided income taxes for unremitted earnings of our foreign subsidiaries that are not considered permanently reinvested.

The major components of the provision for income taxes attributable to continuing operations are as follows (in thousands):

	Year Ended December 31,	
	2018	2017
Current:		
Federal	$1,132	$ 2,198
State	1,104	172
Foreign	35	647
Total current expense	2,271	3,017
Deferred:		
Federal	139	(11,218)
State	119	(1,537)
Foreign	(347)	(105)
Total deferred (benefit) expense	(89)	(12,860)
Provision for (benefit from) income taxes	$2,182	$ (9,843)

There was no income tax benefit or expense allocated to discontinued operations for 2018 and 2017. An income tax expense of $0.4 and $1.1 million was recorded to other comprehensive income in 2018 and 2017, respectively.

Income taxes of $12.8 million and $21.9 million were paid in 2018 and 2017, respectively.

The differences between the amount that would have resulted from applying the domestic federal statutory tax rate (21%) to pretax income from continuing operations and the reported income tax expense from continuing operations recorded include the recognition of a valuation allowance on the US Management Company, state income taxes, change in the valuation allowance of US subsidiaries, tax contingencies, distributions from foreign subsidiaries, disallowed meals and entertainment, foreign rate differentials, work opportunity tax credits, income tax indemnities and liabilities required as a result of not being permanently reinvested in foreign jurisdictions.

Included in the balance of unrecognized tax benefits at December 31, 2018, was approximately $11.5 million of tax positions that, if recognized, would decrease our effective tax rate.

We reflect interest and penalties, if any, on unrecognized tax benefits in the consolidated statements of operations as income tax expense. The amount of interest recognized in the consolidated statements of operations for 2018 and 2017 related to unrecognized tax benefits was a pretax expense of $0.7 million and $0.6 million, respectively. No penalties were recognized in the consolidated statements of operations for 2018 and 2017 related to unrecognized tax benefits.

The total amount of accrued liabilities for interest recognized in the consolidated balance sheets related to unrecognized tax benefits as of December 31, 2018 and 2017, was $5.7 million and $4.9 million, respectively. The total amount of accrued liabilities for penalties recognized in the consolidated balance sheets related to unrecognized tax benefits was $1.5 million and $1.5 million as of December 31, 2018 and 2017, respectively. To the extent that uncertain matters are settled favorably, this amount could reverse and decrease our effective tax.

Within the next 12 months, no uncertain tax positions are expected to be released.

Taxing Jurisdictions Audits—There are no income tax returns under audit by the US Internal Revenue Service (IRS), with the years after 2014 remaining open and subject to audit. There are no state income tax returns under audit, with the years after 2013 and 2014 remaining open and subject to audit. There are no income tax returns under audit by the Canadian government, with the years after 2012 remaining open and subject to audit. In the UK, years after 2012 remain open and subject to audit and the 2013 and 2012 income tax returns are currently under audit by the UK government. At this time, we do not expect the results from any income tax audits to have a material impact on our consolidated financial statements. We do not believe that it is reasonably possible that the amount of unrecognized tax benefits will significantly change in 2018.

14. SHARE-BASED COMPENSATION AND DEVELOPMENT INCENTIVE PLAN

Sunrise has provided awards under a Phantom Equity Plan, Phantom Warrants and a Development Plan. Activity related to these plans for 2018 and 2017 is as follows (in thousands):

	Share-based and Incentive Compensation				
	Phantom Stock	Phantom Warrants	Development Plan-Pool 1	Development Plan-Pool 2	Total
Balance at January 1, 2017	$ 8,952	$ -	$ -	$ -	$ 8,952
Compensation expense	16,182	3,901	36,606	-	56,689
Payments to participants	(883)	-	-	-	(883)
Balance at December 31, 2017	24,251	3,901	36,606	-	64,758
Compensation expense	11,980	1,370	9,746	6,511	29,607
Payments to participants	(2,626)	-	-	-	(2,626)
Balance at December 31, 2018	$33,605	$5,271	$46,352	$6,511	$91,739

Phantom Stock Units—In November 2014, the Compensation Committee of the Board ("Compensation Committee") approved the design for the Sunrise Senior Living LLC Phantom Equity Plan (the "Equity Plan"). The Equity Plan grants to eligible employees ("Participants") units, or rights to a cash payment, at the end of three-year performance periods pursuant to the Equity Plan. The value of each unit is based on the Company's Phantom Equity Value, as defined in the Equity Plan, at the end of each respective three-year performance period divided by the number of units outstanding ("Per Unit Value"). The units cliff vest at the end of each respective three-year performance period. The effective date of the Equity Plan was July 1, 2014.

Phantom Equity Value, as defined in the Equity Plan, is the enterprise value which is the aggregate fair market value of Sunrise LLC and RealCo, less debt, less contributions, plus cash, plus distributions. On an annual basis, the Board selects an independent valuation firm to calculate enterprise value as of December 31 of that respective year.

No later than 90 days after the last day of a performance period, each Participant shall be entitled to a cash payment equal to the number of units then held by the Participant multiplied by the Per Unit Value as of the valuation date coincident with or next preceding the last day of the performance period. Thus, the units are liability-classified awards as the units require cash settlement by us to the Participants in the Equity Plan.

A total of 700,000 units have been approved under the Equity Plan with a maximum of 100,000 units eligible to be awarded in respect of any one performance period. As of December 31, 2018, 500,000 units had been awarded, 100,000 units were issued as of July 1, 2014, July 1, 2015, January 1, 2016, January 1, 2017, and January 1, 2018, respectively.

In 2018, we paid $2.4 million (25,090 units) to Participants upon vesting of their units awarded under the Equity Plan plus an accelerated vested payout of $0.2 million related to terminations.

In 2017, we paid $0.9 million (14,750 units) to Participants upon vesting of their units awarded under the Equity Plan.

We recognized $12.0 million and $16.2 in share-based and incentive compensation expense relating to the units for the years ended December 31, 2018 and 2017, respectively.

Phantom Warrants—In February 2015, the Compensation Committee also approved the one-time grant of Phantom Warrants ("Warrants") to certain executives and senior-level employees, subject to Board approval of the Phantom Warrant Plan ("Warrant Plan"), which was approved by the Board in March 2015. A total of 315,000 Warrants were granted. Each Warrant entitles the holder of that Warrant to a cash payment, for each Warrant exercised, equal to the excess, if any, of the Per Unit Value as of the valuation date coincident with or next preceding the date of exercise over the Base Value per Warrant, as defined in the Warrant Plan, payable upon or as soon as practicable after the applicable exercise date. Thus, the Warrants are liability-classified awards as the Warrants require cash settlement by us to the holder of the Warrant upon exercise. As of December 31, 2018, the total Phantom Warrants outstanding are 256,375.

The Base Value per Warrant is $65.63. The Warrants will vest on June 30, 2021 (the "Vesting Date"), and no portion of the Warrants will vest prior to that date. Once vested, except as provided in the grant letter, 25% of the holder's Phantom Warrants will be deemed to be exercised on each of January 1, 2022, 2023, 2024, and 2025 (an "Exercise Date").

We recognized $1.4 million and $3.9 million in stock compensation expense relating to the Warrants during the years ended December 31, 2018 and 2017, respectively.

Development Plan—In November 2014, the Compensation Committee approved the Sunrise Senior Living LLC Development Plan ("Development Plan") to provide a means whereby Sunrise may provide incentives to key employees of the Company and its subsidiaries to maximize the value of real estate development projects through rewards that are based on such value.

Per the terms of the Development Plan, the Board will designate a group of projects as a portfolio every other year. On March 3, 2016, the Compensation Committee approved the designation of eight real estate development projects as the first Portfolio Bonus Plan ("Pool 1") with the portfolio commencement date of July 1, 2014, and the performance ending date of June 30, 2021. On December 3, 2017, the Compensation Committee approved the designation of six real estate development projects as the second Portfolio Bonus Pool ("Pool 2") with the portfolio commencement date of January 1, 2016, and the performance ending date of December 31, 2022.

The Compensation Committee shall determine the Portfolio Bonus Pool for each pool by multiplying the excess, if any, of the Portfolio Equity Value over the Portfolio Hurdle Rate, by 30% creating the Portfolio Bonus Pool, as all such terms are defined in the Development Plan. The performance period is the period commencing on the portfolio commencement date and ending on the seventh anniversary, or sooner if certain events take place before the seventh anniversary of the portfolio commencement date, e.g., change in control. The Portfolio Bonus Pool will be paid out to the Participants based on their award percentage adjusted for any forfeitures or reductions as provided for in the Plan.

The first group of projects included the eight projects sold to RealCo in December 2016 (see Note 1). The RealCo asset sale transaction in September 2017 triggered the ending date for three of the eight projects in the first portfolio (see Note 1). The Portfolio Equity Value for the first group of projects/portfolio was estimated using the sale price for the three communities sold, and the values provided in the independent enterprise valuation (used in determining the Phantom Equity Value of the Equity Plan) for the five development properties. The estimated Portfolio Equity Value for Pool 1 resulted in an estimated Portfolio Bonus Pool of $70.9 million at December 31, 2018, and $76.2 million at December 31, 2017. The estimated Portfolio Equity Value for Pool 2 used the values provided in the independent enterprise valuation noted above for the properties in Pool 2. The estimated Portfolio Equity Value for Pool 2 resulted in an estimated Portfolio Bonus Pool of $16.2 million at December 31, 2018. The estimated Portfolio Equity Value for Pool 2 did not exceed the Portfolio Hurdle Rate as of December 31,2017, and therefore, we did not accrue a liability for Pool 2 as of December 31, 2017.

Our estimate of the Pool 1 and Pool 2 Portfolio Bonus Pools were based on information available at the time these consolidated financial statements were prepared. The actual amount of the Pool 1 and Pool 2 Portfolio Bonus Pools, which will be payable upon the earlier of June 30, 2021 (Pool 1), and December 31, 2022 (Pool 2), or the date the last property in each pool is sold, could be significantly higher or lower than this estimate based on various factors including, but not limited to, (1) fair market values of any development assets not sold by the end of the performance period as determined by an independent valuation firm, (2) sales values for any development assets sold prior to the end of the performance period, (3) timing of sales and operating cash distributions, and (4) achievement of certain Internal Rate of Return hurdles under the Sunrise Equity Plan.

Based on the estimated Portfolio Bonus Pools and the elapsed performance period for each respective pool, we recognized $16.3 million and $36.6 million in share-based compensation expense relating to the Development Plan for the years ended December 31, 2018 and 2017, respectively. We expect to accrue the remaining expense related to Pool 1 and Pool 2 over the remaining performance period for each respective pool.

15. COMMITMENTS AND CONTINGENCIES

Leases for Operating Communities—We have operating leases for five communities with terms ranging from three years to 10 years. Some of these leases can be extended at our option.

Community Leases—Rent expense for communities subject to operating leases was as follows (in thousands):

	Year Ended December 31,	
	2018	2017
	Leased Communities	Leased Communities
Rent expense, including ground rent	$35,841	$39,481
Contingent rent expense	1,764	4,683
Total rent expense	$37,605	$44,164

Contingent rent expense is based on the net cash flow of certain of the leased properties.

Leases for Office Space—In December 2013, we signed a lease for our community support office. The lease commenced in April 2014. The lease is for approximately seven years and four months and includes annual rent increases and the option to renew the lease for either five or seven years. Rent expense for office space for the years ended December 31, 2018 and 2017, was $2.3 million and $2.2 million, respectively, and is included in general and administrative expense. Under the terms of the lease, the landlord reimbursed us for the cost of improvements up to a maximum specified amount.

A portion of the reimbursement was for leasehold improvements that will be owned by the landlord, and accordingly, the cost of these leasehold improvements is not reflected in our consolidated balance sheets. The remaining reimbursement was for other furniture, fixtures and equipment, and related capitalized costs that are reflected in our consolidated balance sheets.

Future minimum lease payments under office, ground, and other operating leases at December 31, 2018, are as follows (in thousands):

	Office and Leased Communities
2019	$ 28,159
2020	28,866
2021	28,994
2022	27,215
2023	25,160
Thereafter	130,745
	$269,139

Letters of Credit—At December 31, 2018 and 2017, we had $4.2 million and $2.9 million, respectively, in letters of credit relating to operations, which are collateralized by the BoA revolving credit facility, and $80.7 million in letters of credit relating to our Insurance Program, which are fully cash collateralized.

Debt Guarantees—We have provided completion guarantees and principal guarantees on third-party debt associated with the RealCo properties and Suntas joint venture properties ranging from 20% to 25% based on debt service coverage ratios. The maximum exposure under the principal guarantees was $28.6 million as of December 31, 2018. In conjunction with the guarantees, we are required to comply with various financial covenants. We are in compliance with all financial covenants at December 31, 2018. The remaining terms of the debt that we have guaranteed range from 12 months to 4.25 years as of December 31, 2018. In February 2019, we entered into Reimbursement Agreements related to these guarantees (see Note 19).

We provided completion guarantees in conjunction with the development of the senior living communities to be built on the four land parcels that are part of the Ventas/Suntas joint venture (see Note 4) and have also agreed to fund any cost overruns with a maximum exposure of $4.8 million. We have recorded a liability of $1.2 million as of December 31, 2018, under these guarantees.

Legal Proceedings

Pending Lawsuits and Claims

California Pay Card Class Action—The Company was a defendant in a class-action lawsuit in the US District Court for the Central District of California, Los Angeles County.

In December 2016, the Company reached a related, confidential, nonpublic settlement with a third party in which that party agreed to indemnify the Company for the costs of defending and resolving the Pay Card Class Action. On December 21, 2017, the Court entered the final approval order for the settlement in the amount of $1.8 million. This amount was included in “Accounts payable and accrued expenses” and “Accounts receivable” in our consolidated balance sheets as of December 31, 2017. We funded the settlement payments to class members on February 5, 2018, and the indemnifying third party has reimbursed those funds to us. On March 26, 2018, the Court entered final judgement and dismissed the case with prejudice. This matter is now concluded.

The Carlisle—On November 10, 2016, the Homeowners’ Association of The Carlisle, an assisted living community in San Francisco managed by the Company, filed a lawsuit against the Company and others in the Superior Court of the State of California in the County of San Francisco, alleging, *inter alia,* that the Company purportedly breached the management agreement by failing to properly maintain the exterior walls of the building which purportedly resulted in water intrusion damage and necessitates replacement of the building’s cladding. Defendants have filed their response to plaintiff’s allegations and the court has dismissed several counts with leave to amend. On March 30, 2018, plaintiff filed a second amended complaint adding a claim for purported fraudulent accounting practices to which the Company responded. Discovery is underway and the trial is scheduled for June 10, 2019. The company submitted a motion for summary judgment which is scheduled to be heard prior to trial. The parties are also exploring possible avenues of resolution. In the event this matter does go to trial, the Company intends to defend itself vigorously. Because additional facts need to be further developed, we cannot at this time estimate an amount or range of potential loss in the event of an unfavorable outcome.

In addition to the matters described above, we are involved in various lawsuits and claims, regulatory matters, and other governmental audits and investigations arising in the normal course of business. In the opinion of management, although the outcomes of these other suits and claims are uncertain, in the aggregate they are not expected to have a material adverse effect on our business, financial condition, and results of operations.

16. RELATED-PARTY TRANSACTIONS

Welltower—We manage 142 communities wholly owned by Welltower; 112 in the US, including three RealCo communities acquired on September 1, 2017 (see Note 1), three in Canada, and 27 in the UK, under management agreements with initial terms of five to 15 years. In addition, we manage 27 venture communities where Welltower is a venture partner, nine in the US, including five RealCo communities and 18 Gracewell communities in the UK. We are currently developing or have entered into agreements to develop six communities owned by Welltower through its interest in RealCo (see Note 1).

Revenues earned from Welltower's communities are as follows (in thousands):

	Year Ended December 31,					
	2018			2017		
	Wholly	Joint Venture*		Wholly	Joint Venture*	
	Owned	Gracewell	Other	Owned	Gracewell	Other
Management fees	$ 50,741	$ 4,271	$ 1,584	$ 48,009	$ 3,456	$ 1,648
Professional fees from development, marketing, and other	3,267	111	77	2,639	243	73
Reimbursed costs incurred on behalf of managed communities	498,756	8,968	14,130	438,987	8,231	13,122
Total revenues	$552,764	$13,350	$15,791	$489,635	$11,930	$14,843

* Excludes RealCo which is included in the next section.

From 2015 to 2017, we entered into new management contracts for 12 communities owned by Welltower. In lieu of a cash payment to acquire the contracts, we accepted a reduced management fee percentage over the first five years of each 15-year contract. We estimated the average fee percentage to be earned over the entire term of the contracts and record management fee revenue using the average fee percentage. The difference between the management fee revenue recorded and actual management fees received is included in other assets. This balance was $3.5 million and $1.9 million at December 31, 2018 and 2017, respectively.

In March 2018, Sunrise LLC's board of managers approved a one-time management fee abatement for the Welltower wholly owned communities resulting in a reduction of our management fees earned of approximately 0.19% of the Welltower wholly owned communities' revenues for the year ended December 31, 2018.

On December 31, 2018 Sunrise and Welltower entered into a Framework Agreement and an Amendment to the Manager Pooling Agreement (the "Amended Agreements") which modified certain provisions of the original agreements and incorporated other new provisions. In conjunction with entering into the Amended Agreements, Sunrise will pay a one-time contract renegotiation fee to Welltower of $2 million that was recorded in "Due

from affiliates, current" and "Contract modification costs" in the December 31, 2018, consolidated financial statements.

Reimbursed costs incurred on behalf of managed communities included $0.5 million for Welltower's pro rata share of the Captive's net income for the year ended December 31, 2018. See Note 1 for a discussion of the premium incentive rebate issued by the Captive in March 2018. Welltower's communities received $2.1 million of this rebate. For the year ended December 31, 2017, reimbursed costs incurred on behalf of managed communities were offset by $1.1 million for Welltower's pro rata share of the Captive's net income.

We incurred costs totaling $0.9 million for 40 communities wholly owned, or in a joint venture, by Welltower for which Welltower was not obligated to reimburse us for the year ended December 31, 2018. These costs are included in "Cost incurred on behalf of managed communities" in our consolidated statement of operations.

Included in "Due from affiliates, current" is $9 million and $24.9 million due from Welltower communities as of December 31, 2018 and 2017, respectively. Amounts due include management fees, payroll, insurance, and other operating costs that are reimbursed to us, generally within 30 days. The Welltower communities are required to fund the biweekly payroll in advance of the pay date to ensure funding is available. At December 31, 2018, the communities had funded the biweekly payroll that was subsequently processed on January 3, 2019.

"Due from affiliates, long term" of $12.5 million and $12 million at December 31, 2018 and 2017, respectively, represents an indemnification receivable from Welltower related to our uncertain tax positions.

Dividends of $3.0 million and $6.0 million were paid to Welltower in the years ended December 31, 2018 and 2017, respectively.

In July 2017, we received $3 million of additional compensation relating to the sale of the Severna Park community (see Note 4). In December 2018, we paid Welltower $0.6 million related to post-closing true-ups for the Severna Park sale.

In 2016, Sunrise and Welltower agreed to transition the management of two UK communities and three Gracewell communities to a new manager. Deeds of Termination were executed and one UK community was transitioned in December 2016. The remaining four communities were transitioned in 2017 and Welltower paid Sunrise £1.6 million ($2 million) in termination fees for the communities that terminated in 2017.

RealCo—We manage five communities owned by RealCo under management agreements with initial terms of 15 years and are currently developing or have entered into agreements to develop six additional communities owned by RealCo (see Note 1).

Revenues earned from RealCo's communities are as follows (in thousands):

	Year Ended December 31,	
	2018	2017
Management fees	$ 1,300	$ 950
Professional fees from development, marketing, and other	2,216	3,150
Reimbursed costs incurred on behalf of managed communities	18,233	14,302
Total revenues	$21,749	$18,402

Included in "Due from affiliates, current" are the following amounts due from RealCo as of December 31 (in thousands):

2018		2017	
Operating Communities	Development Communities	Operating Communities	Development Communities
$2,825	$4,926	$3,795	$3,337

Amounts due from operating communities include management fees, payroll, insurance, and other operating costs that are reimbursed to us, generally within 30 days. Amounts due from development communities include construction and pre-opening costs that will be reimbursed to us once the communities submit draw requests and receive funding from the lenders, generally within 30 days.

On September 1, 2017, Revera and a member of Sunrise LLC's senior management sold their interests in the three operating communities to Welltower. Following the sale of the interests, these communities became wholly owned by Welltower (see Note 1). Based on the calculation of the agreed-upon excess value for these communities, we received $9.4 million in developer incentive fees in September 2017. We recognized $8.1 million of gains from sale of real estate, net of deferred gains of $1.3 million due to a clawback provision in the management agreement whereby we agreed to reimburse Welltower up to a maximum of the management fees paid to us for the communities during the first year after the Closing Date if certain income thresholds are not met. The amount ultimately owed under the clawback provision was $0.8 million and is included in the "Due from affiliates, current" amount due from Welltower as of December 31, 2018. We also recognized $2.8 million of development fees related to these three operating communities in September 2017.

In October 2017, Revera sold 10% of its interest in RealCo to Welltower which changed RealCo's ownership structure to be identical to Red Fox's ownership interests effective April 28, 2017 (see Note 1).

During 2017, we sold a land parcel to a New 2017 PropCo within the RealCo structure. We received $5.1 million from RealCo representing our costs incurred on the acquisition and subsequent entitlement of the land parcel. In addition, three other New 2017 PropCo entities within the RealCo structure purchased three land parcels and reimbursed us $3.1 million for search costs incurred and deposits we had placed on these land parcels. We entered into development agreements with each of the New 2017 PropCos with terms

similar to those discussed above. The ownership of the New 2017 PropCos is identical to Red Fox's ownership interest effective April 28, 2017 (see Note 1).

During 2018, we sold a land parcel to a New 2018 PropCo within the RealCo structure. We received $3.5 million from RealCo representing the fair value of the land and costs incurred on the acquisition and subsequent entitlement of the land parcel. As this was a transaction under common ownership, the excess of the fair value paid by RealCo over our cost was recorded directly to equity. In addition, one other New 2018 PropCo entity within the RealCo structure purchased a land parcel and reimbursed us $1.1 million for search costs incurred and a deposit we had placed on this land parcel. We entered into a development agreement with each of the New 2018 PropCos with terms similar to those discussed above.

Revera—On April 28, 2017, Revera sold 12.5% of its interest in RFAC to the Welltower affiliate that already owned a 5% interest. Following this sale of interest, Revera's indirect interest in Red Fox decreased from 75.3% to 65.3% (see Note 1). On September 1, 2017, Revera sold its interest in three RealCo operating communities to Welltower (see Note 1). In October 2017, Revera sold 10% of its interest in RealCo to Welltower which changed RealCo's ownership structure to be identical to Red Fox's current ownership interests (see Note 1). Revera has a 25% indirect interest in 18 Gracewell communities in the UK. We are currently developing or have entered into agreements to develop six communities owned by Revera through its interest in RealCo (see Note 1).

In October 2018, we entered into a new management agreement for one Gracewell community in the UK owned by Revera. The agreement has a term of 15 years. Total management fees earned were approximately $31,000 in 2018. Included in "Due from affiliates, current" is $0.9 million due from this community as of December 31, 2018. Amounts due include pre-opening costs, management fees, payroll, insurance, and other operating costs that are reimbursed to us, generally within 30 days.

Also included in "Due from affiliates, current" is $0.1 million due from Revera related to consulting costs incurred by our UK management company.

RFAC—In June 2018, RFHC paid $12 million to RFAC as repayment of tax debt arising under a Tax Sharing Agreement between RFHC and RFAC. The payment reduced RFHC's current tax liability for the amount due as of December 31, 2017, and also included an estimate of the amount owed for 2018.

AllyAlign Health (AAH)—On January 19, 2017, we formed a joint venture with AAH to establish and operate Medicare Advantage Special Needs Plans (MASNPs). As of December 31, 2018, we have contributed $10.7 million for a 79% interest in the joint venture which is included in our consolidated financial statements. AAH has contributed $2.8 million for the remaining 21% interest which is recorded as a noncontrolling interest. The joint venture will establish and operate MASNPs in various states. As of December 31, 2018, the joint venture has made $9.5 million in contributions to fund start-up working capital and statutory equity requirements for various wholly owned subsidiaries. The contributions are held in interest-bearing cash accounts controlled by either Sunrise or AAH or US Government T-bills and are classified as restricted cash or restricted investments on our consolidated balance sheet.

Sunrise and AAH entered into a Management Services Agreement when the joint venture was formed. The joint venture has expensed $2 million of fees to AAH for the year ended December 31, 2017, for preparation and submission of regulatory applications necessary to

operate the MASNPs. These fees are included in our consolidated statement of operations as “Start-up costs” with 21% recorded as “Loss attributable to noncontrolling interests.”

Sunrise Advantage Plans—On January 1, 2018, operations commenced for Sunrise Medicare Advantage and Sunrise Medicare Advantage Special Needs Plans (SAPs) doing business in the states of Illinois, Pennsylvania, New York, and Virginia. The SAPs are wholly owned subsidiaries of the joint venture. The joint venture has expensed $0.6 million of management fees to AAH for the year ended December 31, 2018. These fees are included in our consolidated statement of operations in general and administrative expense with 21% recorded as loss attributable to noncontrolling interests. In the fall of 2018, Sunrise Senior Living Sunrise LLC took over the obligation from AAH to employ licensed sales agents on behalf of the SAPs. AAH’s fee under the Management Services Agreement was offset by 4% to account for these costs. The agents are now employed by Sunrise.

Spectrum—We recorded expense of $4.8 million and $6.5 million for the years ended December 31, 2018 and 2017, respectively, for therapy and rehabilitative services provided at our consolidated communities by entities owned by Spectrum. The expense is recorded in “Community expense for consolidated communities” in our consolidated statements of operations.

Potential Development Agreement—In 2018, Sunrise entered into an Agreement with Poland Hill, LLC (“Poland Hill”), to reserve for Sunrise the right to enter into a joint venture (JV) at Sunrise’s option to develop a new facility on land currently owned by Poland Hill. The members of Poland Hill are a group of three families, some of whom are represented by family trusts. One of the families are the parents-in-law of a Sunrise executive. The Sunrise executive was not directly involved in the negotiations related to the Poland Hill Agreement. Should the parties agree to enter into a JV to develop a facility, the Agreement would be subject to the standard approval procedures by Sunrise’s Board of Managers.

17. ACCOUNTS PAYABLE AND ACCRUED EXPENSES AND OTHER LONG-TERM LIABILITIES

Accounts payable and accrued expenses consist of the following (in thousands):

	December 31,	
	2018	**2017**
Accounts payable and accrued expenses	$ 18,345	$ 20,006
Accrued salaries and bonuses	51,434	49,116
Accrued employee health and other benefits	36,725	34,505
Income taxes payable	12	3,791
Other accrued expenses	34,865	25,291
	$141,381	$132,709

Other long-term liabilities consist of the following (in thousands):

	December 31,	
	2018	2017
Uncertain tax position	$ 18,636	$ 17,643
Lease liabilities, including above-market lease liability—net	3,627	4,955
Liability for future performance obligation	16,008	20,091
Deferred revenue from nonrefundable entrance fees	41,961	42,137
Refundable entrance fees	4,888	6,105
Equity plan, warrants, development plan liabilities	80,666	62,477
Other long-term liabilities	3,748	7,671
	$169,534	$161,079

18. 401(K) PLAN

We have a 401(k) Plan (the "Plan") covering all eligible employees. Under the Plan, eligible employees may make pretax contributions up to 100% of the IRS limits. The Plan provides an employer match dependent upon compensation levels and years of service. The Plan does not provide for discretionary matching contributions. Matching contributions were $2.2 million and $2.3 million for the years ended December 31, 2018 and 2017, respectively.

19. SUBSEQUENT EVENTS

Subsequent events have been evaluated through March 15, 2019, the date these consolidated financial statements were issued. Other than the events identified within, there were no other subsequent events identified.

In February 2019, we entered into an Agreement for Guaranty Reimbursement ("Agreement") with Revera and Welltower. As indicated in Note 15, Sunrise provided certain guaranties to third-party lenders in connection with debt financing related to the acquisition and construction of the RealCo communities and the Suntas joint venture communities. Under the Agreement, Revera and Welltower have agreed to execute a Reimbursement Agreement in connection with each community. The Reimbursement Agreements stipulate that in the event Sunrise actually pays funds on account of its guaranty of any of the above loans, Revera and Welltower will reimburse Sunrise for those amounts.

In February 2019, Sunrise made a Portfolio Performance Cure ("Cure") payment of $2.1 million to the owner of a portfolio of communities that we manage under long-term management agreements. The portfolio of communities did not meet specified performance thresholds during 2018 as defined in the management agreement. This provided the owner with, in their sole discretion and option, a Portfolio Performance Termination Right to terminate the management agreements for the portfolio. By making the Cure payment, the owner was prevented from exercising its termination right. The liability for the Cure payment was recorded in "Accounts payable and accrued expenses" in our consolidated balance sheet as of December 31, 2018.

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SUPPLEMENTAL CONSOLIDATING FINANCIAL INFORMATION

RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY, SUNRISE SENIOR LIVING, LLC

SUPPLEMENTAL CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2018
(In thousands, except share amounts)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ -	$ 44,409	$ -	$ 44,409
Accounts receivable, net	-	30,866	-	30,866
Due from affiliates	-	18,325	(482)	17,843
Restricted cash	-	20,303	-	20,303
Prepaid expenses and other current assets	-	22,498	-	22,498
Total current assets	-	136,401	(482)	135,919
PROPERTY AND EQUIPMENT, Net	-	48,288	-	48,288
NOTES RECEIVABLE	-	1,617	-	1,617
INTANGIBLE ASSETS, Net	-	168,278	-	168,278
GOODWILL	-	92,307	-	92,307
INVESTMENT IN EQUITY INTEREST	-	8,451	-	8,451
RESTRICTED CASH	-	93,367	-	93,367
RESTRICTED INVESTMENTS IN MARKETABLE SECURITIES	-	2,483	-	2,483
DUE FROM AFFILIATES	-	12,516	-	12,516
INVESTMENT IN SUBSIDIARY	91,215	-	(91,215)	-
OTHER ASSETS, Net	-	10,469	-	10,469
Total assets	$ 91,215	$574,177	$ (91,697)	$573,695
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Accounts payable and accrued expenses	-	141,381	-	141,381
Due to affiliates	482	324	(482)	324
Deferred revenue	-	1,998	-	1,998
Entrance fees	-	1,315	-	1,315
Self-insurance liabilities	-	24,161	-	24,161
Total current liabilities	482	169,179	(482)	169,179
OUTSTANDING DRAWS ON BANK CREDIT FACILITY	-	65,000	-	65,000
SELF-INSURANCE LIABILITIES	-	67,338	-	67,338
DEFERRED INCOME TAX LIABILITIES, Net	-	6,078	-	6,078
OTHER LONG-TERM LIABILITIES, Net	-	169,534	-	169,534
Total liabilities	482	477,129	(482)	477,129
EQUITY:				
Common stock, $0.01 par value, 722,765 shares issued and outstanding	7	-	-	7
Additional paid-in capital	172,289	-	-	172,289
Member's capital	-	172,778	(172,778)	-
Accumulated deficit	(73,137)	(73,137)	73,137	(73,137)
Accumulated other comprehensive loss	-	(8,426)	-	(8,426)
Share of subsidiary's other comprehensive loss	(8,426)	-	8,426	-
Total stockholders' equity	90,733	91,215	(91,215)	90,733
NONCONTROLLING INTERESTS	-	5,833	-	5,833
Total equity	90,733	97,048	(91,215)	96,566
TOTAL LIABILITIES AND EQUITY	$ 91,215	$574,177	$ (91,697)	$573,695

See notes to consolidated financial statements.

RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY, SUNRISE SENIOR LIVING, LLC

SUPPLEMENTAL CONSOLIDATING BALANCE SHEET
AS OF DECEMBER 31, 2017
(In thousands, except share amounts)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$ 1	$ 47,650	$ -	$ 47,651
Accounts receivable, net	-	36,472	-	36,472
Due from affiliates	-	33,625	(483)	33,142
Restricted cash	-	24,709	-	24,709
Assets held for sale	-	26,822	-	26,822
Prepaid expenses and other current assets	-	12,637	-	12,637
Total current assets	1	181,915	(483)	181,433
PROPERTY AND EQUIPMENT, Net	-	46,228	-	46,228
NOTES RECEIVABLE	-	1,293	-	1,293
INTANGIBLE ASSETS, Net	-	198,516	-	198,516
GOODWILL	-	92,441	-	92,441
INVESTMENT IN EQUITY INTEREST	-	8,858	-	8,858
RESTRICTED CASH	-	83,222	-	83,222
RESTRICTED INVESTMENTS IN MARKETABLE SECURITIES	-	7,487	-	7,487
DUE FROM AFFILIATES	-	12,043	-	12,043
INVESTMENT IN SUBSIDIARY	162,580	-	(162,580)	-
OTHER ASSETS, Net	-	9,586	-	9,586
TOTAL ASSETS	$162,581	$641,589	$(163,063)	$641,107
LIABILITIES AND EQUITY				
CURRENT LIABILITIES:				
Outstanding draws on bank credit facility	$ -	$ 65,000	$ -	$ 65,000
Accounts payable and accrued expenses	-	132,709	-	132,709
Liabilities associated with assets held for sale	-	16,822	-	16,822
Due to affiliates	483	-	(483)	-
Deferred revenue	-	3,778	-	3,778
Entrance fees	-	1,775	-	1,775
Self-insurance liabilities	-	24,955	-	24,955
Total current liabilities	483	245,039	(483)	245,039
SELF-INSURANCE LIABILITIES	-	60,140	-	60,140
DEFERRED INCOME TAX LIABILITIES, Net	-	6,930	-	6,930
OTHER LONG-TERM LIABILITIES, Net	-	161,079	-	161,079
Total liabilities	483	473,188	(483)	473,188
EQUITY:				
Common stock, $0.01 par value, 722,765 shares issued and outstanding	7	-	-	7
Additional paid-in capital	186,559	-	-	186,559
Member's capital	-	187,048	(187,048)	-
Accumulated deficit	(18,162)	(18,162)	18,162	(18,162)
Accumulated other comprehensive loss	-	(6,306)	-	(6,306)
Share of subsidiary's other comprehensive loss	(6,306)	-	6,306	-
Total stockholders' equity	162,098	162,580	(162,580)	162,098
NONCONTROLLING INTERESTS	-	5,821	-	5,821
Total equity	162,098	168,401	(162,580)	167,919
TOTAL LIABILITIES AND EQUITY	$162,581	$641,589	$(163,063)	$641,107

See notes to consolidated financial statements.

RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY, SUNRISE SENIOR LIVING, LLC

SUPPLEMENTAL CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In thousands)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
OPERATING REVENUE:				
Management fees	$ -	$ 112,960	$ -	$ 112,960
Resident fees for consolidated communities	-	161,918	-	161,918
Ancillary services	-	8,255	-	8,255
Professional fees from development, marketing, and other	-	9,146	-	9,146
Sunrise Advantage plan revenue	-	2,542	-	2,542
Reimbursed costs incurred on behalf of managed communities	-	1,098,223	-	1,098,223
Total operating revenue	-	1,393,044	-	1,393,044
OPERATING EXPENSES:				
Community expense for consolidated communities	-	107,124	-	107,124
Community lease expense	-	37,605	-	37,605
Depreciation and amortization	-	28,424	-	28,424
Impairment of leases	-	8,694	-	8,694
Ancillary expenses	-	8,279	-	8,279
Provision for doubtful accounts	-	380	-	380
General and administrative	-	100,969	-	100,969
Share-based and incentive compensation	-	29,607	-	29,607
Development and idle land costs	-	3,169	-	3,169
Provision for abandoned projects	-	1,430	-	1,430
Loss on financial guarantee	-	1,239	-	1,239
Contract modification costs	-	2,000	-	2,000
Sunrise Advantage plan expense	-	5,932	-	5,932
Costs incurred on behalf of managed communities	-	1,105,186	-	1,105,186
Total operating expenses	-	1,440,038	-	1,440,038
Loss from operations	-	(46,994)	-	(46,994)
OTHER NONOPERATING INCOME (EXPENSE):				
Interest income	-	1,136	-	1,136
Interest expense	-	(4,069)	-	(4,069)
Other expense	-	(3,461)	-	(3,461)
Total other nonoperating expense	-	(6,394)	-	(6,394)
LOSS ON SALE OF REAL ESTATE	-	(51)	-	(51)
LOSS FROM INVESTMENT IN EQUITY INTEREST	-	(407)	-	(407)
EQUITY IN LOSS OF SUBSIDIARY	(54,975)	-	54,975	-
Loss before provision for income taxes	(54,975)	(53,846)	54,975	(53,846)
PROVISION FOR INCOME TAXES	-	(2,182)	-	(2,182)
Net loss	(54,975)	(56,028)	54,975	(56,028)
LESS LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS, Net of tax	-	1,053	-	1,053
NET LOSS ATTRIBUTABLE TO STOCKHOLDERS	$(54,975)	$ (54,975)	$54,975	$ (54,975)

See notes to consolidated financial statements.

RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY, SUNRISE SENIOR LIVING, LLC

SUPPLEMENTAL CONSOLIDATING STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2017
(In thousands)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
OPERATING REVENUE:				
Management fees	$ -	$ 115,812	$ -	$ 115,812
Resident fees for consolidated communities	-	223,821	-	223,821
Ancillary services	-	7,829	-	7,829
Professional fees from development, marketing, and other	-	8,150	-	8,150
Reimbursed costs incurred on behalf of managed communities	-	1,009,889	-	1,009,889
Total operating revenue	-	1,365,501	-	1,365,501
OPERATING EXPENSES:				
Community expense for consolidated communities	-	156,749	-	156,749
Community lease expense	-	44,164	-	44,164
Depreciation and amortization	-	23,694	-	23,694
Impairment of leases	-	14,469	-	14,469
Ancillary expenses	-	7,454	-	7,454
Provision for doubtful accounts	-	342	-	342
General and administrative	-	94,419	-	94,419
Share-based and incentive compensation	-	56,689	-	56,689
Development and idle land costs	-	2,172	-	2,172
Provision for abandoned projects	-	3,054	-	3,054
Transaction costs	-	457	-	457
Start-up costs	-	4,064	-	4,064
Loss on financial guarantees	-	5,000	-	5,000
Costs incurred on behalf of managed communities	-	1,008,425	-	1,008,425
Total operating expenses	-	1,421,152	-	1,421,152
Loss from operations	-	(55,651)	-	(55,651)
OTHER NONOPERATING INCOME (EXPENSE):				
Interest income	-	188	-	188
Interest expense	-	(2,554)	-	(2,554)
Other expense	-	(1,510)	-	(1,510)
Total other nonoperating expense	-	(3,876)	-	(3,876)
GAIN FROM SALE OF REAL ESTATE	-	14,196	-	14,196
LOSS FROM INVESTMENT IN EQUITY INTEREST	-	(755)	-	(755)
EQUITY IN LOSS OF SUBSIDIARY	(35,374)	-	35,374	-
Loss before benefit from income taxes	(35,374)	(46,086)	35,374	(46,086)
BENEFIT FROM INCOME TAXES	-	9,843	-	9,843
Net loss	(35,374)	(36,243)	35,374	(36,243)
LESS LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS, Net of tax	-	869	-	869
NET LOSS ATTRIBUTABLE TO STOCKHOLDERS	$(35,374)	$ (35,374)	$35,374	$ (35,374)

See notes to consolidated financial statements.

RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY, SUNRISE SENIOR LIVING, LLC

SUPPLEMENTAL CONSOLIDATING STATEMENT OF COMPREHENSIVE LOSS FOR THE YEAR ENDED DECEMBER 31, 2018 (In thousands)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
NET LOSS	$(54,975)	$(56,028)	$54,975	$(56,028)
OTHER COMPREHENSIVE (LOSS) INCOME:				
Foreign currency translation adjustments	-	(1,437)	-	(1,437)
Unrealized gain on investments	-	(6)	-	(6)
Share of subsidiary's other comprehensive income	(1,443)	-	1,443	-
Comprehensive loss	(56,418)	(57,471)	56,418	(57,471)
LESS COMPREHENSIVE LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	-	1,059	-	1,059
COMPREHENSIVE LOSS ATTRIBUTABLE TO STOCKHOLDERS	$(56,418)	$(56,412)	$56,418	$(56,412)

See notes to consolidated financial statements.

RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY, SUNRISE SENIOR LIVING, LLC

SUPPLEMENTAL CONSOLIDATING STATEMENT OF COMPREHENSIVE LOSS FOR THE YEAR ENDED DECEMBER 31, 2017 (In thousands)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
NET LOSS	$(35,374)	$(36,243)	$35,374	$(36,243)
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation adjustments	-	1,719	-	1,719
Unrealized gain on investments	-	132	-	132
Share of subsidiary's other comprehensive income	1,851	-	(1,851)	-
Comprehensive loss	(33,523)	(34,392)	33,523	(34,392)
LESS COMPREHENSIVE LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	-	737	-	737
COMPREHENSIVE LOSS ATTRIBUTABLE TO STOCKHOLDERS	$(33,523)	$(33,655)	$33,523	$(33,655)

See notes to consolidated financial statements.

RED FOX HOLDING CORPORATION AND ITS
WHOLLY OWNED SUBSIDIARY, SUNRISE SENIOR LIVING LLC

SUPPLEMENTAL CONSOLIDATING STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018
(In thousands)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Noncontrolling Interests	Eliminations	Consolidated Total
BALANCE AT JANUARY 1, 2018	$162,098	$162,580	$ 5,821	$(162,580)	$167,919
Net loss	(54,975)	(54,975)	(1,053)	54,975	(56,028)
Dividends to stockholders	(15,000)	(15,000)	-	15,000	(15,000)
Sale of asset under common control, net of tax	730	730	-	(730)	730
Distributions between entities	12,000	(12,000)	-	-	-
Balance transfers between entities	(12,000)	12,000	-	-	-
Contributions from noncontrolling interests	-	-	889	-	889
Distributions on behalf of noncontrolling interests	-	-	(745)	-	(745)
Termination of leases	-	-	(141)	-	(141)
Foreign currency translation adjustments	-	(1,437)	-	-	(1,437)
Unrealized loss on nonequity investments of noncontrolling interests	-	(6)	(5)	-	(11)
Cumulative adjustment	-	(677)	1,067	-	390
Share of subsidiary's other comprehensive loss and cumulative adjustment	(2,120)	-	-	2,120	-
BALANCE AT DECEMBER 31, 2018	$ 90,733	$ 91,215	$ 5,833	$ (91,215)	$ 96,566

See notes to consolidated financial statements.

RED FOX HOLDING CORPORATION AND ITS
WHOLLY OWNED SUBSIDIARY, SUNRISE SENIOR LIVING LLC

SUPPLEMENTAL CONSOLIDATING STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017
(In thousands)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Noncontrolling Interests	Eliminations	Consolidated Total
BALANCE AT JANUARY 1, 2017	$225,621	$226,103	$ 4,940	$(226,103)	$230,561
Net loss	(35,374)	(35,374)	(869)	35,374	(36,243)
Dividends to stockholders	(30,000)	(30,000)	-	30,000	(30,000)
Contributions from noncontrolling interests	-	-	3,488	-	3,488
Return of contributions from noncontrolling interests	-	-	(1,112)	-	(1,112)
Distributions on behalf of noncontrolling interests	-	-	(626)	-	(626)
Foreign currency translation adjustments	-	1,719	-	-	1,719
Unrealized gain on investments	-	132	-	-	132
Share of subsidiary's other comprehensive income	1,851	-	-	(1,851)	-
BALANCE AT DECEMBER 31, 2017	$162,098	$162,580	$ 5,821	$(162,580)	$167,919

See notes to consolidated financial statements.

RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY, SUNRISE SENIOR LIVING, LLC

SUPPLEMENTAL CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(In thousands)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
OPERATING ACTIVITIES:				
Net loss	$(54,975)	$(56,028)	$ 54,975	$(56,028)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:				
Equity in loss of subsidiary	54,975	-	(54,975)	-
Loss on sale of real estate	-	51	-	51
Loss from investment in equity interest	-	407	-	407
Depreciation and amortization	-	28,424	-	28,424
Impairment of leases	-	8,694	-	8,694
Amortization of future performance obligation	-	(4,083)	-	(4,083)
Amortization of deferred endowment	-	(13,839)	-	(13,839)
Amortization of other deferred revenue	-	(1,567)	-	(1,567)
Provision for abandoned projects	-	1,430	-	1,430
Provision for doubtful accounts	-	380	-	380
Amortization of leases, including above and below market lease intangibles	-	4,006	-	4,006
Interest accretion on note receivable	-	(123)	-	(123)
Amortization of loan issue costs	-	477	-	477
Deferred income taxes	-	(84)	-	(84)
Share-based and incentive compensation expense	-	29,607	-	29,607
Changes in operating assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	-	9,771	-	9,771
Due from/due to affiliate	(1)	18,855	-	18,854
Prepaid expenses and other current assets	-	(3,214)	-	(3,214)
Restricted cash held by Captive	-	(7,732)	-	(7,732)
Other assets	-	(89)	-	(89)
Increase (decrease) in:				
Accounts payable, accrued expenses, and other liabilitie	(12,000)	9,808	-	(2,192)
Share-based and incentive compensation liability	-	(2,626)	-	(2,626)
Self-insurance liabilities	-	6,404	-	6,404
Deferred revenue	-	(1,030)	-	(1,030)
Net cash (used in) provided by operating activities	(12,001)	27,899	-	15,898
INVESTING ACTIVITIES:				
Proceeds from termination of leases	-	9,630	-	9,630
Sale of asset to RealCo	-	3,479	-	3,479
Sale of Severna Park	-	(586)	-	(586)
Acquisition of management contracts	-	(29)	-	(29)
Capital expenditures	-	(18,562)	-	(18,562)
Change in restricted cash	-	3,787	-	3,787
Increase in notes receivable	-	(209)	-	(209)
Payments from notes receivable	-	1	-	1
Net cash used in investing activities	-	(2,489)	-	(2,489)
FINANCING ACTIVITIES:				
Dividends to stockholders	(15,000)	-	-	(15,000)
Distributions between entities	27,000	(27,000)	-	-
Borrowings on credit facility	-	65,000	-	65,000
Repayment of credit facility	-	(65,000)	-	(65,000)
Loan issue costs paid	-	(1,651)	-	(1,651)
Net cash provided by (used in) financing activities	12,000	(28,651)	-	(16,651)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1)	(3,241)	-	(3,242)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1	47,650	-	47,651
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ -	$ 44,409	$ -	$ 44,409
SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION				
Decrease in accrued capital expenditures	$ -	$ (139)	$ -	$ (139)

See notes to consolidated financial statements.

RED FOX HOLDING CORPORATION AND ITS WHOLLY OWNED SUBSIDIARY, SUNRISE SENIOR LIVING, LLC

SUPPLEMENTAL CONSOLIDATING STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
(In thousands)

	Red Fox Holding Corporation	Sunrise Senior Living, LLC	Eliminations	Consolidated Total
OPERATING ACTIVITIES				
Net loss	$(35,374)	$(36,243)	$ 35,374	$(36,243)
Adjustments to reconcile net loss to net cash provided by operating activities:				
Equity in income of subsidiary	35,374	-	(35,374)	-
Gain on sale of real estate	-	(14,196)	-	(14,196)
Loss from investment in equity interest	-	755	-	755
Depreciation and amortization	-	23,694	-	23,694
Impairment of leases	-	14,469	-	14,469
Amortization of future performance obligation	-	(4,684)	-	(4,684)
Amortization of deferred endowment	-	(4,983)	-	(4,983)
Amortization of other deferred revenue	-	(1,327)	-	(1,327)
Provision for abandoned projects	-	3,054	-	3,054
Provision for doubtful accounts	-	342	-	342
Amortization of leases, including above and below market lease intangibles	-	(2,374)	-	(2,374)
Interest accretion on note receivable	-	(112)	-	(112)
Amortization of loan issue costs	-	422	-	422
Deferred income taxes	-	(12,439)	-	(12,439)
Share-based and incentive compensation expense	-	56,689	-	56,689
Changes in operating assets and liabilities:				
(Increase) decrease in:				
Accounts receivable	-	5,392	-	5,392
Due from/due to affiliate	-	(5,469)	-	(5,469)
Prepaid expenses and other current assets	-	(2,254)	-	(2,254)
Restricted cash held by Sunrise Captive	-	(7,616)	-	(7,616)
Other assets	-	-	-	-
Increase (decrease) in:				
Accounts payable, accrued expenses, and other liabilities	-	2,046	-	2,046
Share-based and incentive compensation liability	-	(883)	-	(883)
Self-insurance liabilities	-	3,900	-	3,900
Deferred revenue	-	(101)	-	(101)
Net cash provided by operating activities	-	18,082	-	18,082
INVESTING ACTIVITIES:				
Sale of assets to RealCo	-	5,094	-	5,094
Sale of Severna Park	-	3,000	-	3,000
Developer incentive fee on sale of RealCo assets to Welltower	-	9,414	-	9,414
Proceeds from sale of land parcels	-	12,321	-	12,321
Investment in equity interest	-	(235)	-	(235)
Capital expenditures	-	(27,978)	-	(27,978)
Change in restricted cash	-	(7,276)	-	(7,276)
Increase in notes receivable	-	(230)	-	(230)
Payments from notes receivable	-	435	-	435
Net cash used in investing activities	-	(5,455)	-	(5,455)
FINANCING ACTIVITIES:				
Dividends to stockholders	-	(30,000)	-	(30,000)
Borrowings on credit facility	-	35,000	-	35,000
Loan issue costs paid	-	(2)	-	(2)
Net cash provided by financing activities	-	4,998	-	4,998
NET INCREASE IN CASH AND CASH EQUIVALENTS	-	17,625	-	17,625
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1	30,025	-	30,026
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 1	$ 47,650	$ -	$ 47,651
SUPPLEMENTAL DISCLOSURE OF NONCASH INFORMATION				
Decrease in accrued capital expenditures	$ -	$ (43)	$ -	$ (43)

See notes to consolidated financial statements.

EXHIBIT L

HCP

2018

Annual Report

Sky Ridge
Medical Office
Lone Tree, CO

LETTER FROM OUR CEO

Aurora Timber Ridge, Aurora, CO

DEAR FELLOW STOCKHOLDERS,

2018 was another transformational year for HCP as we substantially completed our portfolio and balance sheet repositioning efforts and shifted focus to our opportunity for future growth.

Our accomplishments during 2018 included selling or transitioning over $2.5 billion of non-core assets, repaying $2.3 billion of debt, reducing our exposure to assets managed or leased by Brookdale Senior Living, Inc. from 28% to 16% of net operating income ("NOI"), expanding our development pipeline to $1.25 billion, solidifying our management team, and refreshing our Board.

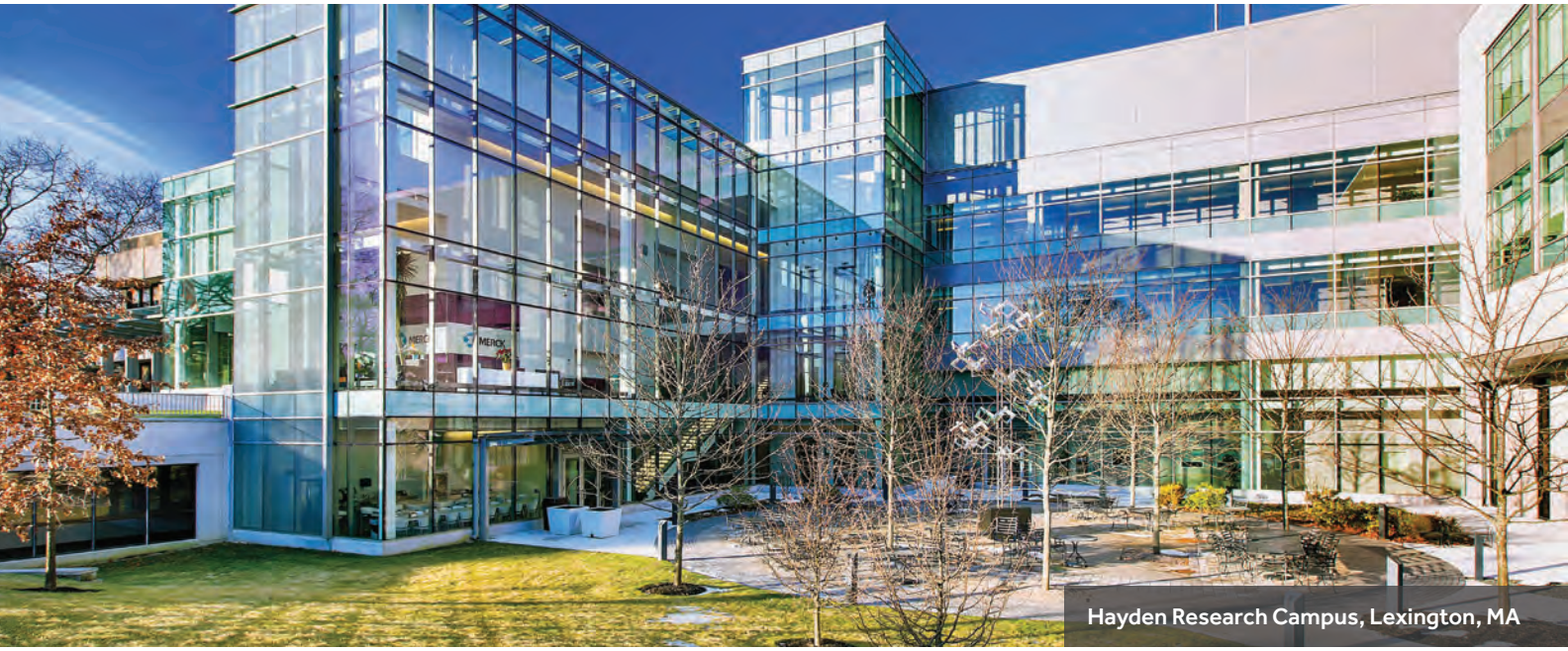
As a result of actions undertaken over the last three years, which included $12 billion of assets sold, spun-off and transitioned, equivalent to about a third of the Company, we now have a higher quality portfolio and differentiated business model focused on delivering real estate in our three core asset classes of Medical Office, Life Science and Senior Housing. We ended the year with a balance sheet that will support our strategy: to increase shareholder value through stable growth in earnings, cash flow and dividends over the long term.

THE OPPORTUNITY IN HEALTHCARE REAL ESTATE

We believe private-pay U.S. healthcare real estate is a compelling investment opportunity given the favorable demographic trends and needs of the aging population. The "baby boomers," which refers to the generation born between 1946 and 1964, start reaching age 75 in 2020 and it is expected that the population of those aged 75+ will grow rapidly over the next two decades.

We believe HCP's portfolio and strategy are well-positioned to benefit from the demand created by these demographic tailwinds. As seniors age, they will increasingly visit specialist physicians for outpatient diagnoses and treatment in our on-campus medical office buildings; they will utilize new and innovative treatments created by our life science tenants; and many will choose to live in our amenity-rich senior housing communities offering a continuum of care including social activities, daily living assistance, and coordination with outside healthcare providers.

In addition to the favorable demographic backdrop, the $1.1 trillion U.S. healthcare real estate industry's size and fragmented ownership create unique opportunities for future investment. We intend to be a partner of choice for leading private-pay healthcare providers, companies and operators by delivering high-quality healthcare real estate solutions, being easy to work with and always doing what we say we are going to do.


Hayden Research Campus, Lexington, MA

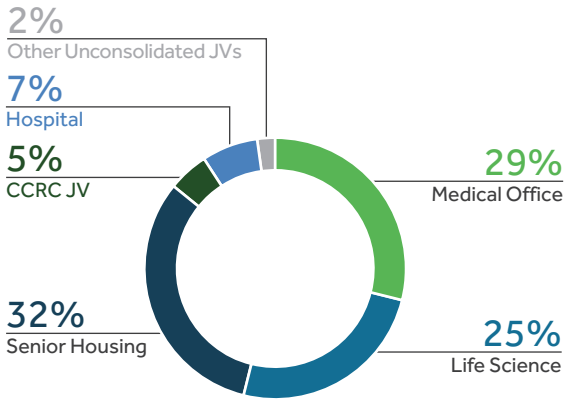
OUR PORTFOLIO

Our real estate portfolio is well-balanced across our three asset classes with 54% of our portfolio income derived from Medical Office and Life Science, and 37% from Senior Housing (including our CCRC JV). As such, we are well-positioned to allocate capital across these three dynamic, private-pay healthcare sectors, and expect our diversification will reduce earnings volatility and allow us to find attractive investment opportunities through the inevitable cycles.

While all three of our asset classes benefit from the same aging population, they each operate within their own cycle. Currently, two of our asset classes, Medical Office and Life Science, are benefiting from strong fundamentals, while Senior Housing is experiencing elevated new supply growth which is negatively impacting occupancy, and wage growth, which are both putting pressure on the bottom line.

OUR PORTFOLIO

Portfolio Income as of December 31, 2018[1]



[1] Portfolio Income represents 4Q2018 cash NOI plus interest income, including our pro rata share of cash NOI from unconsolidated joint ventures. Portfolio Income, net debt to adjusted EBITDA and cash NOI are non-GAAP financial measures. For definitions of these non-GAAP financial measures and reconciliations of such measures to the most directly comparable GAAP measures, see the section titled "Non-GAAP Financial Measures" in our Annual Report, as well as the document titled "4Q 2018 Discussion and Reconciliation of Non-GAAP Financial Measures" available in the Investor Relations section of our website at ir.hcpi.com.

Patewood Medical Office, Greenville, SC

Parker Adventist, Denver, CO

Sunrise, Beverly Hills, CA

The Cove at Oyster Point, South San Francisco, CA

MEDICAL OFFICE

Our Medical Office portfolio totals 19 million square feet and represents approximately 29% of our portfolio income as of December 31, 2018. Our portfolio is uniquely positioned within the industry, as 82% of our square footage is located on-campus of the hospitals they serve. This leads to a high concentration of specialty tenants such as orthopedists, cardiologists and oncologists, resulting in stable occupancy and consistent NOI growth in our Medical Office portfolio generally ranging from 2% to 3%+ annually over the last decade.

We believe our on-campus Medical Office space will continue to be a preferred solution for specialist physicians, hospitals and health systems. The nature of the services provided by on-campus specialists is more immune to competition from urgent care and retail clinics, which are sought out by consumers who seek more affordable alternatives for lower-acuity needs.

2018 was another eventful year for our Medical Office portfolio, where we used our deep relationships to acquire and develop well-located real estate where HCP and its partners have expertise. We expanded our relationship with Morgan Stanley Real Estate Investment as our joint venture partner for the acquisition of a $285 million portfolio that is 95% on-campus and leased to Greenville Health, the leading hospital system in South Carolina. We also established a program with HCA Healthcare, one of the nation's largest for-profit operators and our largest hospital affiliation, to develop on-campus, HCA-anchored, medical office buildings. Our relationship with HCA spans three decades and we expect this program to result in approximately $100 million of annual attractive investment opportunities over the next few years.

We will also continue to allocate capital to certain of our older, well-located properties that present attractive redevelopment opportunities. Over the next several years, we expect our redevelopment program to average $75 to $100 million annually, with projected cash-on-cash returns ranging from 9% to 12%.

LIFE SCIENCE

Our seven million square foot Life Science portfolio represents 25% of our portfolio income as of December 31, 2018, and is located primarily in San Francisco, San Diego and greater Boston. Our strategy of owning clusters of real estate in these key life science markets allows us to creatively work with our tenants to meet their evolving real estate needs while limiting vacancy downtime.

Real estate fundamentals in this sector remain favorable as our tenants and the industry continue to see active venture capital funding, an open IPO market and increased partnerships and collaborations between pharma and biotech companies. These healthy fundamentals have been a tailwind in our efforts to lease our life science development projects. We have had excellent success at our $800 million Class-A development project, The Cove at Oyster Point, which is now 100% leased. During 2018, we also pre-leased 100% of our $224 million Phase I of The Shore at Sierra Point, which gave us the momentum and confidence to accelerate the two remaining phases of the development with a combined anticipated spend of $385 million.

Our Life Science development pipeline now totals $1.2 billion, of which $500 million is already completed, with the remaining funding fully captured for in our strategic plan. The pipeline has been expanded in 2019 to take advantage of some very attractive opportunities that exist today. Additionally, our pipeline is significantly de-risked as it is already ~65% pre-leased.

We have been actively allocating capital to select, complementary acquisitions, such as 87 CambridgePark Drive in West Cambridge, Massachusetts, which we acquired earlier this year. This $71 million investment expanded our footprint in the greater Boston area through our relationship with King Street Properties. We also acquired a vacant land parcel that is directly adjacent to this property that we intend to develop a second building within the next few years, creating a Class-A campus.

In addition to our expansion in Boston, we are under contract to acquire Sierra Point Towers in South San Francisco. This $245 million property is in a highly strategic location next to our development at The Shore at Sierra Point, which gives us the unique opportunity to integrate the campuses and drive both leasing and operational synergies over time. With this strategic and coordinated capital deployment, we are creating an integrated $850 million Class-A life science campus with more than one million square feet in this dynamic and growing sub-cluster.

The Solana Senior Living, Germantown, TN

SENIOR HOUSING

Our Senior Housing portfolio of over 26,000 units is well-diversified across the core product offerings of independent living, assisted living and memory care, and is concentrated along the East and West Coasts, as well as in the high-growth Texas and Denver, CO markets. It includes both triple-net ("NNN") and senior housing operating portfolio ("SHOP") structures. We currently have a higher weighting in NNN, but over time we will look for opportunities to convert some of our NNN assets to SHOP to better align our interests with those of our operators.

During 2018, we took decisive actions to create a stronger Senior Housing business. We sold approximately $1.5 billion of non-core Senior Housing assets, transitioned 38 properties to new operators, and started redevelopments on 10 well-located, but older assets, which we believe will position these communities to better perform over the long-term.

Although these actions caused near-term dilution, we expect operations to improve over time as we recapture the embedded upside in these assets. As an example, we added two best-in-class operating partners: Discovery Senior Living and Life Care Services. Relationships with high-quality operators like them will be instrumental to our success in senior housing. We also exited, or went under contract to exit, five small operator relationships, which will make our platform more efficient.

Finally, we made excellent progress building out our Senior Housing systems and team.

While we continue to be cautious on near-term senior housing fundamentals in 2019, we are encouraged by three important trends. First, the penetration rate is growing as the physical, cognitive and social benefits of senior housing are becoming better understood. Second, new starts have declined to a level where supply and demand should be more in balance within the next year or two. Finally, the growth rate for the 85+ cohort, which hit a trough in 2018, is now at the beginning of a gradual but powerful upward slope that will drive growth for several decades. We fully expect our Senior Housing business will stabilize and be a strong growth engine over time.

OUR BALANCE SHEET

The ability to source strategic investments and fund them with attractively priced capital is a key driver for HCP's future growth. Our capital recycling and refinancing activities in 2018 further strengthened our balance sheet, de-risked our value-creating development pipeline and positioned us to generate superior risk-adjusted growth over time with a more predictable earnings stream.

$2.3B

Strengthened balance sheet with $2.3 billion of debt payments

$650M

Raised $650 million in the equity capital markets

5.6x

5.6x annualized net debt to adjusted EBITDA[1] as of the three months ended December 31, 2018.

$1.9B

$1.9 billion of capacity under our line of credit as of December 31, 2018

In 2018, we utilized the net proceeds from dispositions to help repay $2.3 billion of debt. Our leverage was subsequently reduced by over a full turn to 5.6x annualized net debt to adjusted EBITDA. These achievements were recognized by the credit rating agencies as we recently received ratings upgrades to BBB+ from S&P and Baa1 from Moody's.

[1] See footnote (1) on page three for disclosure on net debt to adjusted EBITDA.

At the end of 2018, we also accessed the equity capital markets, raising approximately $650 million and completing our first follow-on equity deal in over six years. As of December 31, 2018, we had $1.9 billion of capacity under our line of credit and approximately $430 million of undrawn capital from a forward equity offering we completed in December.

OUR TEAM

Over the past two years, we have completely revamped our C-Suite, assembling a cohesive team of energized individuals averaging over 20 years of real estate experience.

Scott Brinker joined our team in March 2018 as Chief Investment Officer and Head of Senior Housing, after a 15-year career at Welltower, Inc. He has an outstanding track record of building and asset-managing large scale portfolios through strong industry relationships and a disciplined investment process. His addition rounded out our talented leadership team.

Earlier this year we, also took steps to further advance our competitive performance by expanding the leadership responsibilities for Pete Scott, our Chief Financial Officer, and Tom Klaritch, our Chief Operating Officer. Pete has assumed leadership of our Life Science portfolio, where he will lead a seasoned team with expertise and relationships in the major life science markets. Tom has assumed responsibility for the management of HCP's development and redevelopment pipeline in the newly-created role of Chief Development Officer in order to centralize management and further scale our resources.

Troy McHenry, our General Counsel, continues to lead the legal execution and regulatory compliance aspects of our initiatives, with particular focus this past year on our repositioning and governance efforts.

In 2018 we also appointed Brian Cartwright, former General Counsel of the U.S. Securities and Exchange Commission, as the Independent Chairman of our Board, and named three new independent Board members: Kent Griffin, Lydia Kennard and Katherine Sandstrom. Further, in order to encourage ongoing Board refreshment, we adopted a mandatory director retirement age of 75.

CORPORATE RESPONSIBILITY

HCP is committed to sustainable corporate governance practices that promote long-term value creation, transparency and accountability. We have proven ourselves as an industry leader and we continue to build on the progress made since committing to focus on environmental, social and governance ("ESG") initiatives over a decade ago.

Our recent efforts were again recognized by prominent ESG reporting organizations. For the seventh consecutive year, we achieved the Green Star designation from the Global Real Estate Sustainability Benchmark (GRESB) and were named a constituent in the FTSE4Good index. Additionally, for the sixth consecutive year, we were named to the Dow Jones Sustainability Index - North America and CDP's Leadership Band.

Our cumulative efforts related to our ESG initiatives have resulted in an ISS Environmental QualityScore of 1, Social QualityScore of 2, and an overall Governance QualityScore of 2. These results reflect the hard work and emphasis our team places on ESG initiatives.

AWARDS AND RECOGNITION

Our ESG initiatives have earned us many accolades, and we are committed to continuing our leadership in the industry. For additional information regarding our ESG sustainability initiatives, please visit our website at *www.hcpi.com/sustainability*.

CDP Leadership Band Constituent

GRESB Green Star Recipient

DJSI Series Constituent (N. America Index)

MEMBER OF Dow Jones Sustainability Indices In Collaboration with RobecoSAM

The Sustainability Yearbook Constituent

FTSE4Good Index Series Constituent

ENERGY STAR Partner of the Year

The Shore at Sierra Point (rendering), South San Francisco, CA

IN CLOSING

Just a year ago, our focus was on completing the restructuring of our portfolio and fine tuning our strategy. Fast forward to today, we now have stability in our portfolio, our balance sheet and team, and we have created a differentiated way for investors to own healthcare real estate in the three private-pay asset classes of Medical Office, Life Science and Senior Housing.

I would like to thank all of our employees and our Board of Directors for their contributions in 2018, and send a special thank you to our stockholders for your continued support. We look forward to another productive and rewarding year.

Tom Herzog
President and Chief Executive Officer
HCP, Inc.

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-K

(Mark One)

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

For the fiscal year ended December 31, 2018

or

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

For the transition period from to

Commission file number 001-08895

HCP, Inc.

(Exact name of registrant as specified in its charter)

Maryland	**33-0091377**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1920 Main Street, Suite 1200 **Irvine, California**	**92614**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code **(949) 407-0700**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock	New York Stock Exchange

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant; (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☒	Accelerated filer ☐	Non-accelerated filer ☐	Smaller reporting company ☐	Emerging growth company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter: $8.7 billion.

As of February 11, 2019 there were 477,771,756 shares of common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the registrant's 2019 Annual Meeting of Stockholders have been incorporated by reference into Part III of this Report.

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For the Fiscal Year Ended December 31, 2018

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All references in this report to "HCP," the "Company," "we," "us" or "our" mean HCP, Inc., together with its consolidated subsidiaries. Unless the context suggests otherwise, references to "HCP, Inc." mean the parent company without its subsidiaries.

CAUTIONARY LANGUAGE REGARDING FORWARD-LOOKING STATEMENTS

Statements in this Annual Report on Form 10-K that are not historical factual statements are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Forward-looking statements include, among other things, statements regarding our and our officers' intent, belief or expectation as identified by the use of words such as "may," "will," "project," "expect," "believe," "intend," "anticipate," "seek," "target," "forecast," "plan," "potential," "estimate," "could," "would," "should" and other comparable and derivative terms or the negatives thereof. Forward-looking statements reflect our current expectations and views about future events and are subject to risks and uncertainties that could significantly affect our future financial condition and results of operations. While forward-looking statements reflect our good faith belief and assumptions we believe to be reasonable based upon current information, we can give no assurance that our expectations or forecasts will be attained. Further, we cannot guarantee the accuracy of any such forward-looking statement contained in this Annual Report, and such forward-looking statements are subject to known and unknown risks and uncertainties that are difficult to predict. As more fully set forth under "Item 1A, Risk Factors" in this report, these risks and uncertainties include, among other things:

- our reliance on a concentration of a small number of tenants and operators for a significant percentage of our revenues and net operating income;
- the financial condition of our existing and future tenants, operators and borrowers, including potential bankruptcies and downturns in their businesses, and their legal and regulatory proceedings, which results in uncertainties regarding our ability to continue to realize the full benefit of such tenants' and operators' leases and borrowers' loans;
- the ability of our existing and future tenants, operators and borrowers to conduct their respective businesses in a manner sufficient to maintain or increase their revenues and manage their expenses in order to generate sufficient income to make rent and loan payments to us and our ability to recover investments made, if applicable, in their operations;
- our concentration in the healthcare property sector, particularly in senior housing, life sciences and medical office buildings, which makes our profitability more vulnerable to a downturn in a specific sector than if we were investing in multiple industries;
- operational risks associated with third party management contracts, including the additional regulation and liabilities of our RIDEA lease structures;
- the effect on us and our tenants and operators of legislation, executive orders and other legal requirements, including compliance with the Americans with Disabilities Act, fire, safety and health regulations, environmental laws, the Affordable Care Act, licensure, certification and inspection requirements, and laws addressing entitlement programs and related services, including Medicare and Medicaid, which may result in future reductions in reimbursements or fines for noncompliance;
- our ability to identify replacement tenants and operators and the potential renovation costs and regulatory approvals associated therewith;
- the risks associated with property development and redevelopment, including costs above original estimates, project delays and lower occupancy rates and rents than expected;
- the potential impact of uninsured or underinsured losses;
- the risks associated with our investments in joint ventures and unconsolidated entities, including our lack of sole decision making authority and our reliance on our partners' financial condition and continued cooperation;
- competition for the acquisition and financing of suitable healthcare properties as well as competition for tenants and operators, including with respect to new leases and mortgages and the renewal or rollover of existing leases;
- our ability to achieve the benefits of acquisitions or other investments within expected time frames or at all, or within expected cost projections;
- the potential impact on us and our tenants, operators and borrowers from current and future litigation matters, including the possibility of larger than expected litigation costs, adverse results and related developments;
- changes in federal, state or local laws and regulations, including those affecting the healthcare industry that affect our costs of compliance or increase the costs, or otherwise affect the operations, of our tenants and operators;
- our ability to foreclose on collateral securing our real estate-related loans;

- volatility or uncertainty in the capital markets, the availability and cost of capital as impacted by interest rates, changes in our credit ratings, and the value of our common stock, and other conditions that may adversely impact our ability to fund our obligations or consummate transactions, or reduce the earnings from potential transactions;
- changes in global, national and local economic and other conditions, including currency exchange rates;
- our ability to manage our indebtedness level and changes in the terms of such indebtedness;
- competition for skilled management and other key personnel;
- our reliance on information technology systems and the potential impact of system failures, disruptions or breaches; and
- our ability to maintain our qualification as a real estate investment trust ("REIT").

Except as required by law, we do not undertake, and hereby disclaim, any obligation to update any forward-looking statements, which speak only as of the date on which they are made.

PART I

ITEM 1. BUSINESS

General Overview

HCP, an S&P 500 company, invests primarily in real estate serving the healthcare industry in the United States ("U.S."). We are a Maryland corporation organized in 1985 and qualify as a self-administered real estate investment trust. We are headquartered in Irvine, California, with offices in Nashville and San Francisco. Our diverse portfolio is comprised of investments in the following reportable healthcare segments: (i) senior housing triple-net, (ii) senior housing operating portfolio ("SHOP"), (iii) life science and (iv) medical office. At December 31, 2018, we had 201 full-time employees.

For a description of our significant activities during 2018, see "Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations—2018 Transaction Overview" in this report.

Business Strategy

We invest and manage our real estate portfolio for the long-term to maximize the benefit to our stockholders and support the growth of our dividends. The core elements of our strategy are to:

- Acquire, develop, lease, own and manage a diversified portfolio of quality healthcare properties across multiple geographic locations and business segments, including senior housing, life science, and medical office, among others;
- Maintain an investment grade balance sheet with adequate liquidity and long-term fixed rate debt financing with staggered maturities in order to support the longer-term nature of our investments, while reducing our exposure to interest rate volatility and refinancing risk at any point in the interest rate or credit cycles;
- Align ourselves with leading healthcare companies, operators and service providers which, over the long-term, should result in higher relative rental rates, net operating cash flows and appreciation of property values; and
- Pursue operational excellence to maximize the value of our investments.

Internal Growth Strategies

We believe our real estate portfolio holds the potential for increased future cash flows as it is well-maintained and in desirable locations. Our strategy for maximizing the benefits from these opportunities is to: (i) work with new or existing tenants and operators to address their space and capital needs; and (ii) provide high-quality property management services in order to motivate tenants to renew, expand or relocate into our properties.

We expect to continue our internal growth as a result of our ability to:

- Build and maintain long-term leasing and management relationships with quality tenants and operators. In choosing locations for our properties, we focus on their physical environment, adjacency to established businesses (e.g., hospital systems) and educational centers, proximity to sources of business growth and other local demographic factors.
- Replace tenants and operators at the best available market terms and lowest possible transaction costs. We believe that we are well-positioned to attract new tenants and operators and achieve attractive rental rates and operating cash flow as a result of the location, design and maintenance of our properties, together with our reputation for high-quality building services and responsiveness to tenants, and our ability to offer space alternatives within our portfolio.
- Extend and modify terms of existing leases prior to expiration. We structure lease extensions, early renewals or modifications, which reduce the cost associated with lease downtime or the re-investment risk resulting from the exercise of tenants' purchase options, while securing the tenancy and relationship of our high quality tenants and operators on a long-term basis.

Investment Strategies

The delivery of healthcare services requires real estate and, as a result, tenants and operators depend on real estate, in part, to maintain and grow their businesses. We believe that the healthcare real estate market provides investment opportunities due to the: (i) compelling long-term demographics driving the demand for healthcare services; (ii) specialized nature of healthcare real estate investing; and (iii) ongoing consolidation of the fragmented healthcare real estate sector.

While we emphasize healthcare real estate ownership, we may also provide real estate secured financing to, or invest in equity or debt securities of, healthcare operators or other entities engaged in healthcare real estate ownership. We may also acquire all or substantially all of the securities or assets of other REITs, operating companies or similar entities where such investments would be consistent with our investment strategies. We may co-invest alongside institutional or development investors through partnerships or limited liability companies.

We monitor, but do not limit, our investments based on the percentage of our total assets that may be invested in any one property type, investment vehicle or geographic location, the number of properties that may be leased to a single tenant or operator, or loans that may be made to a single borrower. In allocating capital, we target opportunities with the most attractive risk/reward profile for our portfolio as a whole. We may take additional measures to mitigate risk, including diversifying our investments (by sector, geography, tenant or operator), structuring transactions as master leases, requiring tenant or operator insurance and indemnifications, and obtaining credit enhancements in the form of guarantees, letters of credit or security deposits.

We believe we are well-positioned to achieve external growth through acquisitions, financing and development. Other factors that contribute to our competitive position include:

- our reputation gained through over 30 years of successful operations and the strength of our existing portfolio of properties;
- our relationships with leading healthcare operators and systems, investment banks and other market intermediaries, corporations, private equity firms, non-profits and public institutions seeking to monetize existing assets or develop new facilities;
- our relationships with institutional buyers and sellers of high-quality healthcare real estate;
- our track record and reputation for executing acquisitions responsively and efficiently, which provides confidence to domestic and foreign institutions and private investors who seek to sell healthcare real estate in our market areas;
- our relationships with nationally recognized financial institutions that provide capital to the healthcare and real estate industries; and
- our control of sites (including assets under contract with radius restrictions).

Financing Strategies

Our REIT qualification requires us to distribute at least 90% of our REIT taxable income (excluding net capital gains); therefore, we do not retain a significant amount of capital. As a result, we regularly access the public equity and debt markets to raise the funds necessary to finance acquisitions and debt investments, develop and redevelop properties, and refinance maturing debt.

We may finance acquisitions and other investments through the following vehicles:

- borrowings under our credit facility;
- issuance or origination of debt, including unsecured notes, term loans and mortgage debt;
- sale of ownership interests in properties or other investments; or
- issuance of common stock or preferred stock or its equivalent.

We maintain a disciplined balance sheet by actively managing our debt to equity levels and maintaining multiple sources of liquidity. Our debt obligations are primarily long-term fixed rate with staggered maturities.

We finance our investments based on our evaluation of available sources of funding. For short-term purposes, we may utilize our revolving line of credit facility, arrange for other short-term borrowings from banks or other sources, or issue equity securities pursuant to our at-the-market equity offering program. We arrange for longer-term financing by offering debt and equity securities, placing mortgage debt and obtaining capital from institutional lenders and joint venture partners.

Segments

Senior housing (triple-net and senior housing operating portfolio, or SHOP)

Our senior housing properties are owned either through triple-net leases with third party tenant-operators or through so-called RIDEA structures, which is permitted by the Housing and Economic Recovery Act of 2008, and includes most of the provisions previously proposed in the REIT Investment Diversification and Empowerment Act of 2007 (commonly referred to as “RIDEA”). Our senior housing properties include independent living facilities (“ILFs”), assisted living facilities (“ALFs”), memory care facilities (“MCFs”), and continuing care retirement communities (“CCRCs”), which cater to different segments of the elderly population based upon their personal needs. The services provided by our third party tenant-operators under triple-net leases or by our third-party manager-operators under a RIDEA structure at our properties are primarily paid for by

the residents directly or through private insurance and are less reliant on government reimbursement programs such as Medicare and Medicaid.

Our triple-net leases are typically long-term agreements with third party tenant-operators. Under triple-net leases, our tenant-operators are typically responsible for the ongoing expenses of the property, including real estate taxes, insurance, and maintenance, in addition to paying the rent and utilities. Additionally, operational risks and liabilities are the responsibility of our tenant-operator, including with respect to any employment matters, compliance with healthcare and other laws and liabilities relating to personal injury-tort matters, resident-patient quality of care claims and governmental reimbursement matters.

A RIDEA structure allows us, through a taxable REIT subsidiary ("TRS"), to receive cash flow from the operations of a healthcare facility (as compared to only receiving contractual rent from a third-party tenant-operator under a triple-net lease structure) in compliance with REIT tax requirements. The criteria for operating a healthcare facility through a RIDEA structure require us to lease the facility to an affiliate TRS under a triple-net lease, and for such affiliate TRS to engage an independent qualifying management company (also known as an eligible independent contractor or third-party operator) to manage and operate the day-to-day business of the facility in exchange for a management fee. As a result, under a RIDEA structure, we are required to rely on a third-party operator to hire and train all facility employees, enter into all third-party contracts for the benefit of the facility, including resident/patient agreements, comply with laws, including but not limited to healthcare laws, and provide resident care. We are substantially limited in our ability to control or influence day-to-day operations under a RIDEA structure, and thus rely on the third-party tenant-operator to manage and operate the business.

Unlike our triple-net leased properties, through our TRS, we bear all operational risks and liabilities associated with the operation of these properties, with limited exceptions, such as a third-party operator's gross negligence or willful misconduct. These operational risks and liabilities include those relating to any employment matters of our operator, compliance with healthcare and other laws and liabilities relating to personal injury-tort matters, resident-patient quality of care claims, and any governmental reimbursement matters, even though we have limited ability to control or influence our third-party operators' management of these risks.

We view RIDEA as an important structure for senior housing properties that present attractive valuation entry points and/or growth profiles, and this structure has become the preferred structure (as opposed to triple-net leases) among most high-quality operators in the senior housing industry. Many of the management agreements we have in RIDEA structured transactions have terms ranging from 5 to 15 years, with mutual renewal options. The base management fees are typically 4.5% to 5.0% of gross revenues (as defined) generated by the RIDEA properties. In addition, there are sometimes incentive management fees payable to our third-party operators if operating results of the RIDEA properties exceed pre-established thresholds. Conversely, there are sometimes provisions in the management agreements that reduce management fees payable to our third-party operators if operating results do not meet certain pre-established thresholds.

Our senior housing property types under both triple-net leases and RIDEA structures are further described below:

- *Independent Living Facilities.* ILFs are designed to meet the needs of seniors who choose to live in an environment surrounded socially by their peers with services such as housekeeping, meals and activities. Additionally, the programs and services may include transportation, social activities, exercise and fitness programs, beauty or barber shop access, hobby and craft activities, community excursions, meals in a dining room setting and other activities sought by residents. These residents generally do not need assistance with activities of daily living ("ADL"). However, in some of our facilities, residents have the option to contract for these services.
- *Assisted Living Facilities.* ALFs are licensed care facilities that provide personal care services, support and housing for those who need help with ADL, such as bathing, eating, dressing and medication management, yet require limited medical care. These facilities are often in apartment-like buildings with private residences ranging from single rooms to large apartments. Certain ALFs may have a dedicated portion of a facility that offers higher levels of personal assistance for residents requiring memory care as a result of Alzheimer's disease or other forms of dementia. Levels of personal assistance are based in part on local regulations.
- *Memory Care Facilities.* MCFs address the unique challenges of residents with Alzheimer's disease or other forms of dementia. Residents may live in semi-private apartments or private rooms and have structured activities delivered by staff members trained specifically on how to care for residents with memory impairment. These facilities offer programs that provide comfort and care in a secure environment.
- *Continuing Care Retirement Communities.* CCRCs offer several levels of service, including independent living, assisted living and skilled nursing home care. CCRCs are different from other housing and care options for seniors because they usually provide written

agreements or long-term contracts between residents and the communities (frequently lasting the term of the resident's lifetime), which offer a continuum of housing, services and healthcare on one campus or site. CCRCs are appealing as they allow residents to "age in place." CCRCs typically require the individual to be in relatively good health and independent upon entry.

The following table provides information about our senior housing triple-net tenant concentration for the year ended December 31, 2018:

Tenant	Percentage of Segment Revenues	Percentage of Total Revenues
Brookdale Senior Living, Inc. ("Brookdale")[1]	38%	6%

[1] Excludes facilities operated by Brookdale in our SHOP segment, as discussed below. Percentages of segment and total revenues include partial-year revenue earned from senior housing triple-net facilities that were sold during 2018. Accordingly, the percentages of segment and total revenues are expected to decrease in 2019 (see Note 3 in the Consolidated Financial Statements).

As of December 31, 2018, Brookdale operated, in our SHOP segment, approximately 7% of our real estate investments based on total assets. Because third-party operators manage our RIDEA properties in exchange for the receipt of a management fee, we are not directly exposed to the credit risk of these operators in the same manner or to the same extent as our triple-net tenants.

Life science. These properties contain laboratory and office space primarily for biotechnology, medical device and pharmaceutical companies, scientific research institutions, government agencies and other organizations involved in the life science industry. While these properties have characteristics similar to commercial office buildings, they generally contain more advanced electrical, mechanical, and heating, ventilating and air conditioning systems. The facilities generally have specialty equipment including emergency generators, fume hoods, lab bench tops and related amenities. In many instances, life science tenants make significant investments to improve their leased space, in addition to landlord improvements, to accommodate biology, chemistry or medical device research initiatives.

Life science properties are primarily configured in business park or campus settings and include multiple buildings. The business park and campus settings allow us the opportunity to provide flexible, contiguous/adjacent expansion to accommodate the growth of existing tenants. Our properties are located in well-established geographical markets known for scientific research and drug discovery, including San Francisco (56%) and San Diego (31%), California, Boston, Massachusetts, and Durham, North Carolina (based on square feet). At December 31, 2018, 91% of our life science properties were triple-net leased (based on leased square feet).

The following table provides information about our life science tenant concentration for the year ended December 31, 2018:

Tenants	Percentage of Segment Revenues	Percentage of Total Revenues
Amgen, Inc.	14%	3%

Medical office. Medical office buildings ("MOBs") typically contain physicians' offices and examination rooms, and may also include pharmacies, hospital ancillary service space and outpatient services such as diagnostic centers, rehabilitation clinics and day-surgery operating rooms. While these facilities are similar to commercial office buildings, they require additional plumbing, electrical and mechanical systems to accommodate multiple exam rooms that may require sinks in every room, and special equipment such as x-ray machines. In addition, MOBs are often built to accommodate higher structural loads for certain equipment and may contain vaults or other specialized construction. Our MOBs are typically multi-tenant properties leased to healthcare providers (hospitals and physician practices), with approximately 82% of our MOBs located on hospital campuses and 94% affiliated with hospital systems (based on square feet). Occasionally, we invest in MOBs located on hospital campuses, which may be subject to ground leases. At December 31, 2018, approximately 55% of our MOBs were net leased (based on leased square feet) with the remaining leased under gross or modified gross leases.

The following table provides information about our medical office tenant concentration for the year ended December 31, 2018:

Tenant	Percentage of Segment Revenues	Percentage of Total Revenues
Hospital Corporation of America ("HCA")[1]	16%	6%

[1] Percentage of total revenues from HCA includes revenues earned from both our medical office and other non-reportable segments.

Other non-reportable segments. At December 31, 2018, we had interests in 14 hospitals, one post-acute/skilled nursing facility ("SNF") and debt investments. Additionally, we had interests in 25 senior housing facilities, 68 care homes in the United Kingdom ("U.K."), three MOBs and three SNFs owned and operated by our unconsolidated joint ventures. Services provided by our tenants and operators in hospitals are paid for by private sources, third-party payors (e.g., insurance and HMOs) or through Medicare and Medicaid programs. Our hospital property types include acute care, long-term acute care, and specialty and rehabilitation hospitals. Care homes offer personal care services, such as lodging, meal services, housekeeping and laundry services, medication management and assistance with ADL. Care homes are registered to provide different levels of services, ranging from personal care to nursing care. Some homes can be further registered for a specific care need, such as dementia or terminal illness. SNFs offer restorative, rehabilitative and custodial nursing care for people following a hospital stay or not requiring the more extensive and complex treatment available at hospitals. All of our care homes in the U.K., hospitals, and SNFs are triple-net leased.

Competition

Investing in real estate serving the healthcare industry is highly competitive. We face competition from other REITs, investment companies, pension funds, private equity investors, sovereign funds, healthcare operators, lenders, developers and other institutional investors, some of whom may have greater flexibility (e.g., non-REIT competitors), resources and lower costs of capital than we do. Increased competition makes it more challenging for us to identify and successfully capitalize on opportunities that meet our objectives. Our ability to compete may also be impacted by global, national and local economic trends, availability of investment alternatives, availability and cost of capital, construction and renovation costs, existing laws and regulations, new legislation and population trends.

Income from our investments depends on our tenants' and operators' ability to compete with other companies on multiple levels, including: the quality of care provided, reputation, success of product or drug development, the physical appearance of a facility, price and range of services offered, alternatives for healthcare delivery, the supply of competing properties, physicians, staff, referral sources, location, the size and demographics of the population in surrounding areas, and the financial condition of our tenants and operators. For a discussion of the risks associated with competitive conditions affecting our business, see "Item 1A, Risk Factors" in this report.

Government Regulation, Licensing and Enforcement

Overview

Our healthcare facility operators (which include our TRSs when we use a RIDEA structure) and tenants are typically subject to extensive and complex federal, state and local healthcare laws and regulations relating to quality of care, licensure and certificate of need, government reimbursement, fraud and abuse practices, and similar laws governing the operation of healthcare facilities, and we expect that the healthcare industry, in general, will continue to face increased regulation and pressure in the areas of fraud, waste and abuse, cost control, healthcare management and provision of services, among others. These regulations are wide ranging and can subject our tenants and operators to civil, criminal and administrative sanctions. Affected tenants and operators may find it increasingly difficult to comply with this complex and evolving regulatory environment because of a relative lack of guidance in many areas as certain of our healthcare properties are subject to oversight from several government agencies, and the laws may vary from one jurisdiction to another. Changes in laws, regulations, reimbursement enforcement activity and regulatory non-compliance by our tenants and operators can all have a significant effect on their operations and financial condition, which in turn may adversely impact us, as detailed below and set forth under "Item 1A, Risk Factors" in this report.

The following is a discussion of certain laws and regulations generally applicable to our operators, and in certain cases, to us.

Fraud and Abuse Enforcement

There are various extremely complex U.S. federal and state laws and regulations (and in relation to our facilities located in the U.K., national laws and regulations of England, Scotland, Northern Ireland, and Wales) governing healthcare providers' relationships and arrangements and prohibiting fraudulent and abusive practices by such providers. These laws include: (i) U.S. federal and state false claims acts and U.K. anti-fraud legislation and regulation, which, among other things, prohibit providers from filing false claims or making false statements to receive payment from Medicare, Medicaid or other U.S. federal or state or U.K. healthcare programs; (ii) U.S. federal and state anti-kickback and fee-splitting statutes, including the Medicare and Medicaid anti-kickback statute, which prohibit or restrict the payment or receipt of remuneration to induce referrals or recommendations of healthcare items or services, and U.K. legislation and regulations on financial inducements and vested interests; (iii) U.S. federal and state physician self-referral laws (commonly referred to as the "Stark Law"), which generally prohibit referrals by physicians to entities with which the physician or an immediate family

member has a financial relationship; and (iv) the federal Civil Monetary Penalties Law, which prohibits, among other things, the knowing presentation of a false or fraudulent claim for certain healthcare services. Violations of U.S. and U.K. healthcare fraud and abuse laws carry civil, criminal and administrative sanctions, including punitive sanctions, monetary penalties, imprisonment, denial of Medicare and Medicaid reimbursement and potential exclusion from Medicare, Medicaid or other federal or state healthcare programs. These laws are enforced by a variety of federal, state and local agencies and in the U.S. can also be enforced by private litigants through, among other things, federal and state false claims acts, which allow private litigants to bring *qui tam* or "whistleblower" actions. Many of our tenants and operators are subject to these laws, and may become the subject of governmental enforcement actions or whistleblower actions if they fail to comply with applicable laws. Additionally, beginning in November 2019, the licensed operators of our U.S. long-term care facilities will be required to have compliance and ethics programs that meet the requirements of federal laws and regulations relating to the Social Security Act. We have begun the process of developing and implementing such programs.

Laws and Regulations Governing Privacy and Security

There are various U.S. federal and state and U.K. privacy laws and regulations, including the privacy and security rules contained in the Health Insurance Portability and Accountability Act of 1996 (commonly referred to as "HIPAA") and the U.K. Data Protection Act 1998, which provide for the privacy and security of personal health information. An increasing focus of the U. S. Federal Trade Commission's ("FTC's") consumer protection regulation is the impact of technological change on protection of consumer privacy. The FTC, as well as state attorneys general, have taken enforcement action against companies that do not abide by their representations to consumers regarding electronic security and privacy. To the extent we or our affiliated operating entities are a covered entity or business associate under HIPAA and the Health Information Technology for Economic and Clinical Health Act (the "HITECH Act"), compliance with those requirements would require us to, among other things, conduct a risk analysis, implement a risk management plan, implement policies and procedures, and conduct employee training. In most cases, we are dependent on our tenants and management companies to fulfill our compliance obligations, and we are in the process of developing programs to comply with aspects of these laws that cannot be delegated to third parties. Because of the far reaching nature of these laws, there can be no assurance that we would not be required to alter one or more of our systems and data security procedures to be in compliance with these laws. Our failure to protect health information could subject us to civil or criminal liability and adverse publicity, and could harm our business and impair our ability to attract new customers and residents. We may be required to notify individuals, as well as government agencies and the media, if we experience a data breach.

Reimbursement

Sources of revenue for some of our tenants and operators include, among others, governmental healthcare programs, such as the federal Medicare programs and state Medicaid programs and, in the U.K., the National Health Service ("NHS") and local authority funding, and non-governmental third-party payors, such as insurance carriers and HMOs. As federal and state governments focus on healthcare reform initiatives, and as the federal government and many states face significant current and future budget deficits, efforts to reduce costs by these payors will likely continue, which may result in reduced or slower growth in reimbursement for certain services provided by some of our tenants and operators. Similarly, in the U.K., the NHS and the local authorities are undertaking efforts to reduce costs, which may result in reduced or slower growth in reimbursement for certain services provided by our U.K. tenants and operators. Additionally, new and evolving payor and provider programs in the U.S., including but not limited to Medicare Advantage, Dual Eligible, Accountable Care Organizations, and Bundled Payments could adversely impact our tenants' and operators' liquidity, financial condition or results of operations.

Healthcare Licensure and Certificate of Need

Certain healthcare facilities in our portfolio (including our facilities located in the U.K.) are subject to extensive national, federal, state and local licensure, certification and inspection laws and regulations. A healthcare facility's failure to comply with these laws and regulations could result in a revocation, suspension, restriction or non-renewal of the facility's license and loss of a certificate of need, which could adversely affect the facility's operations and ability to bill for items and services provided at the facility. In addition, various licenses and permits are required to handle controlled substances (including narcotics), operate pharmacies, handle radioactive materials and operate equipment. Many states in the U.S. require certain healthcare providers to obtain a certificate of need, which requires prior approval for the construction, expansion or closure of certain healthcare facilities. The approval process related to state certificate of need laws may impact the ability of some of our tenants and operators to expand or change their businesses.

Product Approvals

While our life science tenants include some well-established companies, other tenants are less established and, in some cases, may not yet have a product approved by the Food and Drug Administration, or other regulatory authorities, for commercial sale. Creating a new pharmaceutical product or medical device requires substantial investments of time and capital, in part because of the extensive regulation of the healthcare industry; it also entails considerable risk of failure in demonstrating that the product is safe and effective and in gaining regulatory approval and market acceptance.

Senior Housing Entrance Fee Communities

Certain of our senior housing facilities, primarily the CCRCs in our unconsolidated joint ventures, are operated as entrance fee communities. Generally, an entrance fee is an upfront fee or consideration paid by a resident, a portion of which may be refundable, in exchange for some form of long-term benefit, typically consisting of a right to receive certain personal or health care services. Some of the entrance fee communities are subject to significant state regulatory oversight, including, for example, oversight of each facility's financial condition, establishment and monitoring of reserve requirements and other financial restrictions, the right of residents to cancel their contracts within a specified period of time, the right of residents to receive a refund of their entrance fees, lien rights in favor of the residents, restrictions on change of ownership and similar matters.

Americans with Disabilities Act (the "ADA")

Our properties must comply with the ADA and any similar state or local laws to the extent that such properties are "public accommodations" as defined in those statutes. The ADA may require removal of barriers to access by persons with disabilities in certain public areas of our properties where such removal is readily achievable. To date, we have not received any notices of noncompliance with the ADA that have caused us to incur substantial capital expenditures to address ADA concerns. Should barriers to access by persons with disabilities be discovered at any of our properties, we may be directly or indirectly responsible for additional costs that may be required to make facilities ADA-compliant. Noncompliance with the ADA could result in the imposition of fines or an award of damages to private litigants. The obligation to make readily achievable accommodations pursuant to the ADA is an ongoing one, and we continue to assess our properties and make modifications as appropriate in this respect.

Environmental Matters

A wide variety of federal, state and local environmental and occupational health and safety laws and regulations affect healthcare facility operations. These complex federal and state statutes, and their enforcement, involve a myriad of regulations, many of which involve strict liability on the part of the potential offender. Some of these federal and state statutes may directly impact us. Under various federal, state and local environmental laws, ordinances and regulations, an owner of real property or a secured lender, such as us, may be liable for the costs of removal or remediation of hazardous or toxic substances at, under or disposed of in connection with such property, as well as other potential costs relating to hazardous or toxic substances (including government fines and damages for injuries to persons and adjacent property). The cost of any required remediation, removal, fines or personal or property damages and any related liability therefore could exceed or impair the value of the property and/or the assets. In addition, the presence of such substances, or the failure to properly dispose of or remediate such substances, may adversely affect the value of such property and the owner's ability to sell or rent such property or to borrow using such property as collateral which, in turn, could reduce our earnings. For a description of the risks associated with environmental matters, see "Item 1A, Risk Factors" in this report.

Insurance

We obtain various types of insurance to mitigate the impact of property, business interruption, liability, flood, windstorm, earthquake, fire, environmental and terrorism-related losses. We attempt to obtain appropriate policy terms, conditions, limits and deductibles considering the relative risk of loss, the cost of such coverage and current industry practice. There are, however, certain types of extraordinary losses, such as those due to acts of war or other events that may be either uninsurable or not economically insurable. In addition, we have a large number of properties that are exposed to earthquake, flood and windstorm occurrences which carry higher deductibles.

We maintain property insurance for all of our properties. Tenants under triple-net leases, primarily in our senior housing triple-net segment, are required to provide primary property, business interruption and liability insurance. We maintain separate general and professional liability insurance for our SHOP facilities. Additionally, our corporate general liability insurance program also extends coverage for all of our properties beyond the aforementioned. We periodically review whether we or our RIDEA operators will bear responsibility for maintaining the required insurance coverage for the applicable SHOP properties, but the

costs of such insurance are facility expenses paid from the revenues of those properties, regardless of who maintains the insurance.

We also maintain directors and officers liability insurance which provides protection for claims against our directors and officers arising from their responsibilities as directors and officers. Such insurance also extends to us in certain situations.

Sustainability

We believe that sustainability initiatives are a vital part of corporate responsibility, which supports our primary goal of increasing stockholder value through profitable growth. We continue to advance our commitment to sustainability, with a focus on achieving goals in each of the environmental, social and governance ("ESG") dimensions of sustainability.

Our environmental management programs strive to capture cost efficiencies that ultimately benefit our investors, tenants, operators, employees and other stakeholders, while providing a positive impact on the communities in which we operate. Our social responsibility committee leads our local philanthropic and volunteer activities, and our transparent corporate governance initiatives incorporate sustainability as a critical component in achieving our business objectives and properly managing risks.

Our 2018 sustainability achievements include being recognized by the CDP (formerly the Carbon Disclosure Project) 2018 Climate Change Program. We completed CDP's annual investor survey for the seventh consecutive year, received a score of A- for our disclosure and were named to the Leadership Band. CDP collects and publishes the environmental data on behalf of more than 650 investors. We were also named a constituent in the FTSE4Good Index for the seventh consecutive year. We achieved the Green Star designation from the Global Real Estate Sustainability Benchmark (GRESB). We were named a constituent in the North America Dow Jones Sustainability Index ("DJSI") for the sixth consecutive year. The list is compiled according to the results of RobecoSAM's annual Corporate Sustainability Assessment, which also determines constituency for the DJSI series. For additional information regarding our ESG sustainability initiatives and our approach to climate change, please visit our website at www.hcpi.com/sustainability.

Available Information

Our website address is www.hcpi.com. Our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") are available on our website, free of charge, as soon as reasonably practicable after we electronically file such materials with, or furnish them to, the U.S. Securities and Exchange Commission ("SEC"). Additionally, the SEC maintains a website that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us, at www.sec.gov.

ITEM 1A. RISK FACTORS

The section below discusses the most significant risk factors that may materially adversely affect our business, results of operations and financial condition.

As set forth below, we believe that the risks we face generally fall into the following categories:

- risks related to our business and operations;
- risks related to our capital structure and market conditions;
- risks related to other events; and
- risks related to tax, including REIT-related risks.

Risks Related to Our Business and Operations

We depend on one tenant and operator, Brookdale, for a significant percentage of our revenues and net operating income. Continuing adverse developments, including operational challenges, in Brookdale's business and affairs or financial condition would likely have a materially adverse effect on us.

We own our senior housing properties utilizing triple-net lease and RIDEA structures. As of December 31, 2018, Brookdale (i) leased 43 properties in our senior housing triple-net segment, (ii) managed on our behalf 35 properties in our SHOP segment, and (iii) managed 15 CCRCs and one additional SHOP property owned by our unconsolidated

joint ventures with Brookdale in our Other segment. These properties represent a significant portion of our portfolio, revenues and operating income.

Properties managed by Brookdale in our SHOP segment as of December 31, 2018, accounted for 7% of our real estate investments based on total assets. Under RIDEA, we are required to engage a third-party operator, such as Brookdale, that meets the requirements of an "eligible independent contractor" to manage and operate the day-to-day business of the properties. As required under RIDEA, the operator provides comprehensive property management and accounting services for these properties and we are limited in our ability to control or influence operations. Accordingly, we rely on the operator's personnel, expertise, technical resources, regulatory compliance programs, information systems, proprietary information, good faith and judgment to manage and operate these properties efficiently and effectively. We also must rely on the operator to set appropriate resident fees, manage occupancy, provide accurate and complete property-level financial results for these properties in a timely manner and otherwise operate them in compliance with the terms of our management agreements and all applicable laws and regulations. However, as the owner of the property under a RIDEA structure, we are ultimately responsible for any operating deficits and other liabilities resulting from the operation of these properties, subject to limited exceptions such as gross negligence or willful misconduct by our operators. See, "—We assume operational risks with respect to our SHOP properties managed in RIDEA structures that could have a material adverse effect our business, results of operations and financial condition."

Properties leased by Brookdale in our triple-net segment accounted for 6% of our total revenues for the year ended December 31, 2018. In its capacity as a triple-net tenant, Brookdale is contractually obligated to pay all insurance, tax, utilities, maintenance and repair expenses in connection with the leased properties. Brookdale may not have sufficient assets, income and access to financing to enable it to satisfy its obligations to us, and any failure by Brookdale to do so would have a material adverse effect on us. In addition, we depend on Brookdale's maintenance and repair of the properties to remain competitive and attract and retain patients and residents. Adverse developments in Brookdale's business and related declining rent coverage ratios have increased its credit risk. If these adverse developments result in prolonged inadequate property maintenance or improvements, or impair Brookdale's access to capital necessary for maintenance or improvements, it could lead to a reduction in occupancy rates and market rents and have a materially adverse effect on us.

Brookdale has experienced challenges in recent years, including with respect to operational performance and stockholder activism, among others. Brookdale, as well as other operators, have been adversely affected by increased competition that has negatively impacted occupancy rates, as well as by increases in expenses, including increased labor costs. Brookdale's challenges could divert management's attention, increase employee turnover, and impair its ability to operate our properties efficiently and effectively. These challenges and any adverse developments in Brookdale's business, affairs and financial results could result in, among other adverse events, declining operational and financial performance of our properties.

We have been in the process of reducing our exposure to Brookdale through asset sales and transitions to other operators (see "Management's Discussion and Analysis of Financial Condition and Results of Operations—2018 Transaction Overview—Brookdale Transactions Update" for more information). If we determine to sell or transition additional properties currently leased to or managed by Brookdale, we may experience operational challenges and/or significantly declining financial performance for those properties, as we did with Brookdale properties sold or transitioned in 2018. Any failure of Brookdale to maintain the performance of our properties or to meet its obligations to us under its leases and management agreements could materially reduce our cash flow, net operating income and results of operations and have other materially adverse effects on our business, results of operations and financial condition.

We assume operational risks with respect to our SHOP properties managed in RIDEA structures that could have a material adverse effect on our business, results of operations and financial condition.

RIDEA permits REITs, such as us, to own or partially own qualified healthcare properties in a structure through which we can participate directly in the cash flow of the properties' operations (as compared to receiving only contractual rent payments under a triple-net lease) in compliance with REIT requirements. The criteria for operating a qualified healthcare property in a RIDEA structure requires us to lease the property to an affiliate TRS and for such affiliate TRS to engage an independent qualifying management company, or operator (also known as an eligible independent contractor) to manage and operate the day-to-day business of the property. The operator performs its services in exchange for a management fee. As a result, under a RIDEA structure, we are required to rely on our operator to manage and operate the property, including hiring and training all employees, entering into all third-party contracts for the benefit of the property, including resident/patient agreements, complying with laws, including but not limited

to healthcare laws, and providing resident care. However, as the owner of the property under a RIDEA structure, our TRS, and hence we, are ultimately responsible for all operational risks and other liabilities of the property, other than those arising out of certain actions by our operator, such as gross negligence or willful misconduct. Operational risks include, and our resulting revenues therefore depend on, among other things: occupancy rates; the entrance fees and rental rates charged to residents; Medicare and Medicaid reimbursement rates, to the extent applicable; our operator's reputation and ability to attract and retain residents; general economic conditions and market factors that impact seniors; competition from other senior housing providers; compliance with federal, state, local and industry-regulated licensure, certification and inspection laws, regulations and standards; litigation involving our properties or residents/patients; the availability and cost of general and professional liability insurance coverage; and the ability to control operating expenses. Although we are permitted under a RIDEA structure to have certain general oversight approval rights (e.g., budgets, material contracts, etc.) and the right to review operational and financial reporting information, our operators are ultimately in control of the day-to-day business of the property. As a result, we have limited rights to direct or influence the business or operations of our properties in the SHOP segment and we depend on our operators to operate these properties in a manner that complies with applicable law, minimizes legal risk and maximizes the value of our investment.

When we use a RIDEA structure, our TRS is generally required to be the holder of the applicable healthcare license and is the entity that is enrolled in government healthcare programs (i.e., Medicare, Medicaid), where applicable. As the holder of a healthcare license, our TRS and we (through our ownership interest in our TRS) are subject to various regulatory laws. Most states regulate and inspect healthcare property operations, patient care, construction and the safety of the physical environment. However, we are required under RIDEA to rely on our operators to oversee and direct these aspects of the properties' operations to ensure compliance with these applicable laws and regulations. If one or more of our healthcare properties fails to comply with applicable laws, our TRS would be responsible (except in limited circumstances, such as the gross negligence or willful misconduct of our operators, where we would have a contractual claim against them), which could subject our TRS to penalties including loss or suspension of licenses and certificates of need, certification or accreditation, exclusion from government healthcare programs (i.e., Medicare, Medicaid), administrative sanctions and civil monetary penalties. Some states also reserve the right to sanction affiliates of a licensee when they take administrative action against the licensee. Additionally, when we receive individually identifiable health information relating to residents of our healthcare properties, we are subject to federal and state data privacy and security laws and rules, and could be subject to liability in the event of an audit, complaint, cybersecurity attack or data breach. Furthermore, our TRS has exposure to professional liability claims that could arise out of resident claims, such as quality of care, and the associated litigation costs.

Rents received from the TRS in a RIDEA structure are treated as qualifying rents from real property for REIT tax purposes only if (i) they are paid pursuant to a lease of a "qualified healthcare property" and (ii) the operator qualifies as an "eligible independent contractor," as defined in the Internal Revenue Code of 1986, as amended (the "Code"). If either of these requirements are not satisfied, then the rents will not be qualifying rents.

Decreases in our tenants', operators' or borrowers' revenues or increases in their expenses could affect their ability to meet their financial and other contractual obligations to us.

Our leases consist of triple-net leases, in which we lease our properties directly to tenants and operators, as well as RIDEA leases, in which we lease our properties to an affiliate TRS that enters into a management agreement with an eligible independent contractor, or operator, to manage and oversee the day-to-day business and operations of the properties. We are also a direct or indirect lender to various tenants and operators and separately provide loans to certain third parties. We have very limited control over the success or failure of our tenants', operators' and borrowers' businesses, regardless of the structure of our relationship with them. Any of our triple-net tenants or operators under a RIDEA structure may experience a downturn in their business that materially weakens their financial condition. As a result, they may fail to make payments or perform their obligations when due. Although we generally have arrangements and other agreements that give us the right under specified circumstances to terminate a lease, evict a tenant or terminate our operator, or demand immediate repayment of outstanding loan amounts or other obligations to us, we may not be able to enforce such rights or we may determine not to do so if we believe that enforcement of our rights would be more detrimental to our business than seeking alternative approaches.

Our senior housing tenants and our SHOP segment under a RIDEA structure primarily depend on private sources for their revenues and the ability of their patients and residents to pay fees. Costs associated with independent and assisted living services are not generally reimbursable under governmental reimbursement programs such as Medicare and Medicaid. Accordingly, our tenants and operators of our SHOP segments depend on attracting seniors with appropriate levels of income and assets, which may be

affected by many factors including prevailing economic and market trends, consumer confidence and demographics. Consequently, if our tenants or operators on our behalf fail to effectively conduct their operations, or to maintain and improve our properties, it could adversely affect our business reputation as the owner of the properties, as well as the business reputation of our tenants or operators and their ability to attract and retain patients and residents in our properties, which could have a materially adverse effect on our and our tenant's or operator's business, results of operations and financial condition.

Our senior housing tenants and our SHOP segment under a RIDEA structure also rely on reimbursements from governmental programs for a portion of the revenues from certain properties. Changes in reimbursement policies and other governmental regulation, such as potential changes to, or repeal of, the Patient Protection and Affordable Care Act, along with the Health Care and Education Reconciliation Act of 2010 (the "Affordable Care Act"), that may result from actions by Congress or executive orders, may result in reductions in our tenants' revenues or in our revenues from our RIDEA structures, operations and cash flows and affect our tenants' ability to meet their obligations to us or our financial performance through a RIDEA structure. In addition, failure to comply with reimbursement regulations or other laws applicable to healthcare providers could result in penalties, fines, litigation costs, lost revenue or other consequences, which could adversely impact our tenants' ability to make contractual rent payments to us under a triple-net lease or our cash flows from operations under a RIDEA structure. For a further discussion of the legislation and regulation that are applicable to us and our tenants, operators and borrowers, see "—The requirements of, or changes to, government reimbursement programs such as Medicare or Medicaid, may adversely affect our tenants', operators' and borrowers' ability to meet their financial and other contractual obligations to us."

Revenues of our senior housing tenants and our SHOP segment under a RIDEA structure are also dependent on a number of other factors, including licensed bed capacity, occupancy, the healthcare needs of residents, the rate of reimbursement, the income and assets of seniors in the regions in which we own properties, and social and environmental factors. For example, due to generally increased vulnerability to illness, a severe flu season, an epidemic or any other widespread illness could result in early move-outs or delayed move-ins during quarantine periods, which would reduce our operators' revenues. Additionally, new and evolving payor and provider programs in the United States, including but not limited to Medicare Advantage, Dual Eligible, Accountable Care Organizations, Bundled Payments and other value-based reimbursement arrangements, have resulted in reduced reimbursement rates, average length of stay and average daily census, particularly for higher acuity patients. If our tenants fail to maintain revenues sufficient to meet their financial obligations to us, our business, results of operations and financial condition would be materially adversely affected. Similarly, if our operators under a RIDEA structure underperform, our business, results of operations and financial condition would also be materially adversely affected.

Increased competition and market changes have resulted and may further result in lower net revenues for some of our tenants, operators and borrowers and may affect their ability to meet their financial and other contractual obligations to us.

The healthcare industry is highly competitive. The occupancy levels at, and rental income from, our properties are dependent on our ability and the ability of our tenants, operators and borrowers to compete with other tenants and operators on a number of different levels, including the quality of care provided, reputation, the physical appearance of a property, price, the range of services offered, family preference, alternatives for healthcare delivery, the supply of competing properties, physicians, staff, referral sources, location, and the size and demographics of the population in the surrounding area. In addition, our tenants, operators and borrowers face an increasingly competitive labor market for skilled management personnel and nurses. An inability to attract and retain skilled management personnel and nurses and other trained personnel could negatively impact the ability of our tenants, operators and borrowers to meet their obligations to us. A shortage of nurses or other trained personnel, union activities or general inflationary pressures on wages may force tenants, operators and borrowers to enhance pay and benefits packages to compete effectively for skilled personnel, or to use more expensive contract personnel, but they be unable to offset these added costs by increasing the rates charged to residents. Any increase in labor costs and other property operating expenses or any failure by our tenants, operators or borrowers to attract and retain qualified personnel could adversely affect our cash flow and have a materially adverse effect on our business, results of operations and financial condition.

Our tenants, operators and borrowers also compete with numerous other companies providing similar healthcare services or alternatives such as home health agencies, life care at home, community-based service programs, retirement communities and convalescent centers. This competition, which is due, in part, to over-development in some segments in which we invest, has caused the occupancy rate of newly constructed buildings to slow and the monthly rate that many newly built and previously existing properties were able to obtain for their services to decrease. Our tenants, operators and borrowers may be

unable to achieve occupancy and rate levels, and to manage their expenses, in a way that will enable them to meet all of their obligations to us. Further, many competing companies may have resources and attributes that are superior to those of our tenants, operators and borrowers. Our tenants, operators and borrowers may encounter increased competition that could limit their ability to maintain or attract residents or expand their businesses or to manage their expenses, which could materially adversely affect their ability to meet their financial and other contractual obligations to us, potentially decreasing our revenues, impairing our assets and/or increasing collection and dispute costs.

The financial deterioration, insolvency or bankruptcy of one or more of our major tenants, operators or borrowers may materially adversely affect our business, results of operations and financial condition.

A downturn in any of our tenants', operators' or borrowers' businesses could ultimately lead to voluntary or involuntary bankruptcy or similar insolvency proceedings, including but not limited to assignment for the benefit of creditors, liquidation, or winding-up. Bankruptcy and insolvency laws afford certain rights to a defaulting tenant, operator or borrower that has filed for bankruptcy or reorganization that may render certain of our remedies unenforceable or, at the least, delay our ability to pursue such remedies and realize any related recoveries. For example, we cannot evict a tenant or operator solely because of its bankruptcy filing.

A debtor has the right to assume, or to assume and assign to a third party, or to reject its executory contracts and unexpired leases in a bankruptcy proceeding. If a debtor were to reject its leases with us, obligations under such rejected leases would cease. The claim against the rejecting debtor would be an unsecured claim, which would be limited by the statutory cap set forth in the U.S. Bankruptcy Code. This statutory cap may be substantially less than the remaining rent actually owed under the lease. In addition, a debtor may also assert in bankruptcy proceedings that leases should be re-characterized as financing agreements, which could result in our being deemed a lender instead of a landlord. A lender's rights and remedies, as compared to a landlord's, generally are materially less favorable, and our rights as a lender may be subordinated to other creditors' rights.

Furthermore, the automatic stay provisions of the U.S. Bankruptcy Code would preclude us from enforcing our remedies unless we first obtain relief from the court having jurisdiction over the bankruptcy case. This would effectively limit or delay our ability to collect unpaid rent or interest payments, and we may ultimately not receive any payment at all. In addition, we would likely be required to fund certain expenses and obligations (e.g., real estate taxes, insurance, debt costs and maintenance expenses) to preserve the value of our properties, avoid the imposition of liens on our properties or transition our properties to a new tenant or operator. Additionally, we lease many of our properties to healthcare providers who provide long-term custodial care to the elderly. Evicting these operators for failure to pay rent while the property is occupied may involve specific procedural or regulatory requirements and may not be successful. Even if eviction is possible, we may determine not to do so due to reputational or other risks.

Bankruptcy or insolvency proceedings typically also result in increased costs to the operator, significant management distraction and performance declines. If we are unable to transition affected properties, they would likely experience prolonged operational disruption, leading to lower occupancy rates and further depressed revenues. Publicity about the operator's financial condition and insolvency proceeds may also negatively impact their and our reputations, decreasing customer demand and revenues. Any or all of these risks could have a material adverse effect on our revenues, results of operations and cash flows. These risks would be magnified where we lease multiple properties to a single operator under a master lease, as an operator failure or default under a master lease would expose us to these risks across multiple properties.

We depend on investments in the healthcare property sector, making our profitability more vulnerable to a downturn or slowdown in that specific sector than if we were investing in multiple industries.

We concentrate our investments in the healthcare property sector. As a result, we are subject to risks inherent to investments in a single industry. A downturn or slowdown in the healthcare property sector would have a greater adverse impact on our business than if we had investments in multiple industries. Specifically, a downturn in the healthcare property sector could negatively impact the ability of our tenants, operators and borrowers to meet their obligations to us, as well as the ability to maintain rental and occupancy rates. This could adversely affect our business, financial condition and results of operations. In addition, a downturn in the healthcare property sector could adversely affect the value of our properties and our ability to sell properties at prices or on terms acceptable to us.

In addition, we are exposed to the risks inherent in concentrating our investments in real estate, which investments are relatively illiquid due to a number of factors, including restrictions on our ability to sell properties under applicable REIT tax laws, other tax-related considerations, regulatory hurdles and market conditions. Our ability to quickly sell or transition any of our properties in response to

changes in the performance of our properties or economic and other conditions is limited. We may be unable to recognize full value for any property that we seek to sell for liquidity reasons. Our inability to respond rapidly to changes in the performance of our investments could adversely affect our financial condition and results of operations.

Tenants and operators that fail to comply with federal, state, local and international laws and regulations, including licensure, certification and inspection requirements, may cease to operate or be unable to meet their financial and other contractual obligations to us.

Our tenants, operators and borrowers are subject to or impacted by extensive, frequently changing federal, state, local and international laws and regulations. These laws and regulations include, among others: laws protecting consumers against deceptive practices; laws relating to the operation of our properties and how our tenants and operators conduct their business, such as fire, health and safety, data security and privacy laws; federal and state laws affecting hospitals, clinics and other healthcare communities that participate in both Medicare and Medicaid that specify reimbursement rates, pricing, reimbursement procedures and limitations, quality of services and care, background checks, food service and physical plants, and similar foreign laws regulating the healthcare industry; resident rights laws (including abuse and neglect laws) and fraud laws; anti-kickback and physician referral laws; the ADA and similar state and local laws; and safety and health standards set by the Occupational Safety and Health Administration or similar foreign agencies. Certain of our properties may also require a license, registration and/or certificate of need to operate.

Our tenants', operators' or borrowers' failure to comply with any of these laws, regulations or requirements could result in loss of accreditation, denial of reimbursement, imposition of fines, suspension or decertification from government healthcare programs, civil liability, and in certain limited instances, criminal penalties, loss of license or closure of the property and/or the incurrence of considerable costs arising from an investigation or regulatory action, which may have an adverse effect on properties that we own and lease to a third party tenant, that we own and operate through a RIDEA structure or on which we hold a mortgage, and therefore may materially adversely impact us. See "Item 1—Business—Government Regulation, Licensing and Enforcement—Healthcare Licensure and Certificate of Need" above.

If we must replace any of our tenants or operators, we may have difficulty identifying replacements and we may be required to incur substantial renovation costs to make certain of our healthcare properties suitable for other tenants and operators.

Our tenants may not renew existing leases or our operators may not renew their management agreements beyond their current terms. If we or our tenants or operators terminate or do not renew the leases or management agreements for our properties, we would attempt to reposition those properties with another tenant or operator. We may also voluntarily change operators for a variety of reasons. For example, in November 2017, we announced a plan to transition a significant number of properties managed by Brookdale to other operators as part of our strategic plan to reduce our concentration of properties managed or leased by Brookdale. Healthcare properties are typically highly customized. The improvements generally required to conform a property to healthcare use, such as upgrading electrical, gas and plumbing infrastructure, are costly and at times tenant-specific and are typically subject to regulatory requirements. A new or replacement tenant or operator may require different features in a property, depending on that tenant's or operator's particular business. In addition, infrastructure improvements for life science properties typically are significantly more costly than improvements to other property types due to the highly specialized nature of the properties and the greater lease square footage often required by life science tenants. We may be unable to recover part or all of these higher costs. Therefore, if a current tenant or operator is unable to pay rent and/or vacates a property, we may incur substantial expenditures to modify a property and experience delays before we are able to secure another tenant or operator or to accommodate multiple tenants or operators. These expenditures or renovations and delays may materially adversely affect our business, results of operations and financial condition.

Additionally, we may fail to identify suitable replacements or enter into leases, management agreements or other arrangements with new tenants or operators on a timely basis or on terms as favorable to us as our current leases, if at all. Furthermore, during transition periods to new tenants or operators, we anticipate that the attention of existing tenants or operators will be diverted from the performance of the properties, which would cause the financial and operational performance at these properties to decline. For example, Brookdale properties we intended to sell

or transition performed significantly worse during 2018 than our senior housing properties as a whole. Following a decline in performance, we may not be able to rehabilitate the property to previous performance levels, which would adversely impact our results of operations. We also may be required to fund certain expenses and obligations such as real estate taxes, debt costs and maintenance expenses, to preserve the value of, and avoid the imposition of liens on, our properties while they are being repositioned. In addition, we may incur certain obligations and liabilities, including obligations to indemnify the replacement tenant or operator, which could have a materially adverse effect on our business, results of operations and financial condition.

We face additional risks associated with property development and redevelopment that can render a project less profitable or not profitable at all and, under certain circumstances, prevent completion of development activities once undertaken.

Property development and redevelopment is a significant component of our growth strategy. At December 31, 2018, our active development and redevelopment pipeline was approximately $1.5 billion with remaining costs to complete of approximately $913 million. Large-scale, ground-up development of healthcare properties presents additional risks for us, including risks that:

- a development opportunity may be abandoned after expending significant resources resulting in the loss of deposits or failure to recover expenses already incurred;
- the development and construction costs of a project may exceed original estimates due to increased interest rates and higher costs relating to materials, transportation, labor, leasing, negligent construction or construction defects, damage, vandalism or accidents, among others, which could make the completion of the development project less profitable;
- the project may not be completed on schedule as a result of a variety of factors that are beyond our control, including natural disasters, labor conditions, material shortages, regulatory hurdles, civil unrest and acts of war or terrorism, which result in increases in construction costs and debt service expenses or provide tenants or operators with the right to terminate pre-construction leases; and
- occupancy rates and rents at a newly completed property may not meet expected levels and could be insufficient to make the property profitable.

Any of the foregoing risks could materially adversely affect our business, results of operations and financial condition.

Changes within the life science industry may adversely impact our revenues and results of operations.

For the year ended December 31, 2018, properties in our life science segment accounted for approximately 21% of our total revenues. Our life science investments could be adversely affected if the life science industry is impacted by an economic, financial, or banking crisis or if the life science industry migrates from the U.S. to other countries or to areas outside of primary life science markets in South San Francisco, California, San Diego, California, and greater Boston, Massachusetts. Our ability to negotiate contractual rent escalations on future leases and to achieve increases in rental rates will depend upon market conditions and the demand for life science properties at the time the leases are negotiated and the increases are proposed. If economic, financial or industry conditions adversely affect our life science tenants, we may not be able to lease or re-lease our properties in a timely manner or at favorable rates, which would negatively impact our revenues and results of operations. For example, some of our properties may be better suited for a particular life science industry client tenant and could require modification before we are able to re-lease vacant space to another life science industry client tenant, which may delay the re-leasing process and result in unrecovered costs. Additionally, some of our life science properties may not be suitable for lease to traditional office client tenants without significant expenditures on renovations, which could delay an attempt to reposition the property for rent to non-life science tenants. Because infrastructure improvements for life science properties typically are significantly more costly than improvements to other property types due to the highly specialized nature of the properties, and life science tenants typically require greater lease square footage relative to medical office tenants, repositioning efforts would have a disproportionate adverse effect on our life science segment performance. See "—If we must replace any of our tenants or operators, we may have difficulty identifying replacements and we may be required to incur substantial renovation costs to make certain of our healthcare properties suitable for other tenants and operators."

It is common for businesses in the life science industry to undergo mergers or consolidations. Future mergers or consolidations of life science entities could reduce the amount of rentable square footage requirements of our client tenants and prospective client tenants, which may adversely impact our revenues from lease payments and results of operations.

Our tenants in the life science industry face high levels of regulation, funding requirements, expense and uncertainty.

Life science tenants, particularly those involved in developing and marketing pharmaceutical products, are subject to certain unique risks, including the following:

- some of our tenants require significant funding for the research, development, clinical testing, manufacture and commercialization of their products and technologies, as well as to fund their obligations, including rent payments due to us. If venture capital firms, private investors, the public markets, companies in the life science industry, the government or other sources of funding are difficult to obtain or unavailable to support such activities, including as a result of general economic conditions, adverse market conditions or government shutdowns that limit our tenants' ability to raise capital, a tenant's business would be adversely affected or fail; our tenants' ability to raise capital depends on the viability of their products and technologies, their financial and operating condition and outlook, and the overall financial, banking and economic environment;
- the research, development, clinical testing, manufacture and marketing of some of our tenants' products require federal, state and foreign regulatory approvals which may be costly or difficult to obtain, may take several years and be subject to delay, may not be obtained at all, require validation through clinical trials and the use of substantial resources, and may often be unpredictable;
- even after a life science tenant gains regulatory approval and market acceptance, the product may still present significant regulatory and liability risks, including, among others, the possible later discovery of safety concerns and other defects and potential loss of approvals, competition from new products and the expiration of patent protection for the product;
- our tenants with marketable products may be adversely affected by healthcare reform and the reimbursement policies of government or private healthcare payors;
- our tenants with marketable products may be unable to successfully manufacture their drugs economically;
- our tenants depend on the commercial success of certain products, which may be reliant on the efficacy of the product, as well as acceptance among doctors and patients; negative publicity or negative results or safety signals from the clinical trials of competitors may reduce demand or prompt regulatory actions; and
- our tenants may be unable to adapt to the rapid technological advances in the industry and to adequately protect their intellectual property under patent, copyright or trade secret laws and defend against third-party claims of intellectual property violations.

If our tenants' businesses are adversely affected, they may fail to make their rent payments to us, which could materially adversely affect our business, results of operations and financial condition.

The hospitals on whose campuses our MOBs are located and their affiliated healthcare systems could fail to remain competitive or financially viable, which could adversely impact their ability to attract physicians and physician groups to our MOBs and our other properties that serve the healthcare industry.

Our MOBs and other properties that serve the healthcare industry depend on the viability of the hospitals on whose campuses our MOBs are located and their affiliated healthcare systems in order to attract physicians and other healthcare-related users. The viability of these hospitals, in turn, depends on factors such as the quality and mix of healthcare services provided, competition, demographic trends in the surrounding community, market position and growth potential, as well as the ability of the affiliated healthcare systems to provide economies of scale and access to capital. If a hospital whose campus is located on or near one of our MOBs is unable to meet its financial obligations, and if an affiliated healthcare system is unable to support that hospital, the hospital may not be able to compete successfully or could be forced to close or relocate, which could adversely impact its ability to attract physicians and other healthcare-related users. Because we rely on our proximity to and affiliations with these hospitals to create tenant demand for space in our MOBs, their inability to remain competitive or financially viable, or to attract physicians and physician groups, could adversely affect our MOB operations and have a materially adverse effect on us.

In addition, changes to or replacement of the Affordable Care Act and related regulations could result in significant changes to the scope of insurance coverage and reimbursement policies, which could put negative pressure on the operations and revenues of our MOBs.

We may be unable to maintain or expand our relationships with our existing and future hospital and health system clients.

The success of our medical office portfolio depends, to a large extent, on past, current and future relationships with hospitals and their affiliated health systems. We invest significant amounts of time in developing relationships with both new and existing clients. If we fail to maintain these relationships, including through a lack of responsiveness, failure to adapt to the current market or employment of individuals with adequate experience, our reputation and relationships will be harmed and we may lose business

to competitors. If our relationships with hospitals and their affiliated health systems deteriorate, it could have a materially adverse effect on us.

Economic and other conditions that negatively affect geographic areas from which a greater percentage of our revenue is recognized could materially adversely affect our business, results of operations and financial condition.

For the year ended December 31, 2018, 26% of our revenue was derived from properties located in California, which is also where most of our life science portfolio is located. As a result, we are subject to increased exposure to adverse conditions affecting California, including downturns in local economies, changes in local real estate conditions, increased competition or decreased demand, changes in state-specific legislation and local climate events and natural disasters (such as earthquakes, flooding, wildfires and hurricanes), which could cause significant disruption in our businesses in the region, harm our ability to compete effectively, result in increased costs and divert more management attention, any or all of which could adversely affect our business and results of operations.

We may experience uninsured or underinsured losses, which could result in a significant loss of the capital invested in a property, lower than expected future revenues or unanticipated expense.

We maintain and regularly review the comprehensive insurance coverage on our properties with terms, conditions, limits and deductibles that we believe are adequate and appropriate given the relative risk and costs of such coverage. However, a large number of our properties are located in areas exposed to earthquake, windstorm, flood and other natural disasters. In particular, a significant portion of our life science development projects and approximately 90% of our existing life science portfolio (based on gross asset value) is concentrated in California, which is known to be subject to earthquakes, wildfires and other natural disasters. While we purchase insurance coverage for earthquake, fire, windstorm, flood and other natural disasters that we believe is adequate in light of current industry practice and analyses prepared by outside consultants, such insurance may not fully cover such losses. These losses can result in decreased anticipated revenues from a property and the loss of all or a portion of the capital we have invested in a property. Following these events, we may remain liable for any mortgage debt or other financial obligations related to the property. The insurance market for such exposures can be very volatile, and we may be unable to purchase the limits and terms we desire on a commercially reasonable basis. In addition, there are certain exposures for which we do not purchase insurance because we do not believe it is economically feasible to do so or where there is no viable insurance market.

We maintain earthquake insurance for our properties that are located in the vicinity of active earthquake zones in amounts and with deductibles we believe are commercially reasonable. Because of our significant concentration in the seismically active regions of South San Francisco, California and San Diego, California, a damaging earthquake in these areas could significantly impact multiple properties, which may amount to a significant portion of our life science portfolio. As a result, aggregate deductible amounts may be material, and our insurance coverage may be materially insufficient to cover our losses, either of which would adversely affect our business, financial condition, results of operations and cash flows.

If one of our properties experiences a loss that is uninsured or that exceeds policy coverage limits, we could lose our investment in the damaged property as well as the anticipated future cash flows from such property. If the damaged property is subject to recourse indebtedness, we could continue to be liable for the indebtedness even if the property is irreparably damaged.

In addition, even if damage to our properties is covered by insurance, a disruption of business caused by a casualty event may result in loss of revenues for us. Any business interruption insurance may not fully compensate the lender or us for such loss of revenue.

Our use of joint ventures may limit our flexibility with jointly owned investments.

We have and may continue to develop and/or acquire properties in joint ventures with other persons or entities when circumstances warrant the use of these structures. Our participation in joint ventures is subject to risks that may not be present with other methods of ownership, including:

- our joint venture partners could have investment and financing goals that are not consistent with our objectives, including the timing, terms and strategies for any investments, and what levels of debt to incur or carry;
- we could experience an impasse on certain decisions because we do not have sole decision-making authority, which could require us to expend additional resources on resolving such impasses or potential disputes, including litigation or arbitration;
- our joint venture partners may have competing interests in our markets that could create conflict of interest issues;
- our ability to transfer our interest in a joint venture to a third party may be restricted and the market for our interest may be limited and/or valued lower than fair market value;

- our joint venture partners may be structured differently than us for tax purposes, and this could create conflicts of interest and risks to our REIT status; and
- our joint venture partners might become insolvent, fail to fund their share of required capital contributions or fail to fulfill their obligations as a joint venture partner, which may require us to infuse our own capital into the venture on behalf of the partner despite other competing uses for such capital.

For example, with respect to our minority ownership position in our unconsolidated CCRC joint venture with Brookdale, we are limited in our ability to control or influence operations, and in our ability to exit or transfer our interest in the joint venture to a third party. As a result, we may not receive full value for our ownership interest if we tried to sell it to a third party.

In addition, in some instances, we and/or our joint venture partner will have the right to cause us to sell our interest, or acquire our partner's interest, at a time when we otherwise would not have initiated such a transaction. Our ability to acquire our partner's interest will be limited if we do not have sufficient cash, available borrowing capacity or other capital resources. This would require us to sell our interest in the joint venture when we would otherwise prefer to retain it. Any of the foregoing risks could materially adversely affect our business, results of operations and financial condition.

We have now, and may have in the future, contingent rent provisions and/or rent escalators based on the Consumer Price Index, which could hinder our profitability and growth.

We derive a significant portion of our revenues from leasing properties pursuant to leases that generally provide for fixed rental rates, subject to annual escalations. Under certain leases, a portion of the tenant's rental payment to us is based on the property's revenues (i.e., contingent rent). If, as a result of weak economic conditions or other factors, the property's revenue declines, our rental revenues would decrease and our results of operations could be materially adversely affected. Additionally, some of our leases provide that annual rent escalates based on changes in the Consumer Price Index or other thresholds (i.e., contingent rent escalators). If the Consumer Price Index does not increase or other applicable thresholds are not met, rental rates may not increase and our growth and profitability may be hindered. Furthermore, if strong economic conditions result in significant increases in the Consumer Price Index, but the escalations under our leases with contingent rent escalators are capped, our growth and profitability also may be limited.

Competition may make it difficult to identify and purchase, or develop, suitable healthcare properties to grow our investment portfolio, to finance acquisitions on favorable terms, or to retain or attract tenants and operators.

We face significant competition from other REITs, investment companies, private equity and hedge fund investors, sovereign funds, healthcare operators, lenders, developers and other institutional investors, some of whom may have greater resources and lower costs of capital than we do. Increased competition makes it more challenging for us to identify and successfully capitalize on opportunities that meet our business goals and could improve the bargaining power of property owners seeking to sell, thereby impeding our investment, acquisition and development activities. Similarly, our properties face competition for tenants and operators from other properties in the same market, which may affect our ability to attract and retain tenants and operators, or may reduce the rents we are able to charge. If we cannot capitalize on our development pipeline, identify and purchase a sufficient quantity of healthcare properties at favorable prices, finance acquisitions on commercially favorable terms, or attract and retain profitable tenants and operators, our business, results of operations and financial condition may be materially adversely affected.

From time to time we have made, and we may seek to make, one or more material acquisitions, which may involve the expenditure of significant funds.

We regularly review potential transactions in order to maximize stockholder value. Our review process may require significant management attention and a potential transaction could be abandoned or rejected by us or the other parties involved after we expend significant resources and time. In addition, future acquisitions may require the issuance of securities, the incurrence of debt, assumption of contingent liabilities or incurrence of significant expenditures, each of which could materially adversely impact our business, financial condition or results of operations. In addition, the financing required for acquisitions may not be available on commercially favorable terms or at all.

From time to time, we may acquire other companies, and if we are unable to successfully integrate these operations, our business, results of operations and financial condition may be materially adversely affected.

Acquisitions require the integration of companies that have previously operated independently. Successful integration of the operations of these companies depends primarily on our ability to consolidate operations, systems, procedures, properties and personnel, and to eliminate redundancies and costs. We may encounter difficulties in these integrations. Potential difficulties associated with acquisitions include

our ability to effectively monitor and manage our expanded portfolio of properties, the loss of key employees, the disruption of our ongoing business or that of the acquired entity, possible inconsistencies in standards, controls, procedures and policies, and the assumption of unexpected liabilities, including:

- liabilities relating to the cleanup or remediation of undisclosed environmental conditions;
- unasserted claims of vendors, residents, patients or other persons dealing with the seller;
- liabilities, claims and litigation, whether or not incurred in the ordinary course of business, relating to periods prior to our acquisition;
- claims for indemnification by general partners, directors, officers and others indemnified by the seller;
- claims for return of government reimbursement payments; and
- liabilities for taxes relating to periods prior to our acquisition.

In addition, the acquired companies and their properties may fail to perform as expected, including in respect of estimated cost savings. Inaccurate assumptions regarding future rental or occupancy rates could result in overly optimistic estimates of future revenues. Similarly, we may underestimate future operating expenses or the costs necessary to bring properties up to standards established for their intended use or for property improvements.

If we have difficulties with any of these areas, or if we later discover additional liabilities or experience unforeseen costs relating to our acquired companies, we might not achieve the economic benefits we expect from our acquisitions, and this may materially adversely affect our business, results of operations and financial condition.

Our tenants, operators and borrowers face litigation and may experience rising liability and insurance costs.

In some states, advocacy groups have been created to monitor the quality of care at healthcare properties, and these groups have brought litigation against the tenants and operators of such properties. Also, in several instances, private litigation by patients, residents or "whistleblowers" has sought, and sometimes resulted in, large damage awards. See "Risks Related to Our Business and Operations—The requirements of, or changes to, governmental reimbursement programs such as Medicare or Medicaid, may adversely affect our tenants', operators' and borrowers' ability to meet their financial and other contractual obligations to us." The effect of this litigation and other potential litigation may materially increase the costs incurred by our tenants, operators and borrowers for monitoring and reporting quality of care compliance, which under a RIDEA structure would be borne by us. In addition, their cost of liability and medical malpractice insurance can be significant and may increase or not be available at a reasonable cost. Cost increases could cause our tenants and borrowers to be unable to make their lease or mortgage payments or fail to purchase the appropriate liability and malpractice insurance, or cause our borrowers to be unable to meet their obligations to us, potentially decreasing our revenues and increasing our collection and litigation costs. Furthermore, with respect to our senior housing properties operated in RIDEA structures, we directly bear the costs of any such increases in litigation, monitoring, reporting and insurance due to our direct exposure to the cash flows of such properties.

In addition, as a result of our ownership of healthcare properties, we may be named as a defendant in lawsuits arising from the alleged actions of our tenants or operators. With respect to our triple-net leases, our tenants generally have agreed to indemnify us for various claims, litigation and liabilities in connection with their leasing and operation of our triple-net leased properties. With respect to our RIDEA structured properties, we are responsible for these claims, litigation and liabilities, with limited indemnification rights against our operator typically based on the gross negligence or willful misconduct by the operator. Although our leases provide us with certain information rights with respect to our tenants, one or more of our tenants may be or become party to pending litigation or investigation to which we are unaware or do not have a right to participate or evaluate. In such cases, we would be unable to determine the potential impact of such litigation or investigation on our tenants or our business or results. Moreover, negative publicity of any of our operators' or tenants' litigation, other legal proceedings or investigations may also negatively impact their and our reputation, resulting in lower customer demand and revenues, which could have a material adverse effect on our financial condition, results of operations and cash flow.

Required regulatory approvals can delay or prohibit transfers of our healthcare properties.

Transfers of healthcare properties to successor tenants or operators are typically subject to regulatory approvals or ratifications, including, but not limited to, change of ownership approvals and Medicare and Medicaid provider arrangements that are not required for transfers of other types of commercial operations and other types of real estate. The replacement of any tenant or operator could be delayed by the regulatory approval process of any federal, state or local government agency necessary for the transfer of the property or the replacement of the operator licensed to manage the property, during which time the property may experience performance declines. If we are unable to find a suitable replacement tenant or operator upon favorable terms, or at all, we may take possession of a property, which could expose us to successor liability,

require us to indemnify subsequent operators to whom we transfer the operating rights and licenses, or require us to spend substantial time and funds to preserve the value of the property and adapt the property to other uses, all of which may materially adversely affect our business, results of operations and financial condition.

Compliance with the Americans with Disabilities Act and fire, safety and other regulations may require us to make expenditures that adversely affect our cash flows.

Our properties must comply with applicable ADA and any similar state and local laws. This may require removal of barriers to access by persons with disabilities in public areas of our properties. Noncompliance could result in the incurrence of additional costs associated with bringing the properties into compliance, the imposition of fines or an award of damages to private litigants in individual lawsuits or as part of a class action. While the tenants to whom we lease our properties are obligated to comply with the ADA and similar state and local provisions, and typically under tenant leases are obligated to cover costs associated with compliance, if required changes involve greater expenditures than anticipated, or if the changes must be made on a more accelerated basis than anticipated, the ability of these tenants to cover costs could be adversely affected. As a result, we could be required to expend funds to comply with the provisions of the ADA and similar state and local laws on behalf of tenants, which could adversely affect our results of operations and financial condition. Additionally, with respect to our SHOP properties managed in RIDEA structures, we are ultimately responsible for such litigation and compliance costs due to our direct exposure to the cash flows of the properties.

In addition, we are required to operate our properties in compliance with fire and safety regulations, building codes and other land use regulations. New and revised regulations and codes may be adopted by governmental agencies and bodies and become applicable to our properties. For example, new safety laws for senior housing properties were adopted following the particularly damaging 2018 hurricane season. Compliance could require substantial capital expenditures, and may restrict our ability to renovate our properties. These expenditures and restrictions could have a material adverse effect on our financial condition and cash flows.

The requirements of, or changes to, governmental reimbursement programs such as Medicare or Medicaid, may adversely affect our tenants', operators' and borrowers' ability to meet their financial and other contractual obligations to us.

Certain of our tenants, operators and borrowers are affected, directly or indirectly, by an extremely complex set of federal, state and local laws and regulations pertaining to governmental reimbursement programs. These laws and regulations are subject to frequent and substantial changes that are sometimes applied retroactively. See "Item 1—Business—Government Regulation, Licensing and Enforcement." For example, to the extent that our tenants, operators or borrowers receive a significant portion of their revenues from governmental payors, primarily Medicare and Medicaid, they are generally subject to, among other things:

- statutory and regulatory changes;
- retroactive rate adjustments;
- recovery of program overpayments or set-offs;
- federal, state and local litigation and enforcement actions;
- administrative proceedings;
- policy interpretations;
- payment or other delays by fiscal intermediaries or carriers;
- government funding restrictions (at a program level or with respect to specific properties);
- interruption or delays in payments due to any ongoing governmental investigations and audits at such properties;
- reputational harm of publicly disclosed enforcement actions, audits or investigations related to billing and reimbursements.

The failure to comply with the extensive laws, regulations and other requirements applicable to their business and the operation of our properties could result in, among other challenges: (i) becoming ineligible to receive reimbursement from governmental reimbursement programs; (ii) becoming subject to prepayment reviews or claims for overpayments; (iii) bans on admissions of new patients or residents; (iv) civil or criminal penalties; and (v) significant operational changes, including requirements to increase staffing or the scope of care given to residents. These laws and regulations are enforced by a variety of federal, state and local agencies and can also be enforced by private litigants through, among other things, federal and state false claims acts, which allow private litigants to bring qui tam or "whistleblower" actions. Our tenants, operators and borrowers could be adversely affected by the resources required to respond to an investigation or other enforcement action. In such event, the results of operations and financial condition of our tenants and the results of operations of our properties operated by those entities could be materially adversely affected, which, in turn, could have a materially adverse effect on us.

We are unable to predict future federal, state and local regulations and legislation, including the Medicare and Medicaid statutes and regulations, or the intensity of enforcement efforts with respect to such regulations and legislation. Any changes in the regulatory framework could have a materially adverse effect on our tenants and

operators. If, in turn, such tenants or operators fail to make contractual rent payments to us or, with respect to our SHOP segment, cash flows are adversely affected, it could have a materially adverse effect on us.

Sometimes, governmental payors freeze or reduce payments to healthcare providers, or provide annual reimbursement rate increases that are smaller than expected, due to budgetary and other pressures. Healthcare reimbursement will likely continue to be of significant importance to federal and state authorities. We cannot make any assessment as to the ultimate timing or the effect that any future legislative reforms may have on our tenants', operators' and borrowers' costs of doing business and on the amount of reimbursement by government and other third-party payors. The failure of any of our tenants, operators or borrowers to comply with these laws and regulations, and significant limits on the scope of services reimbursed and on reimbursement rates and fees, could materially adversely affect their ability to meet their financial and contractual obligations to us.

Furthermore, executive orders and legislation may amend or repeal the Affordable Care Act and related regulations in whole or in part. A federal court in Texas recently declared the Affordable Care Act's individual mandate unconstitutional and the remaining provisions non-severable from the mandate, thus making them invalid (*Texas v. United States*, Case 4:18-cv-00167-1, Slip Opinion (N.D. Tex. Dec. 14, 2018). The decision has been stayed pending appeal. We also anticipate that Congress, state legislatures, and third-party payors may continue to review and assess alternative healthcare delivery and payment systems and may propose and adopt legislation or policy changes or implementations effecting additional fundamental changes in the healthcare system. For example, the Department of Health and Human Services has focused on tying Medicare payments to quality or value through alternative payment models, which generally aim to make providers attentive to the total costs of treatments. Additionally, the Centers for Medicare and Medicaid Services recently finalized a new patient driven payment model, which, effective October 1, 2019, will be used to calculate reimbursement rates for patients in skilled nursing properties. We cannot quantify or predict the likely impact of these changes on the revenues and profitability of our tenants, operators and borrowers. However, if any such changes significantly and adversely affect our tenants' profitability, they could in turn negatively affect our tenants' ability and willingness to comply with the terms of their leases with us and/or renew their leases with us upon expiration, which could impact our business, prospects, financial condition or results of operations.

Legislation to address federal government operations and administration decisions affecting the Centers for Medicare and Medicaid Services could have a materially adverse effect on our tenants', operators' and borrowers' liquidity, financial condition or results of operations.

Congressional consideration of legislation pertaining to the federal debt ceiling, the Affordable Care Act, tax reform and entitlement programs, including reimbursement rates for physicians, could have a materially adverse effect on our tenants', operators' and borrowers' liquidity, financial condition or results of operations. In particular, reduced funding for entitlement programs such as Medicare and Medicaid would result in increased costs and fees for programs such as Medicare Advantage Plans and additional reductions in reimbursements to providers. Amendments to or repeal of the Affordable Care Act in whole or in part and decisions by the Centers for Medicare and Medicaid Services could impact the delivery of services and benefits under Medicare, Medicaid or Medicare Advantage Plans and could affect our tenants and operators and the manner in which they are reimbursed by such programs. Such changes could have a materially adverse effect on our tenants', operators' and borrowers' liquidity, financial condition or results of operations, which could adversely affect their ability to satisfy their obligations to us and could have a materially adverse effect on us.

We may be unable to successfully foreclose on the collateral securing our real estate-related loans, and even if we are successful in our foreclosure efforts, we may be unable to successfully operate, occupy or reposition the underlying real estate, which may adversely affect our ability to recover our investments.

If a tenant or operator defaults under one of our mortgages or mezzanine loans, we may have to foreclose on the loan or protect our interest by acquiring title to the collateral and thereafter making substantial improvements or repairs in order to maximize the property's investment potential. In some cases, the collateral consists of the equity interests in an entity that directly or indirectly owns the applicable real property or interests in operating properties and, accordingly, we may not have full recourse to assets of that entity, or that entity may have incurred unexpected liabilities. Tenants, operators or borrowers may contest enforcement of foreclosure or other remedies, seek bankruptcy protection against our exercise of enforcement or other remedies and/or bring claims for lender liability in response to actions to enforce mortgage obligations. Foreclosure-related costs, high loan-to-value ratios or declines in the value of the property may prevent us from realizing an amount equal to our mortgage or mezzanine loan upon foreclosure, and we may be required to record a

valuation allowance for such losses. Even if we are able to successfully foreclose on the collateral securing our real estate-related loans, we may inherit properties for which we may be unable to expeditiously secure tenants or operators, if at all, or we may acquire equity interests that we are unable to immediately resell due to limitations under the securities laws, either of which would adversely affect our ability to fully recover our investment.

Risks Related to Our Capital Structure and Market Conditions

Changes or increases in interest rates could result in a decrease in our stock price and increased interest costs on new debt and existing variable rate debt, which could materially adversely impact our ability to refinance existing debt, sell properties and conduct acquisition, investment and development activities.

An increase in interest rates could reduce the amount investors are willing to pay for our common stock. Because REIT stocks are often perceived as high-yield investments, investors may perceive less relative benefit to owning REIT stocks as interest rates and the yield on government treasuries and other bonds increase.

Additionally, we have existing debt obligations that are variable rate obligations with interest and related payments that vary with the movement of certain indices. If interest rates increase, so would our interest costs for any variable rate debt and for new debt. This increased cost would make the financing of any acquisition and development activity more costly. In addition, an increase in interest rates could decrease the amount third parties are willing to pay for our properties, thereby limiting our ability to reposition our portfolio promptly in response to changes in economic or other conditions.

Rising interest rates could limit our ability to refinance existing debt when it matures, or cause us to pay higher interest rates upon refinancing and increase interest expense on refinanced indebtedness. For example, we have $800 million of senior notes that are maturing in 2020 on which we pay 2.625% interest, which is lower than prevailing interest rates throughout 2018. If interest rates remain higher than the interest rates of our senior notes reaching maturity, we will incur additional interest expense upon any replacement debt.

We manage a portion of our exposure to interest rate risk by accessing debt with staggered maturities and through the use of derivative instruments, primarily interest rate swap agreements. However, no amount of hedging activity can fully insulate us from the risks associated with changes in interest rates. Swap agreements involve risk, including that counterparties may fail to honor their obligations under these arrangements, that these arrangements may not be effective in reducing our exposure to interest rate changes, that the amount of income we earn from hedging transactions may be limited by federal tax provisions governing REITs and that these arrangements may cause us to pay higher interest rates on our debt obligations than would otherwise be the case. Failure to hedge effectively against interest rate risk could adversely affect our results of operations and financial condition.

Cash available for distribution to stockholders may be insufficient to make dividend distributions at expected levels and are made at the discretion of our Board of Directors.

If cash available for distribution generated by our properties decreases as a result of our announced dispositions or otherwise, we may be unable to make dividend distributions at expected levels. Our inability to make expected distributions would likely result in a decrease in the market price of our common stock. All distributions are made at the discretion of our Board of Directors in accordance with Maryland law and depend on our earnings, our financial condition, debt and equity capital available to us, our expectations of our future capital requirements and operating performance, restrictive covenants in our financial or other contractual arrangements (including those in our credit facility agreement), maintenance of our REIT qualification, restrictions under Maryland law and other factors as our Board of Directors may deem relevant from time to time. Additionally, our ability to make distributions will be adversely affected if any of the risks described herein, or other significant adverse events, occur.

We rely on external sources of capital to fund future capital needs, and if access to such capital is unavailable on acceptable terms or at all, it could have a materially adverse effect on our ability to meet commitments as they become due or make future investments necessary to grow our business.

We may not be able to fund all future capital needs, including capital expenditures, debt maturities and other commitments, from cash retained from operations and dispositions. If we are unable to obtain enough internal capital, we may need to rely on external sources of capital (including debt and equity financing) to fulfill our capital requirements. Our access to capital depends upon a number of factors, some of which we have little or no control over, including but not limited to:

- general availability of capital, including less favorable terms, rising interest rates and increased borrowing costs;

- the market price of the shares of our equity securities and the credit ratings of our debt and any preferred securities we may issue;
- the market's perception of our growth potential and our current and potential future earnings and cash distributions;
- our degree of financial leverage and operational flexibility;
- the financial integrity of our lenders, which might impair their ability to meet their commitments to us or their willingness to make additional loans to us, and our inability to replace the financing commitment of any such lender on favorable terms, or at all;
- the stability of the market value of our properties;
- the financial performance and general market perception of our tenants and operators;
- changes in the credit ratings on U.S. government debt securities or default or delay in payment by the United States of its obligations;
- issues facing the healthcare industry, including, but not limited to, healthcare reform and changes in government reimbursement policies; and
- the performance of the national and global economies generally.

If access to capital is unavailable on acceptable terms or at all, it could have a materially adverse impact on our ability to fund operations, repay or refinance our debt obligations, fund dividend payments, acquire properties and make the investments needed to grow our business.

Adverse changes in our credit ratings could impair our ability to obtain additional debt and equity financing on favorable terms, if at all, and negatively impact the market price of our securities, including our common stock.

Our credit ratings can affect the amount and type of capital we can access, as well as the terms of any financing we may obtain. The credit ratings of our senior unsecured debt are based on, among other things, our operating performance, liquidity and leverage ratios, overall financial position, level of indebtedness and pending or future changes in the regulatory framework applicable to our operators and our industry. We may be unable to maintain our current credit ratings, and in the event that our current credit ratings deteriorate, we would likely incur higher borrowing costs, which would make it more difficult or expensive to obtain additional financing or refinance existing obligations and commitments. Also, a downgrade in our credit ratings would trigger additional costs or other potentially negative consequences under our current and future credit facilities and debt instruments.

Our level of indebtedness may increase and materially adversely affect our future operations.

Our outstanding indebtedness as of December 31, 2018 was approximately $5.6 billion. We may incur additional indebtedness, including in connection with the development or acquisition of properties, which may be substantial. Any significant additional indebtedness would likely negatively affect the credit ratings of our debt and require us to dedicate a substantial portion of our cash flow to interest and principal payments due on our indebtedness. Greater demands on our cash resources may reduce funds available to us to pay dividends, conduct development activities, make capital expenditures and acquisitions or carry out other aspects of our business strategy. Increased indebtedness can also make us more vulnerable to general adverse economic and industry conditions and create competitive disadvantages for us compared to other companies with relatively lower debt levels. Increased future debt service obligations may limit our operational flexibility, including our ability to finance or refinance our properties, contribute properties to joint ventures or sell properties as needed.

Covenants in our debt instruments limit our operational flexibility, and breaches of these covenants could materially adversely affect our business, results of operations and financial condition.

The terms of our current secured and unsecured debt instruments and other indebtedness that we may incur, require or will require us to comply with a number of customary financial and other covenants, such as maintaining leverage ratios, minimum tangible net worth requirements, REIT status and certain levels of debt service coverage. Our continued ability to incur additional debt and to conduct business in general is subject to compliance with these financial and other covenants, which limit our operational flexibility. For example, mortgages on our properties contain customary covenants such as those that limit or restrict our ability, without the consent of the lender, to further encumber or sell the applicable properties, or to replace the applicable tenant or operator. Breaches of certain covenants may result in defaults under the mortgages on our properties and cross-defaults under certain of our other indebtedness, even if we satisfy our payment obligations to the respective obligee. Covenants that limit our operational flexibility as well as defaults resulting from the breach of any of these covenants could materially adversely affect our business, results of operations and financial condition.

Volatility, disruption or uncertainty in the financial markets may impair our ability to raise capital, obtain new financing or refinance existing obligations and fund real estate and development activities.

We may be affected by general market and economic conditions. Increased or prolonged market disruption, volatility or uncertainty could materially adversely impact our ability to raise capital, obtain new financing or refinance our existing obligations as they mature and fund real estate and development activities. Market volatility could also lead to significant uncertainty in the valuation of our investments and those of our joint ventures, which may result in a substantial decrease in the value of our properties and those of our joint ventures. As a result, we may be unable to recover the carrying amount of such investments and the associated goodwill, if any, which may require us to recognize impairment charges in earnings.

We may be adversely affected by fluctuations in currency exchange rates.

We have certain investments in international markets where the U.S. dollar is not the denominated currency. The ownership of investments located outside of the United States subjects us to risk from fluctuations in exchange rates between foreign currencies and the U.S. dollar. A significant change in the value of the British pound sterling ("GBP") may have a materially adverse effect on our financial position, debt covenant ratios, results of operations and cash flow.

We may attempt to manage the impact of foreign currency exchange rate changes through the use of derivative contracts or other methods. For example, we currently utilize GBP denominated liabilities as a natural hedge against our GBP denominated assets. Additionally, we executed currency swap contracts to hedge the risk related to a portion of the forecasted interest receipts on these investments. However, no amount of hedging activity can fully insulate us from the risks associated with changes in foreign currency exchange rates, and the failure to hedge effectively against foreign currency exchange rate risk, if we choose to engage in such activities, could materially adversely affect our results of operations and financial condition. In addition, any international currency gain recognized with respect to changes in exchange rates may not qualify under the 75% gross income test or the 95% gross income test that we must satisfy annually in order to qualify and maintain our status as a REIT.

Risk Related to Other Events

We rely on information technology in our operations, and any material failure, inadequacy, interruption or security failure of that technology could harm our business.

We rely on information technology networks and systems, including the Internet, to process, transmit and store electronic information, and to manage or support a variety of business processes, including financial transactions and records, and maintaining personal identifying information and tenant and lease data. We purchase some of our information technology from vendors, on whom our systems depend. We rely on commercially available systems, software, tools and monitoring to provide security for the processing, transmission and storage of confidential tenant and customer data, including individually identifiable information relating to financial accounts. Although we have taken steps to protect the security of our information systems and the data maintained in those systems, it is possible that our safety and security measures will not prevent the systems' improper functioning or damage, or the improper access or disclosure of personally identifiable information such as in the event of cyber-attacks. The risk of security breaches has generally increased as the number, intensity and sophistication of attacks and intrusions have increased. In addition, the pace and unpredictability of cyber threats generally quickly renders long-term implementation plans designed to address cybersecurity risks obsolete. Because our operators also rely on information technology networks, systems and software, we may be exposed to cyber-attacks on our operators.

Security breaches of our or our operators' networks and systems, including those caused by physical or electronic break-ins, computer viruses, malware, worms, attacks by hackers or foreign governments, disruptions from unauthorized access and tampering, including through social engineering such as phishing attacks, coordinated denial-of-service attacks and similar breaches, could result in, among other things, system disruptions, shutdowns, unauthorized access to or disclosure of confidential information, misappropriation of our or our business partners' proprietary or confidential information, breach of our legal, regulatory or contractual obligations, inability to access or rely upon critical business records or systems or other delays in our operations. In some cases, it may be difficult to anticipate or immediately detect such incidents and the damage they cause. We may be required to expend significant financial resources to protect against or to remediate such security breaches. In addition, our technology infrastructure and information systems are vulnerable to damage or interruption from natural disasters, power loss and telecommunications failures. Any failure to maintain proper function, security and availability of our and our operators' information systems and the data maintained in those systems could interrupt our operations, damage our reputation, subject us to liability claims or regulatory penalties, harm our business relationships or increase our security and insurance costs, which could have a materially adverse effect on our business, financial condition and results of operations.

We are subject to certain provisions of Maryland law and our charter relating to business combinations which may prevent a transaction that may otherwise be in the interest of our stockholders.

The Maryland Business Combination Act provides that unless exempted, a Maryland corporation may not engage in business combinations, including a merger, consolidation, share exchange or, in circumstances specified in the statute, an asset transfer or issuance or reclassification of equity securities 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 voting stock of a Maryland corporation. Unless our Board of Directors takes action to exempt us, generally or with respect to certain transactions, from this statute, the Maryland Business Combination Act will be applicable to business combinations between us and other persons.

In addition to the restrictions on business combinations contained in the Maryland Business Combination Act, our charter also contains restrictions on business combinations. Our charter requires that, except in certain circumstances, "business combinations," including a merger or consolidation, and certain asset transfers and issuances of securities, with a "related person," including a beneficial owner of 10% or more of our outstanding voting stock, be approved by the affirmative vote of the holders of at least 90% of our outstanding voting stock.

The restrictions on business combinations provided under Maryland law and contained in our charter may delay, defer or prevent a change of control or other transaction even if such transaction involves a premium price for our common stock or our stockholders believe that such transaction is otherwise in their best interests.

Unfavorable resolution of litigation matters and disputes could have a material adverse effect on our financial condition.

From time to time, we are involved in legal proceedings, lawsuits and other claims. We may also be named as defendants in lawsuits arising out of our alleged actions or the alleged actions of our tenants and operators for which such tenants and operators have agreed to indemnify, defend and hold us harmless. An unfavorable resolution of any such litigation may have a materially adverse effect on our business, results of operations and financial condition. Regardless of the outcome, litigation or other legal proceedings may result in substantial costs, disruption of our normal business operations and the diversion of management attention. We may be unable to prevail in, or achieve a favorable settlement of, any pending or future legal action against us. See "Item 3—Legal Proceedings" of this Annual Report on Form 10-K.

Loss of our key personnel could temporarily disrupt our operations and adversely affect us.

We depend on the efforts of our executive officers for the success of our business, and competition for these individuals is intense. Although they are covered by our Executive Severance Plan and Change in Control Plan, which provide many of the benefits typically found in executive employment agreements, none of our executive officers have employment agreements with us. The loss or limited availability of the services of any of our executive officers, or our inability to recruit and retain qualified personnel, could, at least temporarily, have a materially adverse effect on our business, results of operations and financial condition and the value of our common stock.

Environmental compliance costs and liabilities associated with our real estate-related investments may be substantial and may materially impair the value of those investments.

Federal, state and local laws, ordinances and regulations may require us, as a current or previous owner of real estate, to investigate and clean up certain hazardous or toxic substances or petroleum released at a property. We may be held liable to a governmental entity or to third parties for property damage and for investigation and cleanup costs incurred by the third parties in connection with the contamination. The costs of cleanup and remediation could be substantial. In addition, some environmental laws create a lien on the contaminated site in favor of the government for damages and the costs it incurs in connection with the contamination.

Although we currently carry environmental insurance on our properties in an amount that we believe is commercially reasonable and generally require our tenants and operators to indemnify us for environmental liabilities they cause, such liabilities could exceed the amount of our insurance, the financial ability of the tenant or operator to indemnify us or the value of the contaminated property. As the owner of a site, we may also be held liable to third parties for damages and injuries resulting from environmental contamination emanating from the site. We may also experience environmental liabilities arising from conditions not known to us. The cost of defending against these claims, complying with environmental regulatory requirements, conducting remediation of any contaminated property, or paying personal injury or other claims or fines could be substantial and could have a materially adverse effect on our business, results of operations and financial condition.

In addition, the presence of contamination or the failure to remediate contamination may materially adversely affect our ability to use, sell or lease the property or to borrow using the property as collateral.

Risk Related to Tax, including REIT-Related Risks

Loss of our tax status as a REIT would substantially reduce our available funds and would have materially adverse consequences for us and the value of our common stock.

Qualification as a REIT involves the application of numerous highly technical and complex provisions of the Code, for which there are only limited judicial and administrative interpretations, as well as the determination of various factual matters and circumstances not entirely within our control. We intend to continue to operate in a manner that enables us to qualify as a REIT. However, our qualification and taxation as a REIT depend upon our ability to meet, through actual annual operating results, asset diversification, distribution levels and diversity of stock ownership, the various qualification tests imposed under the Code. For example, to qualify as a REIT, at least 95% of our gross income in any year must be derived from qualifying sources, and we must make distributions to our stockholders aggregating annually to at least 90% of our REIT taxable income, excluding net capital gains. In addition, new legislation, regulations, administrative interpretations or court decisions could change the tax laws or interpretations of the tax laws regarding qualification as a REIT, or the federal income tax consequences of that qualification, in a manner that is materially adverse to our stockholders. Accordingly, 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 REIT.

If we lose our REIT status, we will face serious tax consequences that will substantially reduce the funds available to make payments of principal and interest on the debt securities we issue and to make distributions to stockholders. If we fail to qualify as a REIT:

- we will not be allowed a deduction for distributions to stockholders in computing our taxable income;
- we will be subject to corporate-level income tax on our taxable income at regular corporate rates;
- we will be subject to increased state and local income taxes; and
- unless we are entitled to relief under relevant statutory provisions, we will be disqualified from taxation as a REIT for the four taxable years following the year during which we fail to qualify as a REIT.

As a result of all these factors, our failure to qualify as a REIT could also impair our ability to expand our business and raise capital and could materially adversely affect the value of our common stock.

Recent changes to the U.S. tax laws could have a significant negative impact on the overall economy, our tenants, and our business.

On December 20, 2017, the House of Representatives and the Senate passed a tax reform bill, which was signed into law on December 22, 2017 (the "Tax Reform Legislation"). Among other things, the Tax Reform Legislation:

- restricted the deductibility of interest expense by businesses (generally, to 30% of the business' adjusted taxable income) except, among others, real property businesses electing out of such restriction; generally, we expect our business to qualify as a real property business, but businesses conducted by our taxable REIT subsidiaries may not qualify;
- required real property businesses to use the less favorable alternative depreciation system to depreciate real property in the event businesses elect to avoid the interest deduction restriction above;
- restricted the benefits of like-kind exchanges that defer capital gains for tax purposes to exchanges of real property; and
- generally allowed a deduction for individuals equal to 20% of certain income from pass-through entities, including ordinary dividends distributed by a REIT (excluding capital gain dividends and qualified dividend income).

Many of the provisions in the Tax Reform Legislation expire at the end of 2025.

The Tax Reform Legislation was a far-reaching and complex revision to the existing U.S. federal income tax laws with disparate and, in some cases, countervailing impacts on different categories of taxpayers and industries and will require subsequent rulemaking and interpretation in a number of areas. As a result, we cannot predict the long-term impact of the Tax Reform Legislation on the overall economy, government revenues, our tenants, us, and the real estate industry. Furthermore, the Tax Reform Legislation may negatively impact certain of our tenants' operating results, financial condition, and future business plans. This in turn could negatively impact our operating results, financial condition, and operations.

Further changes to U.S. federal income tax laws could materially and adversely affect us and our stockholders.

The present federal income tax treatment of REITs may be modified, possibly with retroactive effect, by legislative, judicial or administrative action at any time, which could affect the federal income tax treatment of an investment in us. The federal income tax rules dealing with U.S. federal income taxation and REITs are constantly under review by persons involved in the legislative process, the U.S. Internal Revenue Service (the "IRS") and the U.S. Treasury Department, which results in statutory changes as well as frequent revisions to regulations and interpretations. We cannot predict how changes in the tax laws might affect our investors or us. Revisions in federal tax laws and interpretations thereof could significantly and negatively affect our ability to qualify as a REIT, as well as the tax considerations relevant to an investment in us, or could cause us to change our investments and commitments.

We could have potential deferred and contingent tax liabilities from corporate acquisitions that could limit, delay or impede future sales of our properties.

If, during the five-year period beginning on the date we acquire certain companies, we recognize a gain on the disposition of any property acquired, then, to the extent of the excess of (i) the fair market value of such property as of the acquisition date over (ii) our adjusted income tax basis in such property as of that date, we will be required to pay a corporate-level federal income tax on this gain at the highest regular corporate rate. There can be no assurance that these triggering dispositions will not occur, and these requirements could limit, delay or impede future sales of our properties.

In addition, the IRS may assert liabilities against us for corporate income taxes for taxable years prior to the time that we acquire certain companies, in which case we will owe these taxes plus interest and penalties, if any.

There are uncertainties relating to the calculation of non-REIT tax earnings and profits ("E&P") in certain acquisitions, which may require us to distribute E&P.

In order to remain qualified as a REIT, we are required to distribute to our stockholders all of the accumulated non-REIT E&P of certain companies that we acquire, prior to the close of the first taxable year in which the acquisition occurs. Failure to make such E&P distributions would result in our disqualification as a REIT. The determination of the amount to be distributed in such E&P distributions is a complex factual and legal determination. We may have less than complete information at the time we undertake our analysis, or we may interpret the applicable law differently from the IRS. We currently believe that we have satisfied the requirements relating to such E&P distributions. There are, however, substantial uncertainties relating to the determination of E&P, including the possibility that the IRS could successfully assert that the taxable income of the companies acquired should be increased, which would increase our non-REIT E&P. Moreover, an audit of the acquired company following our acquisition could result in an increase in accumulated non-REIT E&P, which could require us to pay an additional taxable distribution to our then-existing stockholders, if we qualify under rules for curing this type of default, or could result in our disqualification as a REIT.

Thus, we might fail to satisfy the requirement that we distribute all of our non-REIT E&P by the close of the first taxable year in which the acquisition occurs. Moreover, although there are procedures available to cure a failure to distribute all of our E&P, we cannot now determine whether we will be able to take advantage of these procedures or the economic impact on us of doing so.

Our international investments and operations may result in additional tax-related risks.

We own a 49% noncontrolling interest in a joint venture that owns senior housing properties in the U.K. Although we expect to sell our remaining 49% interest in the joint venture by no later than 2020, we currently remain exposed to risks associated with international investments and operations, including tax-related risks, which are different from those we face with respect to our domestic properties and operations. These risks include, but are not limited to:

- international currency gain recognized as a result of changes in exchange rates may in certain circumstances be treated as income that does not qualify under the 75% gross income test or the 95% gross income test that we must satisfy annually in order to qualify and maintain our status as a REIT;
- challenges with respect to the repatriation of foreign earnings and cash; and
- challenges of complying with foreign tax rules (including the possible revisions in tax treaties or other laws and regulations, including those governing the taxation of our international income).

Our charter contains ownership limits with respect to our common stock and other classes of capital stock.

Our charter contains restrictions on the ownership and transfer of our common stock and preferred stock that are intended to assist us in preserving our qualification as a REIT. Under our charter, subject to certain exceptions, no person or entity may own, actually or constructively, more than 9.8% (by value or by number of shares, whichever is more restrictive) of the outstanding shares of our common stock or any class or series of our preferred stock.

Additionally, our charter has a 9.9% ownership limitation on the direct or indirect ownership of our voting shares, which may include common stock or other classes of capital stock. Our Board of Directors, in its sole discretion, may exempt a proposed transferee from either ownership limit. The ownership limits may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or might otherwise be in the best interests of our stockholders.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

We are organized to invest in income-producing healthcare-related facilities. In evaluating potential investments, we consider a multitude of factors, including:

- location, construction quality, age, condition and design of the property;
- geographic area, proximity to other healthcare facilities, type of property and demographic profile, including new competitive supply;
- whether the expected risk-adjusted return exceeds the incremental cost of capital;
- whether the rent or operating income provides a competitive market return to our investors;
- duration, rental rates, tenant and operator quality and other attributes of in-place leases, including master lease structures and coverage;
- current and anticipated cash flow and its adequacy to meet our operational needs;
- availability of security such as letters of credit, security deposits and guarantees;
- potential for capital appreciation;
- expertise and reputation of the tenant or operator;
- occupancy and demand for similar healthcare facilities in the same or nearby communities;
- availability of qualified operators or property managers and whether we can manage the property;
- potential alternative uses of the facilities;
- the regulatory and reimbursement environment in which the properties operate;
- tax laws related to REITs;
- prospects for liquidity through financing or refinancing; and
- our access to and cost of capital.

Property and Direct Financing Lease Investments

The following table summarizes our consolidated property and direct financing lease ("DFL") investments as of and for the year ended December 31, 2018 (square feet and dollars in thousands):

Facility Location	Number of Facilities	Capacity	Gross Asset Value[1]	Real Estate Revenues[2]	Operating Expenses
Senior housing triple-net—real estate:		*(Units)*			
California	16	1,572	$ 389,349	$ 36,979	$ (3,219)
Virginia	9	1,157	257,298	25,041	—
Florida	11	1,418	228,047	25,453	(8)
Texas	13	1,323	189,144	21,535	—
Pennsylvania	2	623	144,645	13,832	—
Washington	10	670	137,713	14,552	(1)
Oregon	10	955	137,180	13,821	(123)
Other (18 States)	48	4,157	772,101	86,953	(197)
	119	11,875	2,255,477	238,166	(3,548)
Senior housing—DFLs[3]:					
Other (12 States)	27	3,126	629,214	37,925	(70)
Total senior housing triple-net	146	15,001	$ 2,884,691	$ 276,091	$ (3,618)
SHOP:		*(Units)*			
Texas	19	3,171	$ 479,786	$ 136,560	$ (94,433)
Florida	17	2,090	338,843	109,289	(86,380)
Colorado	5	687	206,592	35,414	(20,849)
Maryland	7	644	185,982	34,768	(26,261)
Illinois	4	771	143,924	38,960	(28,447)
Other (18 States)	41	4,345	707,302	192,985	(157,942)
Total SHOP	93	11,708	$ 2,062,429	$ 547,976	$(414,312)
Life science:		*(Sq. Ft.)*			
California	113	5,805	$ 3,765,565	$ 357,868	$ (79,714)
Other (3 States)	11	910	417,629	37,196	(12,028)
Total life science	124	6,715	$ 4,183,194	$ 395,064	$ (91,742)
Medical office:		*(Sq. Ft.)*			
Texas	67	5,910	$ 1,103,777	$ 143,567	$ (59,163)
Pennsylvania	4	1,054	329,054	28,875	(12,364)
South Carolina	20	1,028	314,304	10,758	(1,601)
California	17	955	302,725	35,862	(16,234)
Other (29 States)	159	10,301	2,042,081	289,957	(100,497)
Total medical office	267	19,248	$ 4,091,941	$ 509,019	$(189,859)
Other—Hospital[4]:		*(Beds)*			
Texas	4	1,077	$ 232,715	$ 39,196	$ (5,240)
California	2	111	143,500	19,406	(127)
Other (7 States)	8	988	150,965	28,778	(140)
	14	2,176	$ 527,180	$ 87,380	$ (5,507)
Other—U.K.:		*(Units)*			
Other (U.K.)[5]	—	—	—	19,492	—
Other—SNF:		*(Beds)*			
Virginia	1	120	16,780	1,261	—
Total other non-reportable segments	15		$ 543,960	$ 108,133	$ (5,507)
Total properties	645		$13,766,215	$1,836,283	$(705,038)

(1) Represents gross real estate and the carrying value of DFLs. Gross real estate represents the carrying amount of real estate after adding back accumulated depreciation and amortization. Excludes real estate held for sale with an aggregate gross asset value of $131 million.

(2) Represent the combined amount of rental and related revenues, resident fees and services and income from DFLs.

(3) Represents leased properties that are classified as DFLs.

(4) Includes leased properties that are classified as DFLs.

(5) Represents real estate revenues generated from real estate assets that were deconsolidated in June 2018 (see Note 5 to the Consolidated Financial Statements).

Occupancy and Annual Rent Trends

The following table summarizes occupancy and average annual rent trends for our consolidated property and DFL investments for the years ended December 31 (average occupied square feet in thousands):

	2018	2017	2016	2015	2014
Senior housing triple-net:					
Average annual rent per unit[1]	$16,449	$15,352	$14,604	$14,544	$13,907
Average capacity (available units)	16,914	21,536	28,455	28,777	33,917
SHOP:					
Average annual rent per unit[1]	$48,433	$41,133	$42,851	$41,435	$38,017
Average capacity (available units)	11,248	12,758	16,028	12,704	6,408
Life science:					
Average occupancy percentage	95%	96%	98%	97%	93%
Average annual rent per square foot[1]	$ 54	$ 52	$ 48	$ 46	$ 46
Average occupied square feet	7,078	6,841	7,332	7,179	6,637
Medical office:					
Average occupancy percentage	92%	92%	91%	91%	91%
Average annual rent per square foot[1]	$ 29	$ 28	$ 28	$ 28	$ 28
Average occupied square feet	17,280	16,674	15,697	14,677	13,136
Other non-reportable segments:					
Average annual rent per bed - Hospital[1]	$39,246	$38,017	$39,076	$39,834	$38,756
Average capacity (available beds) - Hospital	2,147	2,161	2,271	2,187	2,184
Average annual rent per unit - U.K.[1][2]	$ —	$ 9,097	$ 9,200	$10,048	$11,240
Average capacity (available units) - U.K.[2]	—	3,188	3,190	2,515	501
Average annual rent per bed - SNF[1]	$10,504	$10,298	$10,803	$ 8,292	$ 8,062
Average capacity (available beds) - SNF	120	120	426	1,047	1,022

(1) Average annual rent is presented as a ratio of revenues comprised of rental and related revenues and income from DFLs divided by the average capacity or average occupied square feet of the facilities. Average annual rent for leased properties (including DFLs) excludes termination fees and non-cash revenue adjustments (i.e., straight-line rents, amortization of market lease intangibles, DFL non-cash interest and the impact of deferred community fee income).

(2) Our investments in the U.K. were deconsolidated in June 2018 (see Note 5 to the Consolidated Financial Statements).

Tenant Lease Expirations

The following table shows tenant lease expirations, including those related to DFLs, for the next 10 years and thereafter at our consolidated properties, assuming that none of the tenants exercise any of their renewal or purchase options, unless otherwise noted below, and excludes properties in our SHOP segment and assets held for sale as of and for the year ended December 31, 2018 (dollars and square feet in thousands):

		Expiration Year										
Segment	**Total**	**2019[1]**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**Thereafter**
Senior housing triple-net:												
Properties	146	2	22	6	1	24	9	5	6	4	15	52
Base rent[2]	$ 263,173	$ 2,305	$ 40,753	$ 7,969	$ 1,548	$ 46,215	$ 13,445	$ 9,354	$ 4,316	$12,359	$36,949	$ 87,960
% of segment base rent	100	1	15	3	1	18	5	4	2	5	14	32
Life science:												
Square feet	6,488	604	546	850	632	639	111	1,035	379	489	338	865
Base rent[2]	$ 285,294	$24,653	$ 19,890	$ 50,365	$ 21,345	$ 36,210	$ 6,213	$ 46,238	$17,955	$22,898	$15,079	$ 24,448
% of segment base rent	100	9	7	18	7	13	2	16	6	8	5	9
Medical office:												
Square feet	17,731	2,806	2,444	1,923	1,796	1,530	888	2,084	795	735	1,325	1,405
Base rent[2]	$ 415,123	$69,775	$ 63,355	$ 48,606	$ 45,566	$ 39,366	$ 24,008	$ 36,526	$20,040	$15,229	$28,161	$ 24,491
% of segment base rent	100	17	15	12	11	9	6	9	5	4	7	5
Other non-reportable segments:												
Properties	15	—	1	1	5	—	6	1	—	—	—	1
Base rent[2]	$ 75,370	$ —	$ 8,145	$ 1,619	$ 14,099	$ —	$ 22,972	$ 20,051	$ —	$ —	$ —	$ 8,484
% of segment base rent	100	—	11	2	19	—	30	27	—	—	—	11
Total:												
Base rent[2]	$1,038,960	$96,733	$132,143	$108,559	$ 82,558	$121,791	$ 66,638	$112,169	$42,311	$50,486	$80,189	$145,383
% of total base rent	100	9	13	10	8	12	6	11	4	5	8	14

(1) Includes month-to-month leases.

(2) The most recent month's (or subsequent month's, if acquired in the most recent month) base rent, including additional rent floors and cash income from DFLs, annualized for 12 months. Base rent does not include tenant recoveries, additional rents in excess of floors and non-cash revenue adjustments (i.e., straight-line rents, amortization of market lease intangibles, DFL non-cash interest and deferred revenues).

See the "Tenant Purchase Options" section of Note 6 to the Consolidated Financial Statements for additional information on leases subject to purchase options. See Schedule III: Real Estate and Accumulated Depreciation, included in this report, which information is incorporated by reference in this Item 2.

ITEM 3. LEGAL PROCEEDINGS

Except as described below, we are not aware of any legal proceedings or claims that we believe could have, individually or taken together, a material adverse effect on our financial condition, results of operations or cash flows.

See "Legal Proceedings" section of Note 11 to the Consolidated Financial Statements for information regarding legal proceedings, which information is incorporated by reference in this Item 3.

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock is listed on the New York Stock Exchange ("NYSE") under the symbol "HCP."

At January 31, 2019, we had 8,945 stockholders of record, and there were 184,033 beneficial holders of our common stock.

Dividends (Distributions)

It has been our policy to declare quarterly dividends to common stockholders so as to comply with applicable provisions of the Code governing REITs. All distributions are made at the discretion of our Board of Directors in accordance with Maryland law. Distributions with respect to our common stock can be characterized for federal income tax purposes as ordinary dividends, capital gains, nondividend distributions or a combination thereof. The following table shows the characterization of our annual common stock distributions per share:

	Year Ended December 31,		
	2018	2017	2016
Ordinary dividends[1]	$0.9578	$1.4800	$1.5561
Capital gains	0.5222	—	—
Nondividend distributions	—	—	6.7089
	$1.4800	$1.4800	$8.2650[2]

(1) The 2018 amount includes $0.0164 of qualified dividend income for purposes of Code Section 1(h)(11), and $0.9414 of qualified business income for purposes of Code Section 199A.

(2) Consists of $2.095 per common share of quarterly cash dividends and $6.17 per common share of stock dividends related to the spin-off (the "Spin-Off") of Quality Care Properties, Inc. ("QCP") (discussed below).

HCP common stockholders on October 24, 2016, the record date for the Spin-Off (the "Record Date"), received upon the Spin-Off on October 31, 2016 one share of QCP common stock for every five shares of HCP common stock they held as of the Record Date (the "Distributed Shares") and cash in lieu of fractional shares of QCP. For U.S. federal income tax purposes, HCP reported the fair market value of the QCP common stock distributed per each share of HCP common stock outstanding on the Record Date was $6.17, or $30.85 for each share of QCP common stock. Accordingly, every HCP common stockholder who received a Distributed Share has a tax cost basis of $30.85 per Distributed Share.

On January 31, 2019, we announced that our Board of Directors declared a quarterly common stock cash dividend of $0.37 per share. The common stock dividend will be paid on February 28, 2019 to stockholders of record as of the close of business on February 19, 2019.

Issuer Purchases of Equity Securities

The table below sets forth the information with respect to purchases of our common stock made by or on our behalf during the quarter ended December 31, 2018.

Period Covered	Total Number of Shares Purchased[1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet be Purchased Under the Plans or Programs
October 1-31, 2018	448	$27.35	—	—
November 1-30, 2018	—	—	—	—
December 1-31, 2018	2,798	27.88	—	—
Total	3,246	$27.81	—	—

[1] Represents restricted shares withheld under our equity incentive plans to offset tax withholding obligations that occur upon vesting of restricted shares. The value of the shares withheld is based on the closing price of our common stock on the last trading day prior to the date the relevant transaction occurred.

Performance Graph

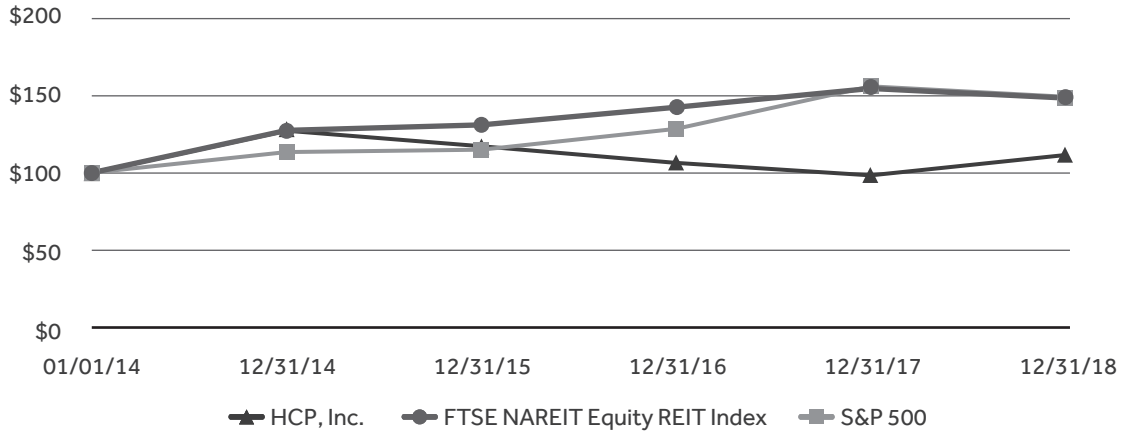
The graph and table below compare the cumulative total return of HCP, the S&P 500 Index and the Equity REIT Index of NAREIT, from January 1, 2014 to December 31, 2018. Total cumulative return is based on a $100 investment in HCP common stock and in each of the indices at the close of trading on December 31, 2013 and assumes quarterly reinvestment of dividends before consideration of income taxes. Stockholder returns over the indicated periods should not be considered indicative of future stock prices or stockholder returns.

Comparison of Five-Year Cumulative Total Return Among S&P 500, Equity REITs and Hcp, Inc.

Rate of Return Trend Comparison

January 1, 2014–December 31, 2018
(January 1, 2014 = $100)

Performance Graph Total Stockholder Return



	December 31,				
	2014	2015	2016	2017	2018
FTSE NAREIT Equity REIT Index	$128.03	$131.65	$143.32	$155.75	$149.42
S&P 500	113.68	115.24	129.02	157.17	150.27
HCP, Inc.	127.80	117.53	106.52	98.26	111.71

ITEM 6. SELECTED FINANCIAL DATA

Set forth below is our selected financial data as of and for each of the years in the five-year period ended December 31 (dollars in thousands, except per share data):

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Statement of operations data:					
Total revenues	$ 1,846,689	$ 1,848,378	$ 2,129,294	$ 1,940,489	$ 1,636,833
Income (loss) from continuing operations	1,073,474	422,634	374,171	152,668	271,315
Net income (loss) applicable to common shares	1,058,424	413,013	626,549	(560,552)	919,796
Basic earnings per common share:					
Continuing operations	2.25	0.88	0.77	0.30	0.56
Discontinued operations	—	—	0.57	(1.51)	1.45
Net income (loss) applicable to common shares	2.25	0.88	1.34	(1.21)	2.01
Diluted earnings per common share:					
Continuing operations	2.24	0.88	0.77	0.30	0.56
Discontinued operations	—	—	0.57	(1.51)	1.44
Net income (loss) applicable to common shares	2.24	0.88	1.34	(1.21)	2.00
Balance sheet data:					
Total assets	12,718,553	14,088,461	15,759,265	21,449,849	21,331,436
Debt obligations[1]	5,567,908	7,880,466	9,189,495	11,069,003	9,721,269
Total equity	6,512,591	5,594,938	5,941,308	9,746,317	10,997,099
Other data:					
Dividends paid	696,913	694,955	979,542	1,046,638	1,001,559
Dividends paid per common share[2]	1.480	1.480	2.095	2.260	2.180
Funds from operations ("NAREIT FFO")[3]	780,189	661,113	1,119,153	(10,841)	1,381,634
Diluted NAREIT FFO per common share[3]	1.66	1.41	2.39	(0.02)	3.00
FFO as adjusted[3]	857,233	918,402	1,282,390	1,470,167	1,398,691
Diluted FFO as adjusted per common share[3]	1.82	1.95	2.74	3.16	3.04
Funds available for distribution ("FAD")[3]	746,397	803,720	1,215,696	1,261,849	1,178,822

(1) Includes bank line of credit, term loans, senior unsecured notes, mortgage debt and other debt.

(2) Represents cash dividends. Additionally, in October 2016 we issued $6.17 per common share of stock dividends related to the Spin-Off.

(3) For a more detailed discussion and reconciliation of NAREIT FFO, FFO as adjusted and FAD, see "Results of Operations" and "Non-GAAP Financial Measure Reconciliations" in Item 7 of this report.

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

The information set forth in this Item 7 is intended to provide readers with an understanding of our financial condition, changes in financial condition and results of operations. We will discuss and provide our analysis in the following order:

- 2018 Transaction Overview
- Dividends
- Results of Operations
- Liquidity and Capital Resources
- Contractual Obligations
- Off-Balance Sheet Arrangements
- Inflation
- Non-GAAP Financial Measure Reconciliations
- Critical Accounting Policies
- Recent Accounting Pronouncements

2018 Transaction Overview

Mountain View Campus Sale

- In November 2018, we sold our Shoreline Technology Center life science campus located in Mountain View, California for $1.0 billion and recognized a gain on sale of $726 million.

MSREI MOB JV

- In August 2018, HCP and Morgan Stanley Real Estate Investment ("MSREI") formed a joint venture (the "MSREI JV") to own a portfolio of MOBs, which HCP owns 51% of and consolidates. To form the MSREI JV, MSREI contributed cash of $298 million and HCP contributed nine wholly-owned MOBs (the "Contributed Assets"). The Contributed Assets are primarily located in Texas and Florida and were valued at approximately $320 million at the time of contribution. The MSREI JV used substantially all of the cash contributed by MSREI to acquire an additional portfolio of 16 MOBs in Greenville, South Carolina (the "Greenville Portfolio") for $285 million. Concurrent with acquiring the additional MOBs, the MSREI JV entered into 10-year leases with an anchor tenant on each MOB in the Greenville Portfolio, which accounts for approximately 93% of the total leasable space in the portfolio.

Brookdale Transactions Update

- In 2018, we sold six agreed upon facilities to Brookdale for $275 million.
- In March 2018, we completed the acquisition of Brookdale's noncontrolling interest in RIDEA I for $63 million.
- During the fourth quarter of 2018, we completed the sale of 11 senior housing triple-net and eight SHOP facilities previously leased to Brookdale for $377 million.
- As of December 31, 2018, we had completed the transition of 38 assets previously operated by Brookdale to other operators.

See Note 3 to the Consolidated Financial Statements for additional information.

U.K. Investment Update

- In June 2018, we entered into a joint venture with an institutional investor (the "U.K. JV") through which we sold a 51% interest in U.K. assets previously owned by us (the "U.K. Portfolio") based on a total value of £382 million ($507 million). We retained a 49% noncontrolling interest in the joint venture and received gross proceeds of $402 million, including proceeds from the refinancing of our previously held intercompany loans. Upon closing the U.K. JV, we deconsolidated the U.K. Portfolio, recognized our retained noncontrolling interest investment at fair value ($105 million) and recognized a gain on sale of $11 million. We expect to sell our remaining 49% interest by no later than 2020.

Other Real Estate and Loan Transactions

- In March 2018, we sold our Tandem Health Care mezzanine loan ("Tandem Mezzanine Loan") to a third party for approximately $112 million, resulting in an impairment recovery, net of transaction costs and fees, of $3 million.
- In June 2018, we sold our remaining 40% ownership interest in RIDEA II for $91 million and caused Columbia Pacific Advisors, LLC to refinance our $242 million of loans receivable from RIDEA II, which resulted in total proceeds of $332 million.
- In 2016, we provided a £105 million ($131 million at closing) bridge loan (the "U.K. Bridge Loan") to Maria Mallaband Care Group Ltd. ("MMCG") to fund the acquisition of a portfolio of seven care homes in the U.K. Under the bridge loan, we retained a call option to acquire those seven care homes at a future date for £105 million. In March 2018, in conjunction with MMCG and HCP satisfying the conditions necessary to exercise our call option to acquire the seven care homes, we began consolidating the real estate. In June 2018, we completed the process of exercising the call option. The seven care homes acquired through the call option were included in the U.K. JV transaction

(see U.K. Investment Update above). See Notes 5, 7 and 19 to the Consolidated Financial Statements for additional information.

- In November 2018, we acquired the outstanding equity interests in three life science joint ventures (which owned four buildings) for $92 million, bringing our equity ownership to 100% for all three joint ventures. As a result, we recognized a gain on consolidation of $50 million.
- Additionally, during the year ended December 31, 2018, we sold: (i) 19 SHOP facilities, (ii) four life science assets, (iii) four MOBs and (iv) an undeveloped land parcel for a total of $451 million.
- In November 2018, we entered into definitive agreements to acquire two life science buildings in South San Francisco, California, adjacent to The Shore at Sierra Point development, for $245 million. We made a $15 million nonrefundable deposit upon completing due diligence and expect to close the transaction during the first half of 2019.
- In January and February 2019, we acquired a life science facility for $71 million and development rights at an adjacent undeveloped land parcel for consideration of up to $27 million. The existing facility and land parcel are located in Cambridge, Massachusetts.

Financing Activities

- On July 3, 2018, we exercised our right to repay the outstanding £169 million balance under our term loan and re-borrow $224 million with all other key terms unchanged. We repaid the full balance of our term loan in November 2018.
- On July 16, 2018, we repaid all $700 million outstanding of our 5.375% senior unsecured notes due 2021 and recorded a loss on debt extinguishment of approximately $44 million.
- On November 8, 2018, we repaid all $450 million outstanding of our 3.75% senior unsecured notes due in 2019 at par.
- During the fourth quarter of 2018, we issued 5.4 million shares of common stock under our at-the-market equity offering program for total net proceeds of $154 million.
- In December 2018, we issued two million shares for total net proceeds of $57 million and entered into a forward equity sales agreement to sell up to an aggregate of 15.25 million additional shares on or before December 13, 2019 at an initial net price of $28.60 per share, after underwriting discounts and commissions.
- During 2018, we used proceeds from dispositions primarily to repay $933 million of outstanding net borrowings under our revolving line of credit facility.

Developments and Redevelopments

- In March 2018, we acquired the rights to develop a new 214,000 square foot life science facility on our existing Hayden Research Campus in Lexington, Massachusetts for $21 million. The development, 75 Hayden, will be a four-story, purpose-built Class A life science facility and parking garage.
- In September and October 2018, we signed two leases totaling 222,000 square feet at The Shore at Sierra Point in South San Francisco, bringing the $224 million first phase of the development to 100% pre-leased. The Shore at Sierra Point is a 23-acre waterfront life science development offering state-of-the-art laboratory and office space along with premier amenities.
- During the third quarter of 2018, we commenced a program with HCA Healthcare to develop primarily on-campus MOBs. As of December 31, 2018, we had begun construction on one MOB with an estimated cost of $26 million.

Dividends

Quarterly cash dividends paid during 2018 aggregated to $1.48 per share. On January 31, 2019, our Board of Directors declared a quarterly cash dividend of $0.37 per common share. The dividend will be paid on February 28, 2019 to stockholders of record as of the close of business on February 19, 2019.

Results of Operations

We evaluate our business and allocate resources among our reportable business segments: (i) senior housing triple-net, (ii) senior housing operating portfolio (SHOP), (iii) life science and (iv) medical office. Under the medical office and life science segments, we invest through the acquisition and development of MOBs and life science facilities, which generally require a greater level of property management. Our senior housing facilities are managed utilizing triple-net leases and RIDEA structures. We have other non-reportable segments that are comprised primarily of our debt investments, hospital properties, unconsolidated joint ventures and U.K. investments. We evaluate performance based upon: (i) property net operating income from continuing operations ("NOI") and (ii) adjusted NOI (cash NOI) in each segment. The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 2 to the Consolidated Financial Statements).

Non-GAAP Financial Measures

Net Operating Income

NOI and Adjusted NOI are non-U.S. generally accepted accounting principles ("GAAP") supplemental financial measures used to evaluate the operating performance of real estate. NOI is defined as real estate revenues (inclusive of rental and related revenues, resident fees and services, and income from direct financing leases), less property level operating expenses (which exclude transition costs); NOI excludes all other financial statement amounts included in net income (loss) as presented in Note 13 to the Consolidated Financial Statements. Management believes NOI provides relevant and useful information because it reflects only income and operating expense items that are incurred at the property level and presents them on an unlevered basis. Adjusted NOI is calculated as NOI after eliminating the effects of straight-line rents, DFL non-cash interest, amortization of market lease intangibles, termination fees, actuarial reserves for insurance claims that have been incurred but not reported, and the impact of deferred community fee income and expense. Adjusted NOI is oftentimes referred to as "Cash NOI." NOI and Adjusted NOI exclude our share of income (loss) generated by unconsolidated joint ventures, which is recognized in equity income (loss) from unconsolidated joint ventures in the consolidated statements of operations. We use NOI and Adjusted NOI to make decisions about resource allocations, to assess and compare property level performance, and to evaluate our same property portfolio ("SPP"), as described below. We believe that net income (loss) is the most directly comparable GAAP measure to NOI and Adjusted NOI. NOI and Adjusted NOI should not be viewed as alternative measures of operating performance to net income (loss) as defined by GAAP since they do not reflect various excluded items. Further, our definitions of NOI and Adjusted NOI may not be comparable to the definitions used by other REITs or real estate companies, as they may use different methodologies for calculating NOI and Adjusted NOI. For a reconciliation of NOI and Adjusted NOI to net income (loss) by segment, refer to Note 13 to the Consolidated Financial Statements.

Operating expenses generally relate to leased medical office and life science properties and SHOP facilities. We generally recover all or a portion of our leased medical office and life science property expenses through tenant recoveries. We present expenses as operating or general and administrative based on the underlying nature of the expense.

Same Property Portfolio

SPP NOI and Adjusted (Cash) NOI information allows us to evaluate the performance of our property portfolio under a consistent population by eliminating changes in the composition of our consolidated portfolio of properties. SPP NOI excludes certain non-property specific operating expenses that are allocated to each operating segment on a consolidated basis.

Properties are included in SPP once they are stabilized for the full period in both comparison periods. Newly acquired operating assets are generally considered stabilized at the earlier of lease-up (typically when the tenant(s) control(s) the physical use of at least 80% of the space) or 12 months from the acquisition date. Newly completed developments and redevelopments are considered stabilized at the earlier of lease-up or 24 months from the date the property is placed in service. Properties that experience a change in reporting structure, such as a transition from a triple-net lease to a RIDEA reporting structure, are considered stabilized after 12 months in operations under a consistent reporting structure. A property is removed from SPP when it is classified as held for sale, sold, placed into redevelopment, experiences a casualty event that significantly impacts operations or changes its reporting structure (such as triple-net to SHOP).

For a reconciliation of SPP to total portfolio Adjusted NOI and other relevant disclosures by segment, refer to our Segment Analysis below.

Funds From Operations ("FFO")

FFO encompasses NAREIT FFO and FFO as adjusted, each of which is described in detail below. We believe FFO applicable to common shares, diluted FFO applicable to common shares, and diluted FFO per common share are important supplemental non-GAAP measures of operating performance for a REIT. Because the historical cost accounting convention used for real estate assets utilizes straight-line depreciation (except on land), such accounting presentation implies that the value of real estate assets diminishes predictably over time. Since real estate values instead have historically risen and fallen with market conditions, presentations of operating results for a REIT that use historical cost accounting for depreciation could be less informative. The term FFO was designed by the REIT industry to address this issue.

NAREIT FFO. FFO, as defined by the National Association of Real Estate Investment Trusts ("NAREIT"), is net income (loss) applicable to common shares (computed in accordance with GAAP), excluding gains or losses from sales of depreciable property, including any current and deferred taxes directly associated with sales of depreciable property, impairments of, or related to, depreciable real estate, plus real estate and other real estate-related depreciation and amortization, and adjustments to compute our share of NAREIT FFO and FFO as adjusted (see below) from joint ventures. Adjustments for joint ventures are calculated to reflect our pro-rata share of both our consolidated and unconsolidated joint ventures. We reflect our share of

NAREIT FFO for unconsolidated joint ventures by applying our actual ownership percentage for the period to the applicable reconciling items on an entity by entity basis. For consolidated joint ventures in which we do not own 100%, we reflect our share of the equity by adjusting our NAREIT FFO to remove the third party ownership share of the applicable reconciling items based on actual ownership percentage for the applicable periods. Our pro-rata share information is prepared on a basis consistent with the comparable consolidated amounts, is intended to reflect our proportionate economic interest in the operating results of properties in our portfolio and is calculated by applying our actual ownership percentage for the period. We do not control the unconsolidated joint ventures, and the pro-rata presentations of reconciling items included in NAREIT FFO do not represent our legal claim to such items. The joint venture members or partners are entitled to profit or loss allocations and distributions of cash flows according to the joint venture agreements, which provide for such allocations generally according to their invested capital.

The presentation of pro-rata information has limitations, which include, but are not limited to, the following: (i) the amounts shown on the individual line items were derived by applying our overall economic ownership interest percentage determined when applying the equity method of accounting and do not necessarily represent our legal claim to the assets and liabilities, or the revenues and expenses and (ii) other companies in our industry may calculate their pro-rata interest differently, limiting the usefulness as a comparative measure. Because of these limitations, the pro-rata financial information should not be considered independently or as a substitute for our financial statements as reported under GAAP. We compensate for these limitations by relying primarily on our GAAP financial statements, using the pro-rata financial information as a supplement.

NAREIT FFO does not represent cash generated from operating activities in accordance with GAAP, is not necessarily indicative of cash available to fund cash needs and should not be considered an alternative to net income (loss). We compute NAREIT FFO in accordance with the current NAREIT definition; however, other REITs may report NAREIT FFO differently or have a different interpretation of the current NAREIT definition from ours.

FFO as adjusted. In addition, we present NAREIT FFO on an adjusted basis before the impact of non-comparable items including, but not limited to, transaction-related items, impairments (recoveries) of non-depreciable assets, losses (gains) from the sale of non-depreciable assets, severance and related charges, prepayment costs (benefits) associated with early retirement or payment of debt, litigation costs (recoveries), casualty-related charges (recoveries), foreign currency remeasurement losses (gains) and changes in tax legislation ("FFO as adjusted"). Transaction-related items include transaction expenses and gains/charges incurred as a result of mergers and acquisitions and lease amendment or termination activities. Prepayment costs (benefits) associated with early retirement of debt include the write-off of unamortized deferred financing fees, or additional costs, expenses, discounts, make-whole payments, penalties or premiums incurred as a result of early retirement or payment of debt. Management believes that FFO as adjusted provides a meaningful supplemental measurement of our FFO run-rate and is frequently used by analysts, investors and other interested parties in the evaluation of our performance as a REIT. At the same time that NAREIT created and defined its FFO measure for the REIT industry, it also recognized that "management of each of its member companies has the responsibility and authority to publish financial information that it regards as useful to the financial community." We believe stockholders, potential investors and financial analysts who review our operating performance are best served by an FFO run-rate earnings measure that includes certain other adjustments to net income (loss), in addition to adjustments made to arrive at the NAREIT defined measure of FFO. FFO as adjusted is used by management in analyzing our business and the performance of our properties, and we believe it is important that stockholders, potential investors and financial analysts understand this measure used by management. We use FFO as adjusted to: (i) evaluate our performance in comparison with expected results and results of previous periods, relative to resource allocation decisions, (ii) evaluate the performance of our management, (iii) budget and forecast future results to assist in the allocation of resources, (iv) assess our performance as compared with similar real estate companies and the industry in general and (v) evaluate how a specific potential investment will impact our future results. Other REITs or real estate companies may use different methodologies for calculating an adjusted FFO measure, and accordingly, our FFO as adjusted may not be comparable to those reported by other REITs. For a reconciliation of net income (loss) to NAREIT FFO and FFO as adjusted and other relevant disclosure, refer to "Non-GAAP Financial Measures Reconciliations" below.

Funds Available for Distribution

FAD is defined as FFO as adjusted after excluding the impact of the following: (i) amortization of deferred compensation expense, (ii) amortization of deferred financing costs, net, (iii) straight-line rents, (iv) deferred income taxes, (v) amortization of acquired market lease intangibles, net, (vi) non-cash interest related to DFLs and lease incentive amortization (reduction of straight-line rents), (vii) actuarial reserves for insurance claims that have been incurred but not reported, and (viii) deferred revenues, excluding amounts amortized into rental income that are associated

with tenant funded improvements owned/recognized by us and up-front cash payments made by tenants to reduce their contractual rents. Also, FAD: (i) is computed after deducting recurring capital expenditures, including second generation leasing costs and second generation tenant and capital improvements, and (ii) includes lease restructure payments and adjustments to compute our share of FAD from our unconsolidated joint ventures and those related to CCRC non-refundable entrance fees. Certain prior period amounts in the "Non-GAAP Financial Measures Reconciliation" below for FAD have been reclassified to conform to the current period presentation. More specifically, recurring capital expenditures, including second generation leasing costs and second generation tenant and capital improvements ("FAD capital expenditures") excludes our share from unconsolidated joint ventures (reported in "other FAD adjustments"). Adjustments for joint ventures are calculated to reflect our pro-rata share of both our consolidated and unconsolidated joint ventures. We reflect our share of FAD for unconsolidated joint ventures by applying our actual ownership percentage for the period to the applicable reconciling items on an entity by entity basis. We reflect our share for consolidated joint ventures in which we do not own 100% of the equity by adjusting our FAD to remove the third party ownership share of the applicable reconciling items based on actual ownership percentage for the applicable periods (reported in "other FAD adjustments"). See FFO for further disclosure regarding our use of pro-rata share information and its limitations. Other REITs or real estate companies may use different methodologies for calculating FAD, and accordingly, our FAD may not be comparable to those reported by other REITs. Although our FAD computation may not be comparable to that of other REITs, management believes FAD provides a meaningful supplemental measure of our performance and is frequently used by analysts, investors, and other interested parties in the evaluation of our performance as a REIT. We believe FAD is an alternative run-rate earnings measure that improves the understanding of our operating results among investors and makes comparisons with: (i) expected results, (ii) results of previous periods and (iii) results among REITs more meaningful. FAD does not represent cash generated from operating activities determined in accordance with GAAP and is not necessarily indicative of cash available to fund cash needs as it excludes the following items which generally flow through our cash flows from operating activities: (i) adjustments for changes in working capital or the actual timing of the payment of income or expense items that are accrued in the period, (ii) transaction-related costs, (iii) litigation settlement expenses, (iv) severance-related expenses and (v) actual cash receipts from interest income recognized on loans receivable (in contrast to our FAD adjustment to exclude non-cash interest and depreciation related to our investments in direct financing leases). Furthermore, FAD is adjusted for recurring capital expenditures, which are generally not considered when determining cash flows from operations or liquidity. FAD is a non-GAAP supplemental financial measure and should not be considered as an alternative to net income (loss) determined in accordance with GAAP. For a reconciliation of net income (loss) to FAD and other relevant disclosure, refer to "Non-GAAP Financial Measures Reconciliations" below.

Comparison of the Year Ended December 31, 2018 to the Year Ended December 31, 2017 and the Year Ended December 31, 2017 to the Year Ended December 31, 2016

Overview[(1)]

2018 and 2017

The following table summarizes results for the years ended December 31, 2018 and 2017 (dollars in thousands):

	Year Ended December 31,		
	2018	2017	Change
Net income (loss) applicable to common shares	$1,058,424	$413,013	$645,411
NAREIT FFO	780,189	661,113	119,076
FFO as adjusted	857,233	918,402	(61,169)
FAD	746,397	803,720	(57,323)

(1) For the reconciliation of non-GAAP financial measures, see "Non-GAAP Financial Measure Reconciliations" section below.

Net income (loss) applicable to common shares ("net income (loss)") increased primarily as a result of the following:

- a larger net gain on sales of real estate during 2018 compared to 2017, primarily related to the sale of our Shoreline Technology Center life science campus in November 2018;
- increased NOI from: (i) annual rent escalations, (ii) 2017 and 2018 acquisitions, and (iii) development and redevelopment projects placed in service during 2017 and 2018;
- a gain on consolidation related to the acquisition of the outstanding equity interests in three life science joint ventures in November 2018;
- impairments of our mezzanine loan facility to Tandem Health Care (the "Tandem Mezzanine Loan") in 2017;
- a net charge to NOI from the November 2017 transactions with Brookdale (the "2017 Brookdale Transactions" - see Note 3 to the Consolidated Financial Statements);
- a reduction in interest expense as a result of debt repayments, primarily in the second and third quarters of 2017 and throughout 2018, partially offset by an increased average balance under our revolving credit facility during 2018;
- higher income tax expense in 2017 related to the impact of new tax rate legislation, partially offset by tax benefits from higher sales volume during 2017;
- a reduction in litigation-related costs from securities class action litigation, and a one-time legal settlement in 2017;
- a reduction in loss on debt extinguishment related to the repurchases of our senior notes in July 2018 compared to July 2017; and
- casualty-related charges incurred due to hurricanes in the third quarter of 2017.

The increase in net income (loss) was partially offset by:

- a reduction in NOI in our senior housing triple-net segment, primarily as a result of the sale of senior housing triple-net assets and the transition of senior housing triple-net assets to SHOP during 2017 and 2018;
- a reduction in NOI in our SHOP segment, primarily as a result of occupancy declines and higher labor costs;
- a loss on consolidation of seven care homes in the U.K. during the first quarter of 2018;
- a reduction in income related to the gain on sale of our £138.5 million par value Four Seasons Health Care's senior notes (the "Four Seasons Notes") during 2017;
- increased impairment charges on real estate asset recognized during 2018 compared to 2017;
- a reduction in income as a result of: (i) asset sales during 2017 and 2018 and (ii) selling interests into the U.K. JV and MSREI JV (see Notes 4 and 5 to the Consolidated Financial Statements);
- a reduction in interest income due to the: (i) payoff of our HC-One mezzanine loan (the "HC-One Facility") in June 2017 and (ii) sale of our Tandem Mezzanine Loan in March 2018;
- increased depreciation and amortization expense as a result of: (i) assets acquired during 2017 and 2018 and (ii) development and redevelopment projects placed into operations during 2017 and 2018, primarily in our life science and medical office segments, partially offset by decreased depreciation and amortization from asset sales during 2017 and 2018;
- a reduction in equity income from unconsolidated joint ventures as a result of the sale of our equity method investment in RIDEA II in June 2018, partially offset by additional equity income from the U.K. JV; and
- an increase in severance and related charges during 2018 primarily related to the departure of our former Executive Chairman compared to severance and related charges primarily related to the departure of our former Chief Accounting Officer ("CAO") in 2017.

NAREIT FFO increased primarily as a result of the aforementioned events impacting net income (loss), except for the following, which are excluded from NAREIT FFO:

- gains on sales of real estate, including related tax impacts;
- depreciation and amortization expense;
- impairments of facilities within our senior housing triple-net and SHOP segments; and
- net gain on consolidation.

FFO as adjusted decreased primarily as a result of the aforementioned events impacting NAREIT FFO, except for the following, which are excluded from FFO as adjusted:

- the net charge to NOI from the 2017 Brookdale Transactions;
- the impact of tax rate legislation during the fourth quarter of 2017;
- severance and related charges;
- losses on debt extinguishments;
- litigation-related costs;
- casualty-related charges;
- the gain on sale of our Four Seasons Notes during the first quarter of 2017; and
- the impairments of our Tandem Mezzanine Loan in 2017 and an undeveloped life science land parcel in 2018.

FAD decreased primarily as a result of the aforementioned events impacting FFO as adjusted, except for the impact of straight-line rents, which is excluded from FAD. The decrease in FAD was partially offset by lower FAD capital expenditures.

2017 and 2016

On October 31, 2016, we completed the Spin-Off of QCP. The Spin-Off included 338 properties, primarily comprised of the HCR ManorCare, Inc. ("HCRMC") DFL investments and an equity investment in HCRMC.

The following table summarizes results for the years ended December 31, 2017 and 2016 (dollars in thousands):

	Year Ended December 31,		
	2017	2016	Change
Net income (loss) applicable to common shares	$413,013	$ 626,549	$(213,536)
NAREIT FFO	661,113	1,119,153	(458,040)
FFO as adjusted	918,402	1,282,390	(363,988)
FAD	803,720	1,215,696	(411,976)

Net income (loss) decreased primarily as a result of the following:

- a reduction in net income from discontinued operations due to the Spin-Off of QCP on October 31, 2016;
- a loss on debt extinguishment in July 2017, representing a premium for early payment on the repurchase of our senior notes;
- a reduction in rental and related revenues primarily as a result of assets sold during 2017, including the sale of 64 senior housing triple-net assets in the first quarter of 2017;
- a reduction in NOI primarily related to the net impact of the 2017 Brookdale Transactions;
- a reduction in earnings due to the partial sale and deconsolidation of RIDEA II during the first quarter of 2017;
- impairments related to: (i) the Tandem Mezzanine Loan and (ii) 11 underperforming senior housing triple-net facilities in the third quarter of 2017;
- increased litigation-related costs, including costs from securities class action litigation, and a one-time legal settlement in 2017;
- casualty-related charges due to hurricanes in the third quarter of 2017; and
- a reduction in interest income due to: (i) the payoffs of our HC-One Facility in June 2017 and a participating development loan during the third quarter of 2016 and (ii) decreased interest received from our Tandem Mezzanine Loan during the fourth quarter of 2017, partially offset by additional interest income in 2017 from our U.K. Bridge Loan.

The decrease in net income (loss) was partially offset by:

- a reduction in interest expense as a result of debt repayments in the fourth quarter of 2016 and throughout 2017;
- a reduction in severance and related charges primarily related to the departure of our former President and Chief Executive Officer ("CEO") in 2016 compared to severance and related charges primarily related to the departure of our former CAO in 2017;
- a larger net gain on sales of real estate during 2017 compared to 2016, primarily related to the sale of 64 senior housing triple-net assets and the partial sale of RIDEA II during 2017;
- an increase in income tax benefit primarily from real estate dispositions during 2017, partially offset by an income tax expense related to the impact of tax rate legislation during the fourth quarter of 2017; and
- an increase in other income primarily related to the gain on sale of our Four Seasons Notes during 2017.

NAREIT FFO decreased primarily as a result of the aforementioned events impacting net income (loss), except for gain on sales of real estate and impairments of real estate, which are excluded from NAREIT FFO.

FFO as adjusted decreased primarily as a result of the following:

- a reduction in net income from discontinued operations due to the Spin-Off of QCP on October 31, 2016;
- a reduction in rental and related revenues primarily as a result of assets sold during 2017, including the sale of 64 senior housing triple-net assets;
- a reduction in earnings due to the partial sale and deconsolidation of RIDEA II during the first quarter of 2017; and
- a reduction in interest income due to: (i) the payoffs of our HC-One Facility in June 2017 and a participating development loan during the third quarter of 2016 and (ii) decreased interest received from our Tandem Mezzanine Loan during the fourth quarter of 2017, partially offset by additional interest income in 2017 from our U.K. Bridge Loan.

The decrease in FFO as adjusted was partially offset by a reduction in interest expense as a result of debt repayments in the fourth quarter of 2016 and throughout 2017.

FAD decreased primarily as a result of the aforementioned events impacting FFO as adjusted, (i) increased leasing costs and tenant capital improvements and (ii) decreased installment payments received from Brookdale for 2014 lease terminations that were paid over a period of three years and concluded in 2017.

Segment Analysis

The tables below provide selected operating information for our SPP and total property portfolio for each of our reportable segments. For the year ended December 31, 2018, our SPP consists of 522 properties representing properties acquired or placed in service and stabilized on or prior to January 1, 2017 and that remained in operations under a consistent reporting structure through December 31, 2018. For the year ended December 31, 2017, our SPP consisted of 617 properties acquired or placed in service and stabilized on or prior to January 1, 2016 and that remained in operations under a consistent reporting structure through December 31, 2017. Our total consolidated property portfolio consisted of 645, 744 and 851 properties at December 31, 2018, 2017 and 2016, respectively, excluding properties in the Spin-Off.

Senior Housing Triple-Net

2018 and 2017

The following table summarizes results at and for the years ended December 31, 2018 and 2017 (dollars in thousands except per unit data):

	SPP			Total Portfolio[1]		
	2018	2017	Change	2018	2017	Change
Real estate revenues[2]	$245,737	$239,273	$ 6,464	$276,091	$ 313,547	$(37,456)
Operating expenses	(377)	(371)	(6)	(3,618)	(3,819)	201
NOI	245,360	238,902	6,458	272,473	309,728	(37,255)
Adjustments to NOI	4,274	5,899	(1,625)	2,127	17,098	(14,971)
Adjusted NOI	$249,634	$244,801	$ 4,833	274,600	326,826	(52,226)
Non-SPP adjusted NOI				(24,966)	(82,025)	57,059
SPP adjusted NOI				$249,634	$ 244,801	$ 4,833
SPP Adjusted NOI % change			2.0%			
Property count[3]	146	146		146	181	
Average capacity (units)[4]	15,002	15,000		16,914	21,536	
Average annual rent per unit	$ 16,665	$ 16,345		$ 16,449	$ 15,352	

(1) Total Portfolio includes results of operations from disposed properties and properties that transitioned segments through the disposition or transition date.

(2) Represents rental and related revenues and income from DFLs.

(3) From our 2017 presentation of SPP, we removed 11 senior housing triple-net properties that were sold and 22 senior housing triple-net properties that were transitioned to our SHOP segment.

(4) Represents average capacity as reported by the respective tenants or operators for the 12-month period and a quarter in arrears from the periods presented.

SPP NOI and Adjusted NOI increased primarily as a result of annual rent escalations. The increase in Adjusted NOI was partially offset by rent reductions under the 2017 Brookdale Transactions.

Total Portfolio NOI and Adjusted NOI decreased primarily as a result of the following Non-SPP impacts:

- decreased NOI from senior housing triple-net facilities sold during 2017 and 2018; and
- decreased NOI from the transfer of 25 and 22 senior housing triple-net facilities to our SHOP segment during 2017 and 2018, respectively.

The decrease in Total Portfolio NOI and Adjusted NOI is partially offset by the aforementioned increases to SPP. The decrease in Total Portfolio NOI was further offset by the net charge of triple-net lease terminations from the 2017 Brookdale Transactions.

2017 and 2016

The following table summarizes results at and for the years ended December 31, 2017 and 2016 (dollars in thousands except per unit data):

	SPP			Total Portfolio[1]		
	2017	2016	Change	2017	2016	Change
Real estate revenues[2]	$249,347	$273,984	$(24,637)	$313,547	$ 423,118	$ (109,571)
Operating expenses	(495)	(197)	(298)	(3,819)	(6,710)	2,891
NOI	248,852	273,787	(24,935)	309,728	416,408	(106,680)
Adjustments to NOI	38,760	(1,374)	40,134	17,098	(7,566)	24,664
Adjusted NOI	$287,612	$272,413	$ 15,199	326,826	408,842	(82,016)
Non-SPP adjusted NOI				(39,214)	(136,429)	97,215
SPP adjusted NOI				$287,612	$ 272,413	$ 15,199
SPP Adjusted NOI % change			5.6%			
Property count[3]	174	174		181	274	
Average capacity (units)[4]	17,724	17,741		21,536	28,455	
Average annual rent per unit	$ 16,255	$ 15,366		$ 15,352	$ 14,604	

(1) Total Portfolio includes results of operations from disposed properties and properties that transitioned segments through the disposition or transition date.

(2) Represents rental and related revenues and income from DFLs.

(3) From our 2016 presentation of SPP, we removed four senior housing triple-net properties that were sold, 25 senior housing triple-net properties that were transitioned to our SHOP segment and two senior housing triple-net properties that were classified as held for sale.

(4) Represents average capacity as reported by the respective tenants or operators for the 12-month period and a quarter in arrears from the periods presented.

SPP NOI decreased primarily as a result of the net impact of triple-net lease terminations from the 2017 Brookdale Transactions.

SPP Adjusted NOI increased primarily as a result of the following:

- annual rent escalations; and
- higher cash rent received from our portfolio of assets leased to Sunrise Senior Living.

Additionally, Total Portfolio NOI and Adjusted NOI decreased primarily as a result of the following Non-SPP impacts:

- senior housing triple-net facilities sold during 2016 and 2017; and
- the transfer of 42 senior housing triple-net facilities to our SHOP segment during 2016 and 2017.

The decrease to Total Portfolio NOI and Adjusted NOI is partially offset by (i) increased non-SPP income from five senior housing triple-net facilities acquired in the first quarter of 2016 and (ii) the aforementioned increases to SPP Adjusted NOI.

Senior Housing Operating Portfolio

2018 and 2017

The following table summarizes results at and for the years ended December 31, 2018 and 2017 (dollars in thousands, except per unit data):

	SPP			Total Portfolio[1]		
	2018	2017	Change	2018	2017	Change
Resident fees and services	$ 262,887	$ 256,471	$ 6,416	$ 547,976	$ 525,473	$ 22,503
Operating expenses	(182,511)	(183,384)	873	(414,312)	(396,491)	(17,821)
NOI	80,376	73,087	7,289	133,664	128,982	4,682
Adjustments to NOI	2,174	12,759	(10,585)	2,875	33,227	(30,352)
Adjusted NOI	$ 82,550	$ 85,846	$ (3,296)	136,539	162,209	(25,670)
Non-SPP adjusted NOI				(53,989)	(76,363)	22,374
SPP adjusted NOI				$ 82,550	$ 85,846	$ (3,296)
SPP Adjusted NOI % change			(3.8)%			
Property count[2]	46	46		93	102	
Average capacity (units)[3]	6,072	6,058		11,248	12,758	
Average annual rent per unit	$ 43,219	$ 42,387		$ 48,433	$ 41,133	

(1) Total Portfolio includes results of operations from disposed properties and properties that transitioned segments through the disposition or transition date.

(2) From our 2017 presentation of SPP, we removed nine properties that were sold, eight SHOP properties that were placed into redevelopment and three SHOP properties that were classified as held for sale.

(3) Represents average capacity as reported by the respective tenants or operators for the 12-month period and a quarter in arrears from the periods presented.

SPP Adjusted NOI decreased primarily as a result of the following:

- occupancy declines and higher labor costs; partially offset by
- increased rates for resident fees and services.

SPP NOI increased primarily as a result of the net charge for management fee terminations from the 2017 Brookdale Transactions, partially offset by the aforementioned decreases to SPP Adjusted NOI.

Total Portfolio Adjusted NOI decreased primarily as a result of the aforementioned impacts to SPP and the following Non-SPP impacts:

- decreased NOI from our partial sale of RIDEA II in the first quarter of 2017; and
- decreased NOI from SHOP assets sold in 2017 and 2018; partially offset by
- increased NOI from the transfer of 25 and 22 senior housing triple-net assets to our SHOP segment during 2017 and 2018, respectively.

Total Portfolio NOI increased primarily a result of the net charge for management fee terminations from the 2017 Brookdale Transactions, partially offset by the aforementioned decreases to Total Portfolio Adjusted NOI.

2017 and 2016

The following table summarizes results at and for the years ended December 31, 2017 and 2016 (dollars in thousands, except per unit data):

	SPP			Total Portfolio[1]		
	2017	2016	Change	2017	2016	Change
Resident fees and services	$ 321,209	$ 317,361	$ 3,848	$ 525,473	$ 686,822	$(161,349)
Operating expenses	(239,702)	(202,624)	(37,078)	(396,491)	(480,870)	84,379
NOI	81,507	114,737	(33,230)	128,982	205,952	(76,970)
Adjustments to NOI	32,863	(1,297)	34,160	33,227	(2,686)	35,913
Adjusted NOI	$ 114,370	$ 113,440	$ 930	162,209	203,266	(41,057)
Non-SPP adjusted NOI				(47,839)	(89,826)	41,987
SPP adjusted NOI				$ 114,370	$ 113,440	$ 930
SPP Adjusted NOI % change			0.8%			
Property count[2]	48	48		102	130	
Average capacity (units)[3]	8,128	8,136		12,758	16,028	
Average annual rent per unit	$ 44,378	$ 43,842		$ 41,133	$ 42,851	

(1) Total Portfolio includes results of operations from disposed properties and properties that transitioned segments through the disposition or transition date.

(2) From our 2016 presentation of SPP, we removed a SHOP property that was placed into redevelopment, two SHOP properties that were classified as held for sale and 49 SHOP properties that were deconsolidated.

(3) Represents average capacity as reported by the respective tenants or operators for the 12-month period and a quarter in arrears from the periods presented.

SPP NOI decreased primarily as a result of increased operating expenses related to the management fee terminations from the 2017 Brookdale Transactions.

SPP Adjusted NOI increased primarily as a result of the following:

- increased rates for resident fees and services; partially offset by
- higher expense growth and a decline in occupancy.

Additionally, Total Portfolio NOI and Adjusted NOI decreased primarily as a result of the following Non-SPP impacts:

- decreased non-SPP income from our partial sale of RIDEA II; partially offset by
- non-SPP income for 42 senior housing triple-net assets transferred to SHOP during 2016 and 2017.

Life Science

2018 and 2017

The following table summarizes results at and for the years ended December 31, 2018 and 2017 (dollars and sq. ft. in thousands, except per sq. ft. data):

	SPP			Total Portfolio[1]		
	2018	2017	Change	2018	2017	Change
Rental and related revenues	$265,120	$258,781	$ 6,339	$395,064	$358,816	$ 36,248
Operating expenses	(58,752)	(56,431)	(2,321)	(91,742)	(78,001)	(13,741)
NOI	206,368	202,350	4,018	303,322	280,815	22,507
Adjustments to NOI	596	1,636	(1,040)	(9,589)	(4,517)	(5,072)
Adjusted NOI	$206,964	$203,986	$ 2,978	293,733	276,298	17,435
Non-SPP adjusted NOI				(86,769)	(72,312)	(14,457)
SPP adjusted NOI				$206,964	$203,986	$ 2,978
SPP Adjusted NOI % change			1.5%			
Property count[2]	94	94		124	131	
Average occupancy	94.8%	95.5%		95.0%	96.2%	
Average occupied square feet	5,166	5,195		7,078	6,841	
Average annual total revenues per occupied square foot	$ 51	$ 50		$ 54	$ 52	
Average annual base rent per occupied square foot	$ 41	$ 40		$ 44	$ 42	

(1) Total Portfolio includes results of operations from disposed properties and properties that transitioned segments through the disposition or transition date.

(2) From our 2017 presentation of SPP, we removed 12 life science facilities that were sold and three life science facilities that were placed into redevelopment.

SPP NOI and Adjusted NOI increased primarily as a result of the following:

- new leasing activity; and
- specific to Adjusted NOI, annual rent escalations; partially offset by
- a mark-to-market rent decrease on a 147,000 square foot lease in South San Francisco.

Total Portfolio NOI and Adjusted NOI increased primarily as a result of the aforementioned increases to SPP and the following Non-SPP impacts:

- increased NOI from: (i) increased occupancy in portions of a development placed into operations in 2017 and 2018 and (ii) acquisitions in 2017; partially offset by
- decreased NOI from: (i) sales of life science facilities in 2017 and 2018 and (ii) the placement of life science facilities into redevelopment in 2017 and 2018.

2017 and 2016

The following table summarizes results at and for the years ended December 31, 2017 and 2016 (dollars and sq. ft. in thousands, except per sq. ft. data):

	SPP			Total Portfolio[1]		
	2017	2016	Change	2017	2016	Change
Rental and related revenues	$304,858	$292,147	$12,711	$358,816	$358,537	$ 279
Operating expenses	(63,612)	(58,363)	(5,249)	(78,001)	(72,478)	(5,523)
NOI	241,246	233,784	7,462	280,815	286,059	(5,244)
Adjustments to NOI	2,427	339	2,088	(4,517)	(2,954)	(1,563)
Adjusted NOI	$243,673	$234,123	$ 9,550	276,298	283,105	(6,807)
Non-SPP adjusted NOI				(32,625)	(48,982)	16,357
SPP adjusted NOI				$243,673	$234,123	$ 9,550
SPP Adjusted NOI % change			4.1%			
Property count[2]	108	108		131	128	
Average occupancy	96.3%	97.7%		96.2%	97.5%	
Average occupied square feet	6,105	6,193		6,841	7,332	
Average annual total revenues per occupied square foot	$ 50	$ 47		$ 52	$ 48	
Average annual base rent per occupied square foot	$ 41	$ 39		$ 42	$ 40	

(1) Total Portfolio includes results of operations from disposed properties and properties that transitioned segments through the disposition or transition date.

(2) From our 2016 presentation of SPP, we removed one life science facility that was sold and four life science facilities that were classified as held for sale.

SPP NOI and Adjusted NOI increased primarily as a result of the following:

- mark-to-market lease renewals;
- new leasing activity; and
- specific to adjusted NOI, annual rent escalations.

Total Portfolio NOI and Adjusted NOI decreased primarily as a result of the following impacts to Non-SPP:

- decreased income from sales of life science facilities in 2016 and 2017; partially offset by
- increased income from (i) increased occupancy in portions of developments placed in operations in 2016 and 2017 and (ii) life science acquisitions in 2016 and 2017.

The decrease in Total Portfolio NOI and Adjusted NOI was also partially offset by the aforementioned increases to SPP.

Medical Office

2018 and 2017

The following table summarizes results at and for the years ended December 31, 2018 and 2017 (dollars and sq. ft. in thousands, except per sq. ft. data):

	SPP			Total Portfolio[1]		
	2018	2017	Change	2018	2017	Change
Rental and related revenues	$ 422,003	$ 415,687	$ 6,316	$ 509,019	$ 477,459	$ 31,560
Operating expenses	(152,875)	(151,234)	(1,641)	(189,859)	(183,197)	(6,662)
NOI	269,128	264,453	4,675	319,160	294,262	24,898
Adjustments to NOI	(307)	(1,279)	972	(2,899)	(2,952)	53
Adjusted NOI	$ 268,821	$ 263,174	$ 5,647	316,261	291,310	24,951
Non-SPP adjusted NOI				(47,440)	(28,136)	(19,304)
SPP adjusted NOI				$ 268,821	$ 263,174	$ 5,647
SPP Adjusted NOI % change			2.1%			
Property count[2]	221	221		267	254	
Average occupancy	92.3%	92.6%		92.0%	91.8%	
Average occupied square feet	14,892	14,984		17,280	16,674	
Average annual total revenues per occupied square foot	$ 28	$ 28		$ 29	$ 28	
Average annual base rent per occupied square foot	$ 24	$ 23		$ 25	$ 24	

(1) Total Portfolio includes results of operations from disposed properties and properties that transitioned segments through the disposition or transition date.

(2) From our 2017 presentation of SPP, we removed four MOBs that were sold and three MOBs that were placed into redevelopment.

SPP NOI and Adjusted NOI increased primarily as a result of mark-to-market lease renewals. Additionally, SPP Adjusted NOI increased as a result of annual rent escalations.

Total Portfolio NOI and Adjusted NOI increased primarily as a result of the aforementioned increases to SPP and the following Non-SPP impacts:

- increased NOI from our 2017 and 2018 acquisitions; and
- increased occupancy in redevelopment and development properties placed into operations in 2017 and 2018; partially offset by
- decreased NOI from sales of eight MOBs during 2017 and 2018 and the placement of one MOB into redevelopment.

2017 and 2016

The following table summarizes results at and for the years ended December 31, 2017 and 2016 (dollars and sq. ft. in thousands, except per sq. ft. data):

	SPP			Total Portfolio[1]		
	2017	2016	Change	2017	2016	Change
Rental and related revenues	$ 400,747	$ 392,166	$ 8,581	$ 477,459	$ 446,280	$ 31,179
Operating expenses	(150,329)	(146,300)	(4,029)	(183,197)	(173,687)	(9,510)
NOI	250,418	245,866	4,552	294,262	272,593	21,669
Adjustments to NOI	2,183	(523)	2,706	(2,952)	(3,536)	584
Adjusted NOI	$ 252,601	$ 245,343	$ 7,258	291,310	269,057	22,253
Non-SPP adjusted NOI				(38,709)	(23,714)	(14,995)
SPP adjusted NOI				$ 252,601	$ 245,343	$ 7,258
SPP Adjusted NOI % change			3.0%			
Property count[2]	212	212		254	242	
Average occupancy	91.9%	92.2%		91.8%	91.5%	
Average occupied square feet	14,224	14,303		16,674	15,697	
Average annual total revenues per occupied square foot	$ 28	$ 27		$ 28	$ 28	
Average annual base rent per occupied square foot	$ 24	$ 23		$ 24	$ 24	

(1) Total Portfolio includes results of operations from disposed properties and properties that transitioned segments through the disposition or transition date.

(2) From our 2016 presentation of SPP, we removed four MOBs that were sold and two MOBs that were placed into redevelopment.

SPP NOI and Adjusted NOI increased primarily as a result of mark-to-market lease renewals and new leasing activity. Additionally, SPP Adjusted NOI increased as a result of annual rent escalations.

Total Portfolio NOI and Adjusted NOI increased primarily as a result of the aforementioned increases to SPP and the following impacts to Non-SPP:

- increased income from our 2016 and 2017 acquisitions; and
- increased occupancy in former redevelopment and development properties placed into operations; partially offset by
- decreased income from sales of seven MOBs during 2016 and 2017 and the placement of one MOB into redevelopment.

Other Income and Expense Items

The following table summarizes results for the years ended December 31, 2018, 2017 and 2016 (in thousands):

	Year Ended December 31,			2018 vs.	2017 vs.
	2018	2017	2016	2017	2016
Interest income	$ 10,406	$ 56,237	$ 88,808	$ (45,831)	$ (32,571)
Interest expense	266,343	307,716	464,403	(41,373)	(156,687)
Depreciation and amortization	549,499	534,726	568,108	14,773	(33,382)
General and administrative	96,702	88,772	103,611	7,930	(14,839)
Transaction costs	10,772	7,963	9,821	2,809	(1,858)
Impairments (recoveries), net	55,260	166,384	—	(111,124)	166,384
Gain (loss) on sales of real estate, net	925,985	356,641	164,698	569,344	191,943
Loss on debt extinguishments	(44,162)	(54,227)	(46,020)	10,065	(8,207)
Other income (expense), net	13,316	31,420	3,654	(18,104)	27,766
Income tax benefit (expense)	17,854	1,333	(4,473)	16,521	5,806
Equity income (loss) from unconsolidated joint ventures	(2,594)	10,901	11,360	(13,495)	(459)
Total discontinued operations	—	—	265,755	—	(265,755)
Noncontrolling interests' share in earnings	(12,381)	(8,465)	(12,179)	(3,916)	3,714

Interest income. The decrease in interest income for the year ended December 31, 2018 was primarily the result of: (i) the sale of our Tandem Mezzanine Loan during the first quarter of 2018, (ii) the payoff of our HC-One Facility in June 2017, and (iii) the conversion of the U.K. Bridge Loan into real estate during the first quarter of 2018.

The decrease in interest income for the year ended December 31, 2017 was primarily the result of: (i) the payoff of our HC-One Facility in June 2017, (ii) incremental interest income received during the second quarter of 2016 due to the payoff of three participating development loans, and (iii) decreased interest received from our Tandem Mezzanine Loan during the fourth quarter of 2017.

Interest expense. The decrease in interest expense for the year ended December 31, 2018 was primarily the result of senior unsecured notes repayments during 2017 and 2018, partially offset by an increased average balance under our revolving credit facility during 2018.

The decrease in interest expense for the year ended December 31, 2017 was primarily the result of senior unsecured notes and mortgage debt repayments, which occurred primarily in the second half of 2016 and throughout 2017.

Depreciation and amortization. The increase in depreciation and amortization expense for the year ended December 31, 2018 was primarily as a result of: (i) assets acquired during 2017 and 2018 (primarily in our life science and medical office segments) and (ii) development and redevelopment projects placed into operations during 2017 and 2018 (primarily in our life science and medical office segments), partially offset by dispositions of real estate throughout 2017 and 2018.

The decrease in depreciation and amortization expense for the year ended December 31, 2017 was primarily as a result of the sale of 64 senior housing triple-net assets and the deconsolidation of RIDEA II during the first quarter of 2017, partially offset by depreciation and amortization of assets acquired and placed in service during 2016 and 2017.

General and administrative expenses. The increase in general and administrative expenses for the year ended December 31, 2018 was primarily as a result of increased severance and related charges, primarily resulting from the departure of our former Executive Chairman in March 2018, which exceeded severance and related charges in 2017, which were primarily related to the departure of our former CAO in the third quarter of 2017.

The decrease in general and administrative expenses for the year ended December 31, 2017 was primarily as a result of severance and related charges, primarily resulting from the departure of our former President and CEO in the third quarter of 2016, which exceeded severance and related charges in 2017, primarily related to the departure of our former CAO in the third quarter of 2017.

Impairments (recoveries), net. During the year ended December 31, 2018, we recognized $55 million of impairments, primarily related to the following real estate assets: (i) 20 SHOP assets (including 17 classified as held for sale at the time they were impaired) and (ii) an undeveloped life science land parcel classified as held for sale.

During the year ended December 31, 2017, we recognized: (i) $144 million of impairments on our Tandem Mezzanine Loan (see Note 7 to the Consolidated Financial Statements) and (ii) $23 million of impairments on 11 underperforming senior housing triple-net facilities.

For the year ended December 31, 2016, there were no impairments recognized.

Gain (loss) on sales of real estate, net. During the year ended December 31, 2018, we sold: (i) our remaining interest in RIDEA II, (ii) a 51% interest in our U.K. Portfolio, (iii) 31 SHOP facilities, (iv) 16 life science assets, (v) 13 senior housing triple-net facilities, and (vi) four MOBs and recognized total net gain on sales of $926 million.

During the year ended December 31, 2017, we sold: (i) 68 senior housing triple-net facilities, (ii) five life science facilities, (iii) five SHOP facilities, (iv) four MOBs, and (v) a 40% interest in RIDEA II and recognized total net gain on sales of $357 million.

During the year ended December 31, 2016, we sold: (i) a portfolio of five facilities in one of our non-reportable segments and two senior housing triple-net facilities, (ii) five life science facilities, (iii) seven senior housing triple-net facilities, (iv) three MOBs, and (v) three SHOP facilities, recognizing total net gain on sales of $165 million.

Loss on debt extinguishments. During the year ended December 31, 2018, we repurchased $700 million of our 5.375% senior notes due 2021 and recognized a $44 million loss on debt extinguishment.

During the year ended December 31, 2017, we repurchased $500 million of our 5.375% senior notes due 2021 and recognized a $54 million loss on debt extinguishment.

During the fourth quarter of 2016, using proceeds from the Spin-Off, we repaid $1.1 billion of senior unsecured notes that were due to mature in January 2017 and January 2018 and repaid $108 million of mortgage debt, incurring an aggregate loss on debt extinguishments of $46 million.

Other income (expense), net. The decrease in other income (expense), net for the year ended December 31, 2018 was primarily as a result of: (i) a loss on consolidation of seven U.K. care homes in March 2018 (see Note 19 to the Consolidated Financial Statements) and (ii) a gain on sale of our Four Seasons Notes in March 2017. The decrease in other income (expense), net was partially offset by: (i) a gain on consolidation related to the acquisition of the outstanding equity interests in three life science joint ventures in November 2018, (ii) casualty-related charges due to hurricanes incurred in the third quarter of 2017, and (iii) decreased litigation costs in 2018.

The increase in other income (expense), net for the year ended December 31, 2017 was primarily as a result of the gain on sale of our Four Seasons Notes, partially offset by casualty-related charges due to hurricanes in the third quarter of 2017 and increased litigation-related expenses in 2017.

Income tax benefit (expense). The increase in income tax benefit for the year ended December 31, 2018 was primarily the result of: (i) a $6 million income tax benefit related to our share of operating losses from our RIDEA joint ventures and U.K. real estate investments, (ii) a $17 million income tax expense related to the impact of tax rate legislation during the fourth quarter of 2017, and (iii) partially offset by a $6 million benefit from the partial sale of RIDEA II in 2017.

The decrease in income tax expense for the year ended December 31, 2017 was primarily the result of: (i) a $6 million income tax benefit from the partial sale of RIDEA II in 2017, (ii) a $5 million income tax benefit related to our share of operating losses from our RIDEA joint ventures, (iii) a $1 million deferred tax benefit from casualty-related charges recognized in the second half of 2017, and (iv) a $11 million income tax expense recognized in 2016 associated with federal income tax and state built-in gain tax for the disposition of certain real estate assets. The total tax benefit was partially offset by a $17 million income tax expense related to the impact of tax rate legislation during the fourth quarter of 2017.

Equity income (loss) from unconsolidated joint ventures. The decrease in equity income from unconsolidated joint ventures for the year ended December 31, 2018 was primarily the result of the sale of our equity method investment in RIDEA II in June 2018, partially offset by additional equity income from our investment in the U.K. JV.

The decrease in equity income from unconsolidated joint ventures for the year ended December 31, 2017 was primarily the result of income from our share of gains on sales of real estate in 2016, partially offset by income from our investment in RIDEA II, which was deconsolidated in the first quarter of 2017.

Total discontinued operations. Discontinued operations for the year ended December 31, 2016 resulted in income of $266 million. Income from discontinued operations primarily relates to the operations of QCP. There were no discontinued operations for the years ended December 31, 2017 and 2018.

Liquidity and Capital Resources

We anticipate that our cash flow from operations, available cash balances and cash from our various financing activities will be adequate for at least the next 12 months for purposes of: (i) funding recurring operating expenses; (ii) meeting debt service requirements, including principal payments and maturities; and (iii) satisfying our distributions to our stockholders and non-controlling interest members.

Our principal investing liquidity needs for the next 12 months are to:

- fund capital expenditures, including tenant improvements and leasing costs; and
- fund future acquisition, transactional and development activities.

We anticipate satisfying these future investing needs using one or more of the following:

- sale or exchange of ownership interests in properties;
- draws on our credit facilities;
- issuance of additional debt, including unsecured notes and mortgage debt; and/or
- issuance of common or preferred stock.

Access to capital markets impacts our cost of capital and ability to refinance maturing indebtedness, as well as our ability to fund future acquisitions and development through the issuance of additional securities or secured debt. Credit ratings impact our ability to access capital and directly impact our cost of capital as well. For example, our revolving line of credit facility accrues interest at a rate per annum equal to LIBOR plus a margin that depends upon our credit ratings. We also pay a facility fee on the entire revolving commitment that depends upon our credit ratings. As of February 11, 2019, we had a credit rating of BBB from Fitch, Baa1 from Moody's and BBB+ from S&P Global on our senior unsecured debt securities.

Cash Flow Summary

The following summary discussion of our cash flows is based on the Consolidated Statements of Cash Flows and is not meant to be an all-inclusive discussion of the changes in our cash flows for the periods presented below. The following table sets forth changes in cash flows (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Net cash provided by (used in) operating activities	$ 848,709	$ 847,041	$ 1,214,131
Net cash provided by (used in) investing activities	1,829,279	1,246,257	(428,973)
Net cash provided by (used in) financing activities	(2,620,536)	(2,148,461)	(1,054,265)

Operating Cash Flows

Operating cash flow increased $2 million between the years ended December 31, 2018 and 2017 primarily as the result of: (i) 2017 and 2018 acquisitions, (ii) annual rent increases, (iii) developments and redevelopments placed in service during 2017 and 2018, and (iv) decreased interest paid as a result of debt repayments during 2017 and 2018. The increase in operating cash flow is partially offset by: (i) dispositions during 2017 and 2018, (ii) the partial sale and deconsolidation of the U.K. JV in 2018, (iii) the partial sale and deconsolidation of RIDEA II during the first quarter of 2017, (iv) occupancy declines and higher labor costs within our SHOP segment, (v) decreased interest received as a result of loan repayments during 2017, and (vi) decreased distributions of earnings from our unconsolidated joint ventures. Our cash flow from operations is dependent upon the occupancy levels of our buildings, rental rates on leases, our tenants' performance on their lease obligations, the level of operating expenses, and other factors.

Operating cash flow decreased $367 million between the years ended December 31, 2017 and 2016 primarily as the result of: (i) decreased Adjusted NOI related to the Spin-Off and dispositions in 2016 and 2017 and (ii) decreased interest received as a result of loan repayments during 2016 and 2017; partially offset by: (i) 2016 and 2017 acquisitions, (ii) annual rent increases, (iii) and decreased interest paid as a result of lower balances on our senior unsecured notes and term loans.

Investing Cash Flows

The following are significant investing activities for the year ended December 31, 2018:

- received net proceeds of $2.9 billion primarily from: (i) sales of real estate assets, (ii) the sale of RIDEA II, (iii) the sale of the Tandem Mezzanine Loan, and (iv) the U.K. JV transaction; and
- made investments of $1.1 billion primarily related to the acquisition, development, and redevelopment of real estate.

The following are significant investing activities for the year ended December 31, 2017:

- received net proceeds of $1.8 billion from sales of real estate, including the sale and recapitalization of RIDEA II;
- received net proceeds of $559 million primarily from: (i) the sale of our Four Seasons Notes, (ii) the repayment of our HC-One Facility, and (iii) a DFL repayment; and
- made investments of $1.1 billion primarily for the acquisition and development of real estate.

The following are significant investing activities for the year ended December 31, 2016:

- made investments of $1.3 billion primarily from: (i) development, leasing and acquisition of real estate, (ii) investments in unconsolidated joint ventures and loans, and (iii) purchases of securities; and
- received proceeds of $908 million primarily from real estate and DFL sales.

Financing Cash Flows

The following are significant financing activities for the year ended December 31, 2018:

- repaid $2.4 billion of debt under our: (i) bank line of credit, (ii) term loan, (iii) senior unsecured notes (including debt extinguishment costs) and (iv) mortgage debt;
- paid cash dividends on common stock of $697 million;
- paid $83 million for distributions to and purchases of noncontrolling interests, primarily related to our acquisition of Brookdale's noncontrolling interest in RIDEA I;
- raised net proceeds of $218 million from the issuances of common stock, primarily from our at-the-market equity program; and
- received proceeds of $300 million for issuances of noncontrolling interests, primarily related to the MSREI MOB JV.

The following are significant financing activities for the year ended December 31, 2017:

- repaid $1.4 billion of debt under our: (i) term loans, (ii) senior unsecured notes (including debt extinguishment costs) and (iii) mortgage debt, partially offset by net borrowings under our bank line of credit; and
- paid cash dividends on common stock of $695 million.

The following are significant financing activities for the year ended December 31, 2016:

- received net proceeds of $1.7 billion from the Spin-Off;
- repaid $1.8 billion of debt under our senior unsecured notes (including debt extinguishment costs) and mortgage debt, partially offset by net borrowings under our bank line of credit; and
- paid cash dividends on common stock of $980 million.

Debt

See Note 10 in the Consolidated Financial Statements for information about our outstanding debt.

See "2018 Transaction Overview" for further information regarding our significant financing activities during the year ended December 31, 2018.

Approximately 98%, 84% and 83% of our total debt, inclusive of $43 million, $44 million and $46 million of variable rate debt swapped to fixed through interest rate swaps, was fixed rate debt as of December 31, 2018, 2017 and 2016, respectively. At December 31, 2018, our fixed rate debt and variable rate debt had weighted average interest rates of 4.04% and 2.15%, respectively. At December 31, 2017, our fixed rate debt and variable rate debt had weighted average interest rates of 4.19% and 2.56%, respectively. At December 31, 2016, our fixed rate debt and variable rate debt had weighted average interest rates of 4.26% and 2.23%, respectively. For a more detailed discussion of our interest rate risk, see "Quantitative and Qualitative Disclosures About Market Risk" in Item 3 below.

Equity

At December 31, 2018, we had 477 million shares of common stock outstanding, equity totaled $6.5 billion, and our equity securities had a market value of $13.5 billion.

At December 31, 2018, non-managing members held an aggregate of four million units in five limited liability companies ("DownREITs") for which we are the managing member. The DownREIT units are exchangeable for an amount of cash approximating the then-current market value of shares of our common stock or, at our option, shares of our common stock (subject to certain adjustments, such as stock splits and reclassifications).

We renewed our at-the-market equity program in May 2018, pursuant to which we may sell shares of our common stock having an aggregate gross sales price of up to $750 million through a consortium of banks acting as sales agents or directly to the banks acting as principals. During the year ended December 31, 2018, we issued 5.4 million shares of common stock at a weighted average net price of $28.27 for net proceeds of $154 million (gross proceeds of $156 million, net of $2 million of fees paid to sales agents). At December 31, 2018, $594 million of our common stock remained available for sale under the at-the-market program. Actual future sales will depend upon a variety of factors, including but not limited to market conditions, the trading price of our common stock and our capital needs. We have no obligation to sell any shares under our at-the-market program.

In December 2018, we entered into a forward equity sales agreement to sell up to an aggregate of 15.25 million shares of our common stock (including shares issued through the exercise of underwriters' options) at an initial net price of $28.60 per share, after underwriting discounts and commissions. The agreement has a one year term and expires on December 13, 2019. The forward sale price that we expect to receive upon settlement of the agreement will be subject to adjustments for: (i) the forward purchasers' stock borrowing costs and (ii) certain fixed price reductions during the term of the agreement. At December 31, 2018, no shares have been issued under the forward equity sales agreement.

In December 2018, contemporaneous with the forward equity offering discussed above, we completed a public offering of two million shares of common stock at a net price of $28.60 per share, resulting in net proceeds of $57 million.

Shelf Registration

We filed a prospectus with the SEC as part of a registration statement on Form S-3, using an automatic shelf registration process. Our current shelf registration statement expires in May 2021, at which time we expect to file a new shelf registration statement. Under the "shelf" process, we may sell any combination of the securities described in the prospectus through one or more offerings. The securities described in the prospectus include common stock, preferred stock, depositary shares, debt securities and warrants.

Contractual Obligations

The following table summarizes our material contractual payment obligations and commitments at December 31, 2018 (in thousands):

	Total[1]	2019	2020-2021	2022-2023	More than Five Years
Bank line of credit[2]	$ 80,103	$ —	$ 80,103	$ —	$ —
Senior unsecured notes	5,300,000	—	800,000	1,700,000	2,800,000
Mortgage debt	133,334	3,561	14,566	5,502	109,705
Construction loan commitments[3]	72,654	68,365	4,289	—	—
Development commitments[4]	299,702	273,625	26,077	—	—
Ground and other operating leases	495,035	5,597	11,463	11,845	466,130
Interest[5]	1,571,843	260,860	453,196	343,702	514,085
Total	$ 7,952,671	$612,008	$1,389,694	$2,061,049	$3,889,920

(1) Excludes $91 million of other debt that represents life care bonds and demand notes that have no scheduled maturities.
(2) Includes £55 million translated into USD.
(3) Represents commitments to finance development projects.
(4) Represents construction and other commitments for developments in progress.
(5) Interest on variable-rate debt is calculated using rates in effect at December 31, 2018.

Off-Balance Sheet Arrangements

We own interests in certain unconsolidated joint ventures as described in Note 8 to the Consolidated Financial Statements. Except in limited circumstances, our risk of loss is limited to our investment in the joint venture and any outstanding loans receivable. In addition, we have certain properties which serve as collateral for debt that is owed by a previous owner of certain of our facilities, as described under Note 11 to the Consolidated Financial Statements. Our risk of loss for these certain properties is limited to the outstanding debt balance plus penalties, if any. We have no other material off-balance sheet arrangements that we expect would materially affect our liquidity and capital resources except those described above under "Contractual Obligations".

Inflation

Our leases often provide for either fixed increases in base rents or indexed escalators, based on the Consumer Price Index or other measures, and/or additional rent based on increases in the tenants' operating revenues. Most of our MOB leases require the tenant to pay a share of property operating costs such as real estate taxes, insurance and utilities. Substantially all of our senior housing triple-net, life science, and remaining other leases require the tenant or operator to pay all of the property operating costs or reimburse us for all such costs. We believe that inflationary increases in expenses will be offset, in part, by the tenant or operator expense reimbursements and contractual rent increases described above.

Non-GAAP Financial Measure Reconciliations

Funds From Operations and Funds Available for Distribution

The following is a reconciliation from net income (loss) applicable to common shares, the most directly comparable financial measure calculated and presented in accordance with GAAP, to NAREIT FFO, FFO as adjusted and FAD (in thousands, except per share data):

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Net income (loss) applicable to common shares	$1,058,424	$ 413,013	$ 626,549	$ (560,552)	$ 919,796
Real estate related depreciation and amortization	549,499	534,726	572,998	510,785	459,995
Real estate related depreciation and amortization on unconsolidated joint ventures	63,967	60,058	49,043	48,188	21,303
Real estate related depreciation and amortization on noncontrolling interests and other	(11,795)	(15,069)	(21,001)	(14,506)	(8,027)
Other real estate-related depreciation and amortization	6,977	9,364	11,919	22,223	18,864
Loss (gain) on sales of real estate, net	(925,985)	(356,641)	(164,698)	(6,377)	(31,298)
Loss (gain) on sales of real estate, net on unconsolidated joint ventures	—	(1,430)	(16,332)	(15,003)	—
Loss (gain) on sales of real estate, net on noncontrolling interests	—	—	224	1,453	1,001
Loss (gain) upon consolidation of real estate, net[1]	(9,154)	—	—	—	—
Taxes associated with real estate dispositions[2]	3,913	(5,498)	60,451	—	—
Impairments (recoveries) of depreciable real estate, net	44,343	22,590	—	2,948	—
NAREIT FFO applicable to common shares	780,189	661,113	1,119,153	(10,841)	1,381,634
Distributions on dilutive convertible units	—	—	8,732	—	13,799
Diluted NAREIT FFO applicable to common shares	$ 780,189	$ 661,113	$1,127,885	$ (10,841)	$1,395,433
Weighted average shares outstanding - diluted NAREIT FFO	470,719	468,935	471,566	462,795	464,845
Impact of adjustments to NAREIT FFO:					
Transaction-related items[3]	$ 11,029	$ 62,576	$ 96,586	$ 32,932	$ (18,856)
Other impairments (recoveries) and losses (gains), net[4]	7,619	92,900	—	1,446,800	35,913
Severance and related charges[5]	13,906	5,000	16,965	6,713	—
Loss on debt extinguishments[6]	44,162	54,227	46,020	—	—
Litigation costs (recoveries)[7]	363	15,637	3,081	—	—
Casualty-related charges (recoveries), net	—	10,964	—	—	—
Foreign currency remeasurement losses (gains)	(35)	(1,043)	585	(5,437)	—
Tax rate legislation impact[8]	—	17,028	—	—	—
	$ 77,044	$ 257,289	$ 163,237	$1,481,008	$ 17,057
FFO as adjusted applicable to common shares	$ 857,233	$ 918,402	$1,282,390	$1,470,167	$1,398,691
Distributions on dilutive convertible units and other	(198)	6,657	12,849	13,597	13,766
Diluted FFO as adjusted applicable to common shares	$ 857,035	$ 925,059	$1,295,239	$1,483,764	$1,412,457
Weighted average shares outstanding - diluted FFO as adjusted	470,719	473,620	473,340	469,064	464,845

	Year Ended December 31,				
	2018	2017	2016	2015	2014
FFO as adjusted applicable to common shares	$ 857,233	$ 918,402	$1,282,390	$1,470,167	$1,398,691
Amortization of deferred compensation[9]	14,714	13,510	15,581	23,233	21,885
Amortization of deferred financing costs	12,612	14,569	20,014	20,222	19,260
Straight-line rents	(23,138)	(23,933)	(27,560)	(38,415)	(43,857)
FAD capital expenditures	(106,193)	(113,471)	(88,953)	(82,072)	(74,464)
Lease restructure payments	1,195	1,470	16,604	22,657	9,425
CCRC entrance fees[10]	17,880	21,385	21,287	27,895	11,121
Deferred income taxes[11]	(18,744)	(15,490)	(13,692)	(15,281)	(4,580)
Other FAD adjustments[12]	(9,162)	(12,722)	(9,975)	(166,557)	(158,659)
FAD applicable to common shares	746,397	803,720	1,215,696	1,261,849	1,178,822
Distributions on dilutive convertible units	—	—	13,088	14,230	13,799
Diluted FAD applicable to common shares	$ 746,397	$ 803,720	$1,228,784	$1,276,079	$1,192,621
Weighted average shares outstanding - diluted FAD	470,719	468,935	473,340	469,064	464,845
Diluted earnings per common share	$ 2.24	$ 0.88	$ 1.34	$ (1.21)	$ 2.00
Depreciation and amortization	1.30	1.25	1.30	1.22	1.07
Loss (gain) on sales of real estate, net	(1.96)	(0.76)	(0.38)	(0.04)	(0.07)
Loss (gain) upon consolidation of real estate, net[1]	(0.02)	—	—	—	—
Taxes associated with real estate dispositions[2]	0.01	(0.01)	0.13	—	—
Impairments (recoveries) of depreciable real estate, net	0.09	0.05	—	0.01	—
Diluted NAREIT FFO per common share	$ 1.66	$ 1.41	$ 2.39	$ (0.02)	$ 3.00
Transaction-related items[3]	0.02	0.13	0.20	0.07	(0.04)
Other impairments (recoveries) and losses (gains), net[4]	0.02	0.20	—	3.11	0.08
Severance and related charges[5]	0.03	0.01	0.04	0.01	—
Loss on debt extinguishments[6]	0.09	0.11	0.10	—	—
Litigation costs (recoveries)[7]	—	0.03	0.01	—	—
Casualty-related charges (recoveries), net	—	0.02	—	—	—
Foreign currency remeasurement losses (gains)	—	—	—	(0.01)	—
Tax rate legislation impact[8]	—	0.04	—	—	—
Diluted FFO as adjusted per common share	$ 1.82	$ 1.95	$ 2.74	$ 3.16	$ 3.04

(1) For the year ended December 31, 2018, represents the gain related to the acquisition of our partner's interests in four previously unconsolidated life science assets, partially offset by the loss on consolidation of seven U.K. care homes.

(2) For the year ended December 31, 2016, represents income tax expense associated with the state built-in gain tax payable upon the disposition of specific real estate assets, of which $49 million relates to the HCRMC real estate portfolio.

(3) For the year ended December 31, 2017, includes $55 million of net non-cash charges related to the right to terminate certain triple-net leases and management agreements in conjunction with the 2017 Brookdale Transactions. For the year ended December 31, 2016, primarily relates to the Spin-Off. For the year ended December 31, 2015, primarily related to acquisition and pursuit costs. For the year ended December 31, 2014, includes a net benefit from the 2014 Brookdale transaction, partially offset by acquisition and pursuit costs.

(4) For the year ended December 31, 2018, primarily relates to the impairment of an undeveloped life science land parcel classified as held for sale. For the year ended December 31, 2017, relates to $144 million of impairments on our Tandem Mezzanine Loan, net of a $51 million impairment recovery upon the sale of our Four Seasons Notes. For the year ended December 31, 2015, include impairment charges of: (i) $1.3 billion related to our HCRMC DFL investments, (ii) $112 million related to our Four Seasons Notes and (iii) $46 million related to our equity investment in HCRMC, partially offset by an impairment recovery of $6 million related to a loan payoff. For the year ended December 31, 2014, relates to our equity investment in HCRMC.

(5) For the year ended December 31, 2018, primarily relates to the departure of our former Executive Chairman and corporate restructuring activities. For the year ended December 31, 2017, primarily relates to the departure of our former Chief Accounting Officer. For the year ended December 31, 2016, primarily relates to the departure of our former President and Chief Executive Officer. For the year ended December 31, 2015, relates to the departure of our former Chief Investment Officer.

(6) For the year ended December 31, 2018, represents the premium associated with the prepayment of $750 million of senior unsecured notes. For the year ended December 31, 2017, represents the premium associated with the prepayment of $500 million of senior unsecured notes. For the year ended December 31, 2016, represents penalties of $46 million from the prepayment of $1.1 billion of senior unsecured notes and $108 million of mortgage debt using proceeds from the Spin-Off.

(7) For the year ended December 31, 2017, relates to costs from securities class action litigation and a legal settlement. For the year ended December 31, 2016, primarily relates to costs from securities class action litigation. See Note 11 in the Consolidated Financial Statements for additional information.

(8) Represents the remeasurement of deferred tax assets and liabilities as a result of the Tax Cuts and Jobs Act that was signed into legislation on December 22, 2017.

(9) Excludes amounts related to the acceleration of deferred compensation for restricted stock units and/or stock options that vested upon the departure of certain former individuals, which have already been excluded from FFO as adjusted in severance and related charges. For the year ended December 31, 2018, excludes $2 million upon the departure of our former Executive Chairman. For the year ended December 31, 2017, excludes $0.7 million related to the departure of our former Chief Accounting Officer. For the year ended December 31, 2016, excludes $7 million related to the departure of our former President and Chief Executive Officer. For the year ended December 31, 2015, excludes $3 million related to the departure of our former Chief Investment Officer.

(10) Represents our 49% share of non-refundable entrance fees as the fees are collected by our CCRC JV, net of reserves and CCRC JV entrance fee amortization.

(11) Excludes $17 million of deferred tax expenses, which is included in tax rate legislation impact for the year ended December 31, 2017. Additionally, the year ended December 31, 2017, excludes $1 million of deferred tax benefit from the casualty-related charges, which is included in casualty-related charges (recoveries), net.

(12) Our equity investment in HCRMC was accounted for using the equity method, which required an elimination of DFL income that is proportional to our ownership in HCRMC. Further, our share of earnings from HCRMC (equity income) increased for the corresponding elimination of related lease expense recognized at the HCRMC entity level, which we presented as a non-cash joint venture FAD adjustment. Beginning in January 2016, as a result of placing our equity investment in HCRMC on a cash basis method of accounting, we no longer eliminated our proportional ownership share of income from DFLs to equity income (loss) from unconsolidated joint ventures. See Note 5 to the Consolidated Financial Statements for additional discussion.

Critical Accounting Policies

The preparation of financial statements in conformity with U.S. GAAP requires our management to use judgment in the application of accounting policies, including making estimates and assumptions. We base estimates on the best information available to us at the time, our experience and on various other assumptions believed to be reasonable under the circumstances. These estimates affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting periods. If our judgment or interpretation of the facts and circumstances relating to various transactions or other matters had been different, it is possible that different accounting would have been applied, resulting in a different presentation of our consolidated financial statements. From time to time, we re-evaluate our estimates and assumptions. In the event estimates or assumptions prove to be different from actual results, adjustments are made in subsequent periods to reflect more current estimates and assumptions about matters that are inherently uncertain. For a more detailed discussion of our significant accounting policies, see Note 2 to the Consolidated Financial Statements. Below is a discussion of accounting policies that we consider critical in that they may require complex judgment in their application or require estimates about matters that are inherently uncertain.

Principles of Consolidation

The consolidated financial statements include the accounts of HCP, Inc., our wholly-owned subsidiaries and joint ventures that we control, through voting rights or other means. We consolidate investments in variable interest entities ("VIEs") when we are the primary beneficiary of the VIE. A variable interest holder is considered to be the primary beneficiary of a VIE if it has the power to direct the activities that most significantly impact the entity's economic performance and has the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to the VIE.

We make judgments about which entities are VIEs based on an assessment of whether: (i) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support, (ii) substantially all of an entity's activities either involve or are conducted on behalf of an investor that has disproportionately few voting rights, or (iii) the equity investors as a group lack any of the following: (a) the power through voting or similar rights to direct the activities of an entity that most significantly impact the entity's economic performance, (b) the obligation to absorb the expected losses of an entity, or (c) the right to receive the expected residual returns of an entity. Criterion (iii) above is generally applied to limited partnerships and similarly structured entities by assessing whether a simple majority of the limited partners hold substantive rights to participate in the significant decisions of the entity or have the ability to remove the decision maker or liquidate the entity without cause. If neither of those criteria are met, the entity is a VIE.

We also make judgments with respect to our level of influence or control over an entity and whether we are (or are not) the primary beneficiary of a VIE. Consideration of various factors includes, but is not limited to:

- which activities most significantly impact the entity's economic performance, and our ability to direct those activities;
- our form of ownership interest;

- our representation on the entity's governing body;
- the size and seniority of our investment;
- our ability to manage our ownership interest relative to other interest holders; and
- our ability and the rights of other investors to participate in policy making decisions, replace the manager and/or liquidate the entity, if applicable.

Our ability to correctly assess our influence or control over an entity when determining the primary beneficiary of a VIE affects the presentation of these entities in our consolidated financial statements. When we perform a reassessment of the primary beneficiary at a date other than at inception of the VIE, our assumptions may be different and may result in the identification of a different primary beneficiary.

If we determine that we are the primary beneficiary of a VIE, our consolidated financial statements include the operating results of the VIE rather than the results of our variable interest in the VIE. We require VIEs to provide us timely financial information and review the internal controls of VIEs to determine if we can rely on the financial information it provides. If a VIE has deficiencies in its internal controls over financial reporting, or does not provide us with timely financial information, it may adversely impact the quality and/or timing of our financial reporting and our internal controls over financial reporting.

Revenue Recognition

Lease Classification

At the inception of a new lease arrangement, including new leases that arise from amendments, we assess the terms and conditions to determine the proper lease classification. For leases entered into prior to January 1, 2019, a lease arrangement is classified as an operating lease if none of the following criteria are met: (i) transfer of ownership to the lessee prior to or shortly after the end of the lease term, (ii) the lessee has a bargain purchase option during or at the end of the lease term, (iii) the lease term is equal to 75% or more of the underlying property's economic life, or (iv) the present value of future minimum lease payments (excluding executory costs) is equal to 90% or more of the estimated fair value of the leased asset. If one of the four criteria is met and the minimum lease payments are determined to be reasonably predictable and collectible, the lease arrangement is generally accounted for as a DFL.

Concurrent with our adoption of Accounting Standards Update No. 2016-02, *Leases* ("ASU 2016-02") on January 1, 2019, we will begin classifying a lease entered into subsequent to adoption as an operating lease if none of the following criteria are met: (i) transfer of ownership to the lessee by the end of the lease term, (ii) lessee has a purchase option during or at the end of the lease term that it is reasonably certain to exercise, (iii) the lease term is for the major part of the remaining economic life of the underlying asset, (iv) the present value of future minimum lease payments is equal to substantially all of the fair value of the underlying asset, or (v) the underlying asset is of such a specialized nature that it is expected to have no alternative use to us at the end of the lease term.

If the assumptions utilized in the above classification assessments were different, our lease classification for accounting purposes may have been different; thus the timing and amount of our revenue recognized would have been impacted, which may be material to our consolidated financial statements.

Rental and Related Revenues

We recognize rental revenue for operating leases on a straight-line basis over the lease term when collectibility of all minimum lease payments is reasonably assured and the tenant has taken possession or controls the physical use of a leased asset. If the lease provides for tenant improvements, we determine whether the tenant improvements are owned by the tenant or us. When we are the owner of the tenant improvements, the tenant is not considered to have taken physical possession or have control of the leased asset until the tenant improvements are substantially complete. When the tenant is the owner of the tenant improvements, any tenant improvement allowance funded is treated as a lease incentive and amortized as a reduction of revenue over the lease term. The determination of ownership of a tenant improvement is subject to significant judgment. If our assessment of the owner of the tenant improvements was different, the timing and amount of our revenue recognized would be impacted.

Certain leases provide for additional rents that are contingent upon a percentage of the facility's revenue in excess of specified base amounts or other thresholds. Such revenue is recognized when actual results reported by the tenant, or estimates of tenant results, exceed the base amount or other thresholds. The recognition of additional rents requires us to make estimates of amounts owed and, to a certain extent, is dependent on the accuracy of the facility results reported to us. Our estimates may differ from actual results, which could be material to our consolidated financial statements.

Income from Direct Financing Leases

We use the direct finance method of accounting to record income from DFLs. For leases accounted for as DFLs, the net investment in the DFL represents receivables for the sum of future minimum lease payments receivable and the estimated residual values of the leased properties, less the unamortized unearned income. Unearned income is deferred and amortized to income over the lease terms to provide a constant yield when collectibility of the lease payments is reasonably assured. The determination of

estimated useful lives and residual values are subject to significant judgment. If these assessments were to change, the timing and amount of our revenue recognized would be impacted.

Interest Income

Loans receivable are classified as held-for-investment based on management's intent and ability to hold the loans for the foreseeable future or to maturity. We recognize interest income on loans, including the amortization of discounts and premiums, using the interest method (applied on a loan-by-loan basis) when collectibility of the future payments is reasonably assured. Premiums, discounts and related costs are recognized as yield adjustments over the term of the related loans. If management determines that certain loans should no longer be classified as held-for-investment, the timing and amount of our interest income recognized would be impacted.

Allowance for Doubtful Accounts

We maintain an allowance for doubtful accounts, including an allowance for operating lease straight-line rent receivables, for estimated losses resulting from tenant defaults or the inability of tenants to make contractual rent and tenant recovery payments. We monitor the liquidity and creditworthiness of our tenants and operators on a continuous basis. This evaluation considers industry and economic conditions, property performance, credit enhancements and other factors. For straight-line rent receivable amounts, our assessment is based on income recoverable over the term of the lease. We exercise judgment in establishing allowances and consider payment history and current credit status in developing these estimates. These estimates may differ from actual results, which could be material to our consolidated financial statements.

Loans receivable and DFLs (collectively, "Finance Receivables"), are reviewed and assigned an internal rating of Performing, Watch List or Workout. Finance Receivables that are deemed Performing meet all present contractual obligations, and collection and timing of all amounts owed is reasonably assured. Watch List Finance Receivables are defined as Finance Receivables that do not meet the definition of Performing or Workout. Workout Finance Receivables are defined as Finance Receivables in which we have determined, based on current information and events, that: (i) it is probable we will be unable to collect all amounts due according to the contractual terms of the agreement, (ii) the tenant, operator, or borrower is delinquent on making payments under the contractual terms of the agreement, and (iii) we have commenced action or anticipate pursuing action in the near term to seek recovery of our investment. Finance Receivables are placed on nonaccrual status when management determines that the collectibility of contractual amounts is not reasonably assured (the asset will have an internal rating of either Watch List or Workout). Further, we perform a credit analysis to support the tenant's, operator's, borrower's and/or guarantor's repayment capacity and the underlying collateral values. We use the cash basis method of accounting for Finance Receivables placed on nonaccrual status unless one of the following conditions exist whereby we utilize the cost recovery method of accounting: (i) if we determine that it is probable that we will only recover the recorded investment in the Finance Receivable, net of associated allowances or charge-offs (if any), or (ii) we cannot reasonably estimate the amount of an impaired Finance Receivable. For cash basis method of accounting we apply payments received, excluding principal paydowns, to interest income so long as that amount does not exceed the amount that would have been earned under the original contractual terms. For cost recovery method of accounting any payment received is applied to reduce the recorded investment. Generally, we return a Finance Receivable to accrual status when all delinquent payments become current under the terms of the loan or lease agreements and collectibility of the remaining contractual loan or lease payments is reasonably assured.

Allowances are established for Finance Receivables on an individual basis utilizing an estimate of probable losses, if they are determined to be impaired. Finance Receivables are impaired when it is deemed probable that we will be unable to collect all amounts due in accordance with the contractual terms of the loan or lease. An allowance is based upon our assessment of the lessee's or borrower's overall financial condition, economic resources, payment record, the prospects for support from any financially responsible guarantors and, if appropriate, the net realizable value of any collateral. These estimates consider all available evidence, including the expected future cash flows discounted at the Finance Receivable's effective interest rate, fair value of collateral, general economic conditions and trends, historical and industry loss experience, and other relevant factors, as appropriate. Should a Finance Receivable be deemed partially or wholly uncollectible, the uncollectible balance is charged off against the allowance in the period in which the uncollectible determination has been made.

Real Estate

We make estimates as part of our process for allocating a purchase price to the various identifiable assets of an acquisition based upon the relative fair value of each asset. The most significant components of our allocations are typically buildings as-if-vacant, land and in-place leases. In the case of allocating fair value to buildings and intangibles,

our fair value estimates will affect the amount of depreciation and amortization we record over the estimated useful life of each asset acquired. In the case of allocating fair value to in-place leases, we make our best estimates based on our evaluation of the specific characteristics of each tenant's lease. Factors considered include estimates of carrying costs during hypothetical expected lease-up periods, market conditions and costs to execute similar leases. Our assumptions affect the amount of future revenue and/or depreciation and amortization expense that we will recognize over the remaining useful life for the acquired in-place leases.

A variety of costs are incurred in the development and leasing of properties. After determination is made to capitalize a cost, it is allocated to the specific component of a project that is benefited. Determination of when a development project is substantially complete and capitalization must cease involves a degree of judgment. The costs of land and buildings under development include specifically identifiable costs. The capitalized costs include pre-construction costs essential to the development of the property, development costs, construction costs, interest costs, real estate taxes and other costs incurred during the period of development. We consider a construction project to be considered substantially complete and available for occupancy and cease capitalization of costs upon the completion of the related tenant improvements.

Impairment of Long-Lived Assets

We assess the carrying value of our real estate assets and related intangibles ("real estate assets") when events or changes in circumstances indicate that the carrying value may not be recoverable, but at least annually. Recoverability of real estate assets is measured by comparing the carrying amount of the real estate assets to the respective estimated future undiscounted cash flows. The expected future undiscounted cash flows reflect external market factors and are probability-weighted to reflect multiple possible cash-flow scenarios, including selling the assets at various points in the future. Additionally, the estimated future undiscounted cash flows are calculated utilizing the lowest level of identifiable cash flows that are largely independent of the cash flows of other assets and liabilities. In order to review our real estate assets for recoverability, we make assumptions regarding external market conditions, as well as our intent with respect to holding or disposing of the asset. If our analysis indicates that the carrying value of the real estate assets is not recoverable on an undiscounted cash flow basis, we recognize an impairment charge for the amount by which the carrying value exceeds the fair value of the real estate asset.

The determination of the fair value of real estate assets involves significant judgment. This judgment is based on our analysis and estimates of fair value of real estate assets, future operating results and resulting cash flows, and the period over which we will hold each real estate asset. Our ability to accurately predict future operating results and resulting cash flows, and estimate fair values, impacts the timing and recognition of impairments. While we believe our assumptions are reasonable, changes in these assumptions may have a material impact on our consolidated financial statements.

Investments in Unconsolidated Joint Ventures

The initial carrying value of investments in unconsolidated joint ventures is based on the amount paid to purchase the joint venture interest or the carrying value of the assets prior to the sale or contribution of the interests to the joint venture. We evaluate our equity method investments for impairment by first reviewing for indicators of impairment based upon the performance of the underlying real estate assets held by the joint venture. If an equity-method investment shows indicators of impairment, we compare the fair value of the investment to the carrying value. If we determine there is a decline in the fair value of our investment in an unconsolidated joint venture below its carrying value and it is other-than-temporary, an impairment charge is recorded. The determination of the fair value of investments in unconsolidated joint ventures and as to whether a deficiency in fair value is other-than-temporary involves significant judgment. Our estimates consider all available evidence including, as appropriate, the present value of the expected future cash flows, discounted at market rates, general economic conditions and trends, severity and duration of a fair value deficiency, and other relevant factors. Capitalization rates, discount rates, and credit spreads utilized in our valuation models are based upon rates that we believe to be within a reasonable range of current market rates for the respective investments. While we believe our assumptions are reasonable, changes in these assumptions may have a material impact on our consolidated financial statements.

Income Taxes

As part of the process of preparing our consolidated financial statements, significant management judgment is required to evaluate our compliance with REIT requirements. Our determinations are based on interpretation of tax laws and our conclusions may have an impact on the income tax expense recognized. Adjustments to income tax expense may be required as a result of: (i) audits conducted by federal, state and local tax authorities, (ii) our ability to qualify as a REIT, (iii) the potential for built-in gain recognition, and (iv) changes in tax laws. Adjustments required in any given period are included within the income tax provision.

Recent Accounting Pronouncements

See Note 2 to the Consolidated Financial Statements for the impact of new accounting standards.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to various market risks, including the potential loss arising from adverse changes in interest rates and foreign currency exchange rates, specifically GBP. We use derivative and other financial instruments in the normal course of business to mitigate interest rate and foreign currency risk. We do not use derivative financial instruments for speculative or trading purposes. Derivatives are recorded on the consolidated balance sheets at fair value (see Note 22 to the Consolidated Financial Statements).

To illustrate the effect of movements in the interest rate markets, we performed a market sensitivity analysis on our hedging instruments. We applied various basis point spreads to the underlying interest rate curves of the hedging portfolio in order to determine the change in fair value. Assuming a one percentage point change in the underlying interest rate curve, the estimated change in fair value of each of the underlying hedging instruments would not exceed $1 million.

Interest Rate Risk

At December 31, 2018, we are exposed to market risks related to fluctuations in interest rates primarily on variable rate debt. As of December 31, 2018, $43 million of our variable-rate debt was hedged by interest rate swap transactions. The interest rate swaps are designated as cash flow hedges, with the objective of managing the exposure to interest rate risk by converting the interest rates on our variable-rate debt to fixed interest rates.

Interest rate fluctuations will generally not affect our future earnings or cash flows on our fixed rate debt and assets until their maturity or earlier prepayment and refinancing. If interest rates have risen at the time we seek to refinance our fixed rate debt, whether at maturity or otherwise, our future earnings and cash flows could be adversely affected by additional borrowing costs. Conversely, lower interest rates at the time of refinancing may reduce our overall borrowing costs. However, interest rate changes will affect the fair value of our fixed rate instruments. At December 31, 2018, a one percentage point increase or decrease in interest rates would change the fair value of our fixed rate debt by approximately $252 million and $272 million, respectively, and would not materially impact earnings or cash flows. Additionally, a one percentage point increase or decrease in interest rates would change the fair value of our fixed rate debt investments by approximately $3 million and less than $1 million, respectively, and would not materially impact earnings or cash flows. Conversely, changes in interest rates on variable rate debt and investments would change our future earnings and cash flows, but not materially impact the fair value of those instruments. Assuming a one percentage point change in the interest rate related to our variable-rate debt and variable-rate investments, and assuming no other changes in the outstanding balance as of December 31, 2018, our annual interest expense and interest income would change by approximately $1 million and $1 million, respectively.

Foreign Currency Exchange Rate Risk

At December 31, 2018, our exposure to foreign currencies primarily relates to U.K. investments in leased real estate, loans receivable and related GBP denominated cash flows. Our foreign currency exposure is partially mitigated through the use of GBP-denominated borrowings. Based solely on our operating results for the year ended December 31, 2018, including the impact of existing hedging arrangements, if the value of the GBP relative to the U.S. dollar were to increase or decrease by 10% compared to the average exchange rate during the year ended December 31, 2018, the increase or decrease to our cash flows would not be material.

Market Risk

We have investments in marketable debt securities classified as held-to-maturity because we have the positive intent and ability to hold the securities to maturity. Held-to-maturity securities are recorded at amortized cost and adjusted for the amortization of premiums and discounts through maturity. We consider a variety of factors in evaluating an other-than-temporary decline in value, such as: the length of time and the extent to which the market value has been less than our current adjusted carrying value; the issuer's financial condition, capital strength and near-term prospects; any recent events specific to that issuer and economic conditions of its industry; and our investment horizon in relationship to an anticipated near-term recovery in the market value, if any. At December 31, 2018, both the fair value and carrying value of marketable debt securities were $19 million.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

HCP, Inc.
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of HCP, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of HCP, Inc. and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income (loss), equity, and cash flows, for each of the three years in the period ended December 31, 2018, and the related notes and the schedules listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 14, 2019, expressed an unqualified opinion on the Company's internal control over financial reporting.

Changes in Accounting Principles

As discussed in Note 2, Summary of Significant Accounting Policies—Recent Accounting Pronouncements, to the financial statements, the Company has changed its method of derecognizing real estate from partial sales effective January 1, 2018 due to the adoption of Accounting Standards Update ("ASU") No. 2017-05, *Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* on a modified retrospective basis. Further, as discussed in Note 2, Summary of Significant Accounting Policies—Recent Accounting Pronouncements, to the financial statements, the Company changed its method of accounting for real estate acquisitions effective January 1, 2017 due to the adoption of ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business* on a prospective basis.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Los Angeles, California
February 14, 2019

We have served as the Company's auditor since 2010.

HCP, INC.
CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	December 31,	
	2018	2017
ASSETS		
Real estate:		
Buildings and improvements	$10,877,248	$11,239,732
Development costs and construction in progress	537,643	447,976
Land	1,637,506	1,785,865
Accumulated depreciation and amortization	(2,842,947)	(2,741,695)
Net real estate	10,209,450	10,731,878
Net investment in direct financing leases	713,818	714,352
Loans receivable, net	62,998	313,326
Investments in and advances to unconsolidated joint ventures	540,088	800,840
Accounts receivable, net of allowance of $5,127 and $4,425, respectively	48,171	40,733
Cash and cash equivalents	110,790	55,306
Restricted cash	29,056	26,897
Intangible assets, net	305,079	410,082
Assets held for sale, net	108,086	417,014
Other assets, net	591,017	578,033
Total assets	$12,718,553	$14,088,461
LIABILITIES AND EQUITY		
Bank line of credit	$ 80,103	$ 1,017,076
Term loan	—	228,288
Senior unsecured notes	5,258,550	6,396,451
Mortgage debt	138,470	144,486
Other debt	90,785	94,165
Intangible liabilities, net	54,663	52,579
Liabilities of assets held for sale, net	1,125	14,031
Accounts payable and accrued liabilities	391,583	401,738
Deferred revenue	190,683	144,709
Total liabilities	6,205,962	8,493,523
Commitments and contingencies		
Common stock, $1.00 par value: 750,000,000 shares authorized; 477,496,499 and 469,435,678 shares issued and outstanding, respectively	477,496	469,436
Additional paid-in capital	8,398,847	8,226,113
Cumulative dividends in excess of earnings	(2,927,196)	(3,370,520)
Accumulated other comprehensive income (loss)	(4,708)	(24,024)
Total stockholders' equity	5,944,439	5,301,005
Joint venture partners	391,401	117,045
Non-managing member unitholders	176,751	176,888
Total noncontrolling interests	568,152	293,933
Total equity	6,512,591	5,594,938
Total liabilities and equity	$12,718,553	$14,088,461

See accompanying Notes to Consolidated Financial Statements.

HCP, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

	Year Ended December 31,		
	2018	2017	2016
Revenues:			
Rental and related revenues	$1,237,236	$1,213,649	$1,294,071
Resident fees and services	544,773	524,275	686,835
Income from direct financing leases	54,274	54,217	59,580
Interest income	10,406	56,237	88,808
Total revenues	1,846,689	1,848,378	2,129,294
Costs and expenses:			
Interest expense	266,343	307,716	464,403
Depreciation and amortization	549,499	534,726	568,108
Operating	705,038	666,251	738,399
General and administrative	96,702	88,772	103,611
Transaction costs	10,772	7,963	9,821
Impairments (recoveries), net	55,260	166,384	—
Total costs and expenses	1,683,614	1,771,812	1,884,342
Other income (expense):			
Gain (loss) on sales of real estate, net	925,985	356,641	164,698
Loss on debt extinguishments	(44,162)	(54,227)	(46,020)
Other income (expense), net	13,316	31,420	3,654
Total other income (expense), net	895,139	333,834	122,332
Income (loss) before income taxes and equity income (loss) from unconsolidated joint ventures	1,058,214	410,400	367,284
Income tax benefit (expense)	17,854	1,333	(4,473)
Equity income (loss) from unconsolidated joint ventures	(2,594)	10,901	11,360
Income (loss) from continuing operations	1,073,474	422,634	374,171
Discontinued operations:			
Income before transaction costs and income taxes	—	—	400,701
Transaction costs	—	—	(86,765)
Income tax benefit (expense)	—	—	(48,181)
Total discontinued operations	—	—	265,755
Net income (loss)	1,073,474	422,634	639,926
Noncontrolling interests' share in earnings	(12,381)	(8,465)	(12,179)
Net income (loss) attributable to HCP, Inc.	1,061,093	414,169	627,747
Participating securities' share in earnings	(2,669)	(1,156)	(1,198)
Net income (loss) applicable to common shares	$1,058,424	$ 413,013	$ 626,549
Basic earnings per common share:			
Continuing operations	$ 2.25	$ 0.88	$ 0.77
Discontinued operations	—	—	0.57
Net income (loss) applicable to common shares	$ 2.25	$ 0.88	$ 1.34
Diluted earnings per common share:			
Continuing operations	$ 2.24	$ 0.88	$ 0.77
Discontinued operations	—	—	0.57
Net income (loss) applicable to common shares	$ 2.24	$ 0.88	$ 1.34
Weighted average shares outstanding:			
Basic	470,551	468,759	467,195
Diluted	475,387	468,935	467,403

See accompanying Notes to Consolidated Financial Statements.

HCP, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

	Year Ended December 31,		
	2018	2017	2016
Net income (loss)	$1,073,474	$422,634	$639,926
Other comprehensive income (loss):			
Net unrealized gains (losses) on derivatives	6,025	(11,107)	3,233
Reclassification adjustment realized in net income (loss)	18,088	799	707
Change in Supplemental Executive Retirement Plan obligation and other	561	64	220
Foreign currency translation adjustment	(5,358)	15,862	(3,332)
Total other comprehensive income (loss)	19,316	5,618	828
Total comprehensive income (loss)	1,092,790	428,252	640,754
Total comprehensive income (loss) attributable to noncontrolling interests	(12,381)	(8,465)	(12,179)
Total comprehensive income (loss) attributable to HCP, Inc.	$1,080,409	$419,787	$628,575

See accompanying Notes to Consolidated Financial Statements.

HCP, INC.
CONSOLIDATED STATEMENTS OF EQUITY

(In thousands, except per share data)

	Common Stock		Additional Paid-In Capital	Cumulative Dividends In Excess of Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
	Shares	Amount						
January 1, 2016	465,488	$ 465,488	$11,647,039	$(2,738,414)	$(30,470)	$ 9,343,643	$402,674	$ 9,746,317
Net income (loss)	—	—	—	627,747	—	627,747	12,179	639,926
Other comprehensive income (loss)	—	—	—	—	828	828	—	828
Issuance of common stock, net	2,552	2,552	61,625	—	—	64,177	—	64,177
Conversion of DownREIT units to common stock	145	145	5,948	—	—	6,093	(6,093)	—
Repurchase of common stock	(237)	(237)	(8,448)	—	—	(8,685)	—	(8,685)
Exercise of stock options	133	133	3,340	—	—	3,473	—	3,473
Amortization of deferred compensation	—	—	22,884	—	—	22,884	—	22,884
Common dividends ($2.095 per share)	—	—	—	(979,542)	—	(979,542)	—	(979,542)
Distribution of QCP, Inc.	—	—	(3,532,763)	—	—	(3,532,763)	—	(3,532,763)
Distributions to noncontrolling interests	—	—	(36)	—	—	(36)	(26,311)	(26,347)
Issuances of noncontrolling interests	—	—	—	—	—	—	11,834	11,834
Deconsolidation of noncontrolling interests	—	—	(36)	475	—	439	67	506
Purchase of noncontrolling interests	—	—	(663)	—	—	(663)	(637)	(1,300)
December 31, 2016	468,081	$ 468,081	$ 8,198,890	$(3,089,734)	$(29,642)	$ 5,547,595	$393,713	$ 5,941,308
Net income (loss)	—	—	—	414,169	—	414,169	8,465	422,634
Other comprehensive income (loss)	—	—	—	—	5,618	5,618	—	5,618
Issuance of common stock, net	1,402	1,402	25,951	—	—	27,353	—	27,353
Conversion of DownREIT units to common stock	78	78	2,411	—	—	2,489	(2,489)	—
Repurchase of common stock	(157)	(157)	(4,628)	—	—	(4,785)	—	(4,785)
Exercise of stock options	32	32	736	—	—	768	—	768
Amortization of deferred compensation	—	—	14,258	—	—	14,258	—	14,258
Common dividends ($1.480 per share)	—	—	—	(694,955)	—	(694,955)	—	(694,955)
Distributions to noncontrolling interests	—	—	—	—	—	—	(26,129)	(26,129)
Issuances of noncontrolling interests	—	—	—	—	—	—	1,615	1,615
Deconsolidation of noncontrolling interests	—	—	—	—	—	—	(58,062)	(58,062)
Purchase of noncontrolling interests	—	—	(11,505)	—	—	(11,505)	(23,180)	(34,685)
December 31, 2017	469,436	$ 469,436	$ 8,226,113	$(3,370,520)	$(24,024)	$ 5,301,005	$293,933	$ 5,594,938
Impact of adoption of ASU No. 2017-05[1]	—	—	—	79,144	—	79,144	—	79,144
January 1, 2018	469,436	$ 469,436	$ 8,226,113	$(3,291,376)	$(24,024)	$ 5,380,149	$293,933	$ 5,674,082
Net income (loss)	—	—	—	1,061,093	—	1,061,093	12,381	1,073,474
Other comprehensive income (loss)	—	—	—	—	19,316	19,316	—	19,316
Issuance of common stock, net	8,078	8,078	207,101	—	—	215,179	—	215,179
Conversion of DownREIT units to common stock	3	3	133	—	—	136	(136)	—
Repurchase of common stock	(141)	(141)	(3,291)	—	—	(3,432)	—	(3,432)
Exercise of stock options	120	120	2,357	—	—	2,477	—	2,477
Amortization of deferred compensation	—	—	16,563	—	—	16,563	—	16,563
Common dividends ($1.480 per share)	—	—	—	(696,913)	—	(696,913)	—	(696,913)
Distributions to noncontrolling interests	—	—	—	—	—	—	(18,415)	(18,415)
Issuances of noncontrolling interests	—	—	—	—	—	—	299,666	299,666
Purchase of noncontrolling interests	—	—	(50,129)	—	—	(50,129)	(19,277)	(69,406)
December 31, 2018	477,496	$ 477,496	$ 8,398,847	$(2,927,196)	$ (4,708)	$ 5,944,439	$568,152	$ 6,512,591

[1] On January 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2017-05, *Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* ("ASU 2017-05"), and recognized the cumulative-effect of adoption to beginning retained earnings. Refer to Note 2 for a detailed impact of adoption.

See accompanying Notes to Consolidated Financial Statements.

HCP, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,		
	2018	2017	2016
Cash flows from operating activities:			
Net income (loss)	$ 1,073,474	$ 422,634	$ 639,926
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization of real estate, in-place lease and other intangibles			
Continuing operations	549,499	534,726	568,108
Discontinued operations	—	—	4,890
Amortization of deferred compensation	16,563	14,258	22,884
Amortization of deferred financing costs	12,612	14,569	20,014
Straight-line rents	(23,138)	(23,933)	(18,003)
Equity loss (income) from unconsolidated joint ventures	2,594	(10,901)	(11,360)
Distributions of earnings from unconsolidated joint ventures	22,467	44,142	26,492
Lease and management fee termination loss (income), net	—	54,641	—
Deferred income tax expense (benefit)	(18,525)	(5,523)	47,195
Impairments (recoveries), net	55,260	166,384	—
Loss on extinguishment of debt	44,162	54,227	46,020
Loss (gain) on sales of real estate, net	(925,985)	(356,641)	(164,698)
Loss (gain) on consolidation, net	(9,154)	—	—
Casualty-related loss (recoveries), net	—	12,053	—
Loss (gain) on sale of marketable securities	—	(50,895)	—
Other non-cash items	2,569	(2,735)	(2,369)
Decrease (increase) in accounts receivable and other assets, net	5,686	(24,782)	(6,992)
Increase (decrease) in accounts payable and accrued liabilities	40,625	4,817	42,024
Net cash provided by (used in) operating activities	848,709	847,041	1,214,131
Cash flows from investing activities:			
Acquisitions of other real estate	(426,080)	(560,753)	(467,162)
Development and redevelopment of real estate	(503,643)	(373,479)	(421,322)
Leasing costs, tenant improvements, and recurring capital expenditures	(106,193)	(115,260)	(91,442)
Proceeds from sales of real estate, net	2,044,477	1,314,325	647,754
Contributions to unconsolidated joint ventures	(12,203)	(46,334)	(10,186)
Distributions in excess of earnings from unconsolidated joint ventures	26,472	37,023	28,366
Proceeds from the RIDEA II transaction, net	335,709	462,242	—
Proceeds from the U.K. JV transaction, net	393,997	—	—
Proceeds from sales/principal repayments on debt investments and direct financing leases	148,024	558,769	231,990
Investments in loans receivable, direct financing leases and other	(71,281)	(30,276)	(273,693)
Purchase of securities for debt defeasance	—	—	(73,278)
Net cash provided by (used in) investing activities	1,829,279	1,246,257	(428,973)
Cash flows from financing activities:			
Borrowings under bank line of credit, net	1,823,000	1,244,189	1,108,417
Repayments under bank line of credit	(2,755,668)	(1,150,596)	(540,000)
Proceeds related to QCP Spin-Off, net	—	—	1,685,172
Issuance and borrowings of debt, excluding bank line of credit	223,587	5,395	—
Repayments and repurchase of debt, excluding bank line of credit	(1,604,026)	(1,468,446)	(2,316,774)
Payments for debt extinguishment and deferred financing costs	(41,552)	(51,415)	(54,856)
Issuance of common stock and exercise of options	217,656	28,121	67,650
Repurchase of common stock	(3,432)	(4,785)	(8,685)
Dividends paid on common stock	(696,913)	(694,955)	(979,542)
Issuance of noncontrolling interests	299,666	1,615	11,834
Distributions to and purchase of noncontrolling interests	(82,854)	(57,584)	(27,481)
Net cash provided by (used in) financing activities	(2,620,536)	(2,148,461)	(1,054,265)
Effect of foreign exchanges on cash, cash equivalents and restricted cash	191	376	(1,019)
Net increase (decrease) in cash, cash equivalents and restricted cash	57,643	(54,787)	(270,126)
Cash, cash equivalents and restricted cash, beginning of year	82,203	136,990	407,116
Cash, cash equivalents and restricted cash, end of year	$ 139,846	$ 82,203	$ 136,990

See accompanying Notes to Consolidated Financial Statements.

HCP, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Business

Overview

HCP, Inc., an S&P 500 company, is a Maryland corporation that is organized to qualify as a real estate investment trust ("REIT") which, together with its consolidated entities (collectively, "HCP" or the "Company"), invests primarily in real estate serving the healthcare industry in the United States ("U.S."). The Company acquires, develops, leases, and manages and disposes of healthcare real estate. The Company's diverse portfolio is comprised of investments in the following reportable healthcare segments: (i) senior housing triple-net, (ii) senior housing operating portfolio ("SHOP"), (iii) life science and (iv) medical office.

Note 2. Summary of Significant Accounting Policies

Use of Estimates

Management is required to make estimates and assumptions in the preparation of financial statements in conformity with U.S. generally accepted accounting principles ("GAAP"). These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from management's estimates.

Principles of Consolidation

The consolidated financial statements include the accounts of HCP, Inc., its wholly-owned subsidiaries, joint ventures and variable interest entities that it controls through voting rights or other means. Intercompany transactions and balances have been eliminated upon consolidation.

The Company is required to continually evaluate its variable interest entity ("VIE") relationships and consolidate these entities when it is determined to be the primary beneficiary of their operations. A VIE is broadly defined as an entity where either: (i) the equity investment at risk is insufficient to finance that entity's activities without additional subordinated financial support, (ii) substantially all of an entity's activities either involve or are conducted on behalf of an investor that has disproportionately few voting rights, or (iii) the equity investors as a group lack any of the following: (a) the power through voting or similar rights to direct the activities of an entity that most significantly impact the entity's economic performance, (b) the obligation to absorb the expected losses of an entity, or (c) the right to receive the expected residual returns of an entity. Criterion (iii) above is generally applied to limited partnerships and similarly structured entities by assessing whether a simple majority of the limited partners hold substantive rights to participate in the significant decisions of the entity or have the ability to remove the decision maker or liquidate the entity without cause. If neither of those criteria are met, the entity is a VIE.

The designation of an entity as a VIE should be reassessed upon certain events, including, but not limited to: (i) a change to the terms or in the ability of a party to exercise its participation of kick-out rights, (ii) a change to the capitalization structure of the entity, or (iii) acquisitions or sales of interests that constitute a change in control.

A variable interest holder is considered to be the primary beneficiary of a VIE if it has the power to direct the activities of a VIE that most significantly impact the entity's economic performance and has the obligation to absorb losses of, or the right to receive benefits from, the entity that could potentially be significant to the VIE. The Company qualitatively assesses whether it is (or is not) the primary beneficiary of a VIE. Consideration of various factors include, but is not limited to, its form of ownership interest, its representation on the VIE's governing body, the size and seniority of its investment, its ability and the rights of other investors to participate in policy making decisions, its ability to manage its ownership interest relative to the other interest holders, and its ability to replace the VIE manager and/or liquidate the entity.

For its investments in joint ventures that are not considered to be VIEs, the Company evaluates the type of ownership rights held by the limited partner(s) that may preclude consolidation by the majority interest holder. The assessment of limited partners' rights and their impact on the control of a joint venture should be made at inception of the joint venture and continually reassessed.

Revenue Recognition

Lease Classification

At the inception of a new lease arrangement, including new leases that arise from amendments, the Company assesses the terms and conditions to determine the proper lease classification. For leases entered into prior to January 1,

2019, a lease arrangement is classified as an operating lease if none of the following criteria are met: (i) transfer of ownership to the lessee prior to or shortly after the end of the lease term, (ii) lessee has a bargain purchase option during or at the end of the lease term, (iii) the lease term is equal to 75% or more of the underlying property's economic life, or (iv) the present value of future minimum lease payments (excluding executory costs) is equal to 90% or more of the excess fair value (over retained tax credits) of the leased property. If one of the four criteria is met and the minimum lease payments are determined to be reasonably predictable and collectible, the lease arrangement is generally accounted for as a direct financing lease ("DFL").

Concurrent with the Company's adoption of Accounting Standards Update ("ASU") No. 2016-02, *Leases* ("ASU 2016-02") on January 1, 2019, the Company will begin classifying a lease entered into subsequent to adoption as an operating lease if none of the following criteria are met: (i) transfer of ownership to the lessee by the end of the lease term, (ii) lessee has a purchase option during or at the end of the lease term that it is reasonably certain to exercise, (iii) the lease term is for the major part of the remaining economic life of the underlying asset, (iv) the present value of future minimum lease payments is equal to substantially all of the fair value of the underlying asset, or (v) the underlying asset is of such a specialized nature that it is expected to have no alternative use to the Company at the end of the lease term.

Rental and Related Revenues

The Company commences recognition of rental revenue for operating lease arrangements when the tenant has taken possession or controls the physical use of a leased asset. The tenant is not considered to have taken physical possession or have control of the leased asset until the Company-owned tenant improvements are substantially complete. If a lease arrangement provides for tenant improvements, the Company determines whether the tenant improvements are owned by the tenant or the Company. When the Company is the owner of the tenant improvements, any tenant improvements funded by the tenant are treated as lease payments which are deferred and amortized into income over the lease term. When the tenant is the owner of the tenant improvements, any tenant improvement allowance that is funded by the Company is treated as a lease incentive and amortized as a reduction of revenue over the lease term. Ownership of tenant improvements is determined based on various factors including, but not limited to, the following criteria:

- lease stipulations of how and on what a tenant improvement allowance may be spent;
- which party to the arrangement retains legal title to the tenant improvements upon lease expiration;
- whether the tenant improvements are unique to the tenant or general purpose in nature;
- if the tenant improvements are expected to have significant residual value at the end of the lease term;
- the responsible party for construction cost overruns; and
- which party constructs or directs the construction of the improvements.

Certain leases provide for additional rents that are contingent upon a percentage of the facility's revenue in excess of specified base amounts or other thresholds. Such revenue is recognized when actual results reported by the tenant or estimates of tenant results, exceed the base amount or other thresholds, and only after any contingency has been removed (when the related thresholds are achieved). This may result in the recognition of rental revenue in periods subsequent to when such payments are received.

Tenant recoveries subject to operating leases generally relate to the reimbursement of real estate taxes, insurance and repairs and maintenance expense. These expenses are recognized as revenue in the period they are incurred. The reimbursements of these expenses are recognized in rental and related revenues, as the Company is generally the primary obligor and, with respect to purchasing goods and services from third party suppliers, has discretion in selecting the supplier and bears the associated credit risk.

For operating leases with minimum scheduled rent increases, the Company recognizes income on a straight line basis over the lease term when collectibility is reasonably assured. Recognizing rental income on a straight line basis results in a difference in the timing of revenue amounts from what is contractually due from tenants. If the Company determines that collectibility of straight line rents is not reasonably assured, future revenue recognition is limited to amounts contractually owed and paid, and, when appropriate, an allowance for estimated losses is established.

Resident Fees and Services

Resident fee revenue is recorded when services are rendered and includes resident room and care charges, community fees and other resident charges. Residency agreements are generally for a term of 30 days to one year, with resident fees billed monthly, in advance. Revenue for certain care related services is recognized as services are provided and is billed monthly in arrears.

Income from Direct Financing Leases

The Company utilizes the direct finance method of accounting to record DFL income. For a lease accounted for as a DFL, the net investment in the DFL represents receivables for the sum of future minimum lease payments and the estimated residual value of the leased property, less the unamortized unearned income. Unearned income

is deferred and amortized to income over the lease term to provide a constant yield when collectibility of the lease payments is reasonably assured.

Interest Income

Loans receivable are classified as held-for-investment based on management's intent and ability to hold the loans for the foreseeable future or to maturity. Loans held-for-investment are carried at amortized cost and reduced by a valuation allowance for estimated credit losses, as necessary. The Company recognizes interest income on loans, including the amortization of discounts and premiums, loan fees paid and received, using the interest method. The interest method is applied on a loan-by-loan basis when collectibility of the future payments is reasonably assured. Premiums and discounts are recognized as yield adjustments over the term of the related loans.

Gain (loss) on sales of real estate, net

The Company recognizes a gain (loss) on sale of real estate when the criteria for an asset to be derecognized are met, which include when: (i) a contract exists, (ii) the buyer obtains control of the asset, and (iii) it is probable that the Company will receive substantially all of the consideration to which it is entitled. These criteria are generally satisfied at the time of sale.

Allowance for Doubtful Accounts

The Company evaluates the liquidity and creditworthiness of its tenants, operators and borrowers on a monthly and quarterly basis. The Company's evaluation considers industry and economic conditions, individual and portfolio property performance, credit enhancements, liquidity and other factors. The Company's tenants, borrowers and operators furnish property, portfolio and guarantor/operator-level financial statements, among other information, on a monthly or quarterly basis; the Company utilizes this financial information to calculate the lease or debt service coverages that it uses as a primary credit quality indicator. Lease and debt service coverage information is evaluated together with other property, portfolio and operator performance information, including revenue, expense, net operating income, occupancy, rental rate, reimbursement trends, capital expenditures and EBITDA (defined as earnings before interest, tax, and depreciation and amortization), along with other liquidity measures. The Company evaluates, on a monthly basis or immediately upon a significant change in circumstance, its tenants', operators' and borrowers' ability to service their obligations with the Company.

The Company maintains an allowance for doubtful accounts for straight-line rent receivables resulting from tenants' inability to make contractual rent and tenant recovery payments or lease defaults. For straight-line rent receivables, the Company's assessment is based on amounts estimated to be recoverable over the lease term.

In connection with the Company's quarterly review process or upon the occurrence of a significant event, loans receivable and DFLs (collectively, "Finance Receivables"), are reviewed and assigned an internal rating of Performing, Watch List or Workout. Finance Receivables that are deemed Performing meet all present contractual obligations, and collection and timing, of all amounts owed is reasonably assured. Watch List Finance Receivables are defined as Finance Receivables that do not meet the definition of Performing or Workout. Workout Finance Receivables are defined as Finance Receivables in which the Company has determined, based on current information and events, that: (i) it is probable it will be unable to collect all amounts due according to the contractual terms of the agreement, (ii) the tenant, operator, or borrower is delinquent on making payments under the contractual terms of the agreement and (iii) the Company has commenced action or anticipates pursuing action in the near term to seek recovery of its investment.

Finance Receivables are placed on nonaccrual status when management determines that the collectibility of contractual amounts is not reasonably assured (the asset will have an internal rating of either Watch List or Workout). Further, the Company performs a credit analysis to support the tenant's, operator's, borrower's and/or guarantor's repayment capacity and the underlying collateral values. The Company uses the cash basis method of accounting for Finance Receivables placed on nonaccrual status unless one of the following conditions exist whereby it utilizes the cost recovery method of accounting: (i) if the Company determines that it is probable that it will only recover the recorded investment in the Finance Receivable, net of associated allowances or charge-offs (if any), or (ii) the Company cannot reasonably estimate the amount of an impaired Finance Receivable. For cash basis method of accounting the Company applies payments received, excluding principal paydowns, to interest income so long as that amount does not exceed the amount that would have been earned under the original contractual terms. For cost recovery method of accounting any payment received is applied to reduce the recorded investment. Generally, the Company returns a Finance Receivable to accrual status when all delinquent payments become current under the terms of the loan or lease agreements and collectibility of the remaining contractual loan or lease payments is reasonably assured.

Allowances are established for Finance Receivables on an individual basis utilizing an estimate of probable losses, if they are determined to be impaired. Finance Receivables are impaired when it is deemed probable that the Company

will be unable to collect all amounts due in accordance with the contractual terms of the loan or lease. An allowance is based upon the Company's assessment of the lessee's or borrower's overall financial condition, economic resources, payment record, the prospects for support from any financially responsible guarantors and, if appropriate, the net realizable value of any collateral. These estimates consider all available evidence, including the expected future cash flows discounted at the Finance Receivable's effective interest rate, fair value of collateral, general economic conditions and trends, historical and industry loss experience, and other relevant factors, as appropriate. Should a Finance Receivable be deemed partially or wholly uncollectible, the uncollectible balance is charged off against the allowance in the period in which the uncollectible determination has been made.

Real Estate

The Company's real estate acquisitions are generally classified as asset acquisitions for which the Company records identifiable assets acquired, liabilities assumed and any associated noncontrolling interests at cost on a relative fair value basis. In addition, for such asset acquisitions, no goodwill is recognized, third party transaction costs are capitalized and any associated contingent consideration is generally recorded when the contingency is resolved.

The Company assesses fair value based on available market information, such as capitalization and discount rates, comparable sale transactions and relevant per square foot or unit cost information. A real estate asset's fair value may be determined utilizing cash flow projections that incorporate such market information. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, as well as market and economic conditions. The fair value of tangible assets of an acquired property is based on the value of the property as if it is vacant.

The Company records acquired "above and below market" leases at fair value using discount rates which reflect the risks associated with the leases acquired. The amount recorded is based on the present value of the difference between (i) the contractual amounts paid pursuant to each in-place lease and (ii) management's estimate of fair market lease rates for each in-place lease, measured over a period equal to the remaining term of the lease for above market leases and the initial term plus the extended term for any leases with bargain renewal options. Other intangible assets acquired include amounts for in-place lease values that are based on an evaluation of the specific characteristics of each property and the acquired tenant lease(s). Factors considered include estimates of carrying costs during hypothetical expected lease-up periods, market conditions and costs to execute similar leases. In estimating carrying costs, the Company includes estimates of lost rents at market rates during the hypothetical expected lease-up periods, which are dependent on local market conditions and expected trends. In estimating costs to execute similar leases, the Company considers leasing commissions, legal and other related costs.

The Company capitalizes direct construction and development costs, including predevelopment costs, interest, property taxes, insurance and other costs directly related and essential to the development or construction of a real estate asset. The Company capitalizes construction and development costs while substantive activities are ongoing to prepare an asset for its intended use. The Company considers a construction project as substantially complete and held available for occupancy upon the completion of Company-owned tenant improvements, but no later than one year from cessation of significant construction activity. Costs incurred after a project is substantially complete and ready for its intended use, or after development activities have ceased, are expensed as incurred. For redevelopment of existing operating properties, the Company capitalizes the cost for the construction and improvement incurred in connection with the redevelopment.

Costs previously capitalized related to abandoned developments/redevelopments are charged to earnings. Expenditures for repairs and maintenance are expensed as incurred. The Company considers costs incurred in conjunction with re-leasing properties, including tenant improvements and lease commissions, to represent the acquisition of productive assets and, accordingly, such costs are reflected as investing activities in the Company's consolidated statement of cash flows.

The Company computes depreciation on properties using the straight-line method over the assets' estimated useful lives. Depreciation is discontinued when a property is identified as held for sale. Buildings and improvements are depreciated over useful lives ranging up to 60 years. Market lease intangibles are amortized primarily to revenue over the remaining noncancellable lease terms and bargain renewal periods, if any. In-place lease intangibles are amortized to expense over the remaining noncancellable lease term and bargain renewal periods, if any.

Concurrent with the Company's adoption of ASU 2016-02 on January 1, 2019, the Company elected to recognize expense associated with short-term leases (those with a noncancellable lease term of 12 months or less) under which the Company is the lessee on a straight-line basis and not recognize those leases on its consolidated balance sheets.

For leases other than short-term operating leases under which the Company is the lessee, such as ground leases and corporate office leases, the Company recognizes a right-

of-use asset and related lease liability on its consolidated balance sheet at inception of the lease. The lease liability is calculated as the sum of: (i) the present value of minimum lease payments at lease commencement (discounted using the Company's secured incremental borrowing rate) and (ii) the present value of amounts probable of being paid under any residual value guarantees. The right-of-use asset is calculated as the lease liability, adjusted for the following: (i) any lease payments made to the lessor at or before the commencement date, minus any lease incentives received and (ii) any initial direct costs incurred by the Company.

Impairment of Long-Lived Assets and Goodwill

The Company assesses the carrying value of real estate assets and related intangibles ("real estate assets") when events or changes in circumstances indicate that the carrying value may not be recoverable. The Company tests its real estate assets for impairment by comparing the sum of the expected future undiscounted cash flows to the carrying value of the real estate assets. The expected future undiscounted cash flows reflect external market factors and are probability-weighted to reflect multiple possible cash-flow scenarios, including selling the assets at various points in the future. Further, the analysis considers the impact, if any, of master lease agreements on cash flows, which are calculated utilizing the lowest level of identifiable cash flows that are largely independent of the cash flows of other assets and liabilities. If the carrying value exceeds the expected future undiscounted cash flows, an impairment loss will be recognized to the extent that the carrying value of the real estate assets exceeds their fair value. If an asset is classified as held for sale, it is reported at the lower of its carrying value or fair value less costs to sell and no longer depreciated.

When testing goodwill for impairment, if the Company concludes that it is more likely than not that the fair value of a reporting unit is less than its carrying value, the Company recognizes an impairment loss for the amount by which the carrying value, including goodwill, exceeds the reporting unit's fair value.

Assets Held for Sale and Discontinued Operations

The Company classifies a real estate property as held for sale when: (i) management has approved the disposal, (ii) the property is available for sale in its present condition, (iii) an active program to locate a buyer has been initiated, (iv) it is probable that the property will be disposed of within one year, (v) the property is being marketed at a reasonable price relative to its fair value, and (vi) it is unlikely that the disposal plan will significantly change or be withdrawn.

A discontinued operation represents: (i) a component of an entity or group of components that has been disposed of or is classified as held for sale in a single transaction and represents a strategic shift that has or will have a major effect on the Company's operations and financial results or (ii) an acquired business that is classified as held for sale on the date of acquisition. Examples of a strategic shift include disposing of: (i) a separate major line of business, (ii) a separate major geographic area of operations, or (iii) other major parts of the Company.

Investments in Unconsolidated Joint Ventures

Investments in entities which the Company does not consolidate, but has the ability to exercise significant influence over the operating and financial policies of, are reported under the equity method of accounting. Under the equity method of accounting, the Company's share of the investee's earnings or losses is included in the Company's consolidated results of operations.

The initial carrying value of investments in unconsolidated joint ventures is based on the amount paid to purchase the joint venture interest, the fair value of assets contributed to the joint venture, or the fair value of the assets prior to the sale of interests in the joint venture. To the extent that the Company's cost basis is different from the basis reflected at the joint venture level, the basis difference is generally amortized over the lives of the related assets and liabilities, and such amortization is included in the Company's share of equity in earnings of the joint venture. The Company evaluates its equity method investments for impairment based upon a comparison of the fair value of the equity method investment to its carrying value. When the Company determines a decline in the fair value of an investment in an unconsolidated joint venture below its carrying value is other-than-temporary, an impairment is recorded. The Company recognizes gains on the sale of interests in joint ventures to the extent the economic substance of the transaction is a sale.

The Company's fair values of its equity method investments are determined based on discounted cash flow models that include all estimated cash inflows and outflows over a specified holding period and, where applicable, any estimated debt premiums or discounts. Capitalization rates, discount rates and credit spreads utilized in these valuation models are based upon assumptions that the Company believes to be within a reasonable range of current market rates for the respective investments.

The Company did not record any impairments of its investments in unconsolidated joint ventures in the statements of operations for the years ended December 31, 2018, 2017 or 2016.

Share-Based Compensation

Compensation expense for share-based awards granted to employees with graded vesting schedules is generally recognized on a straight-line basis over the vesting period. Forfeitures of share-based awards are recognized as they occur.

Cash and Cash Equivalents and Restricted Cash

Cash and cash equivalents consist of cash on hand and short-term investments with original maturities of three months or less when purchased. Restricted cash primarily consists of amounts held by mortgage lenders to provide for (i) real estate tax expenditures, tenant improvements and capital expenditures, (ii) security deposits, and (iii) net proceeds from property sales that were executed as tax-deferred dispositions.

Derivatives and Hedging

During its normal course of business, the Company uses certain types of derivative instruments for the purpose of managing interest rate and foreign currency risk. To qualify for hedge accounting, derivative instruments used for risk management purposes must effectively reduce the risk exposure that they are designed to hedge. In addition, at inception of a qualifying cash flow hedging relationship, the underlying transaction or transactions, must be, and are expected to remain, probable of occurring in accordance with the Company's related assertions.

The Company recognizes all derivative instruments, including embedded derivatives that are required to be bifurcated, as assets or liabilities in the consolidated balance sheets at fair value. Changes in fair value of derivative instruments that are not designated in hedging relationships or that do not meet the criteria of hedge accounting are recognized in earnings. For derivative instruments designated in qualifying cash flow hedging relationships, changes in fair value related to the effective portion of the derivative instruments are recognized in accumulated other comprehensive income (loss), whereas changes in fair value of the ineffective portion are recognized in earnings.

Using certain of its British pound sterling ("GBP") denominated debt, the Company applies net investment hedge accounting to hedge the foreign currency exposure from its net investment in GBP-functional unconsolidated subsidiaries. The variability of the GBP-denominated debt due to changes in the GBP to U.S. dollar ("USD") exchange rate ("remeasurement value") is recognized as part of the cumulative translation adjustment component of accumulated other comprehensive income (loss).

If it is determined that a derivative instrument ceases to be highly effective as a hedge, or that it is probable the underlying forecasted transaction will not occur, the Company discontinues its cash flow hedge accounting prospectively and records the appropriate adjustment to earnings based on the current fair value of the derivative instrument. For net investment hedge accounting, upon sale or liquidation of the hedged investment, the cumulative balance of the remeasurement value is reclassified to earnings.

Income Taxes

HCP, Inc. has elected REIT status and believes it has always operated so as to continue to qualify as a REIT under Sections 856 to 860 of the Internal Revenue Code of 1986, as amended (the "Code"). Accordingly, HCP, Inc. will generally not be subject to U.S. federal income tax, provided that it continues to qualify as a REIT and makes distributions to stockholders equal to or in excess of its taxable income. In addition, the Company has formed several consolidated subsidiaries that have elected REIT status. HCP, Inc. and its consolidated REIT subsidiaries are each subject to the REIT qualification requirements under the Code. If any REIT fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates and may be ineligible to qualify as a REIT for four subsequent tax years.

HCP, Inc. and its consolidated REIT subsidiaries are subject to state, local and foreign income taxes in some jurisdictions, and in certain circumstances each REIT may also be subject to federal excise taxes on undistributed income. In addition, certain activities that the Company undertakes may be conducted by entities which have elected to be treated as taxable REIT subsidiaries ("TRSs"). TRSs are subject to federal, state and local income taxes. The Company recognizes tax penalties relating to unrecognized tax benefits as additional income tax expense. Interest relating to unrecognized tax benefits is recognized as interest expense.

Capital Raising Issuance Costs

Costs incurred in connection with the issuance of common shares are recorded as a reduction of additional paid-in capital. Debt issuance costs related to debt instruments excluding line of credit arrangements are deferred, recorded as a reduction of the related debt liability, and amortized to interest expense over the remaining term of the related debt liability utilizing the effective interest method. Debt issuance costs related to line of credit arrangements are deferred, included in other assets, and amortized to interest expense on a straight-line basis over the remaining term of the related line of credit arrangement.

Penalties incurred to extinguish debt and any remaining unamortized debt issuance costs, discounts and premiums are recognized as income or expense in the consolidated statements of operations at the time of extinguishment.

Segment Reporting

The Company's reportable segments, based on how it evaluates its business and allocates resources, are as follows: (i) senior housing triple-net, (ii) SHOP, (iii) life science and (iv) medical office.

Noncontrolling Interests

Arrangements with noncontrolling interest holders are assessed for appropriate balance sheet classification based on the redemption and other rights held by the noncontrolling interest holder. Net income (loss) attributable to a noncontrolling interest is included in net income (loss) on the consolidated statements of operations and, upon a gain or loss of control, the interest purchased or sold, and any interest retained, is recorded at fair value with any gain or loss recognized in earnings. The Company accounts for purchases or sales of equity interests that do not result in a change in control as equity transactions.

The Company consolidates non-managing member limited liability companies ("DownREITs") because it exercises control, and the noncontrolling interests in these entities are carried at cost. The non-managing member limited liability company ("LLC") units ("DownREIT units") are exchangeable for an amount of cash approximating the then-current market value of shares of the Company's common stock or, at the Company's option, shares of the Company's common stock (subject to certain adjustments, such as stock splits and reclassifications). Upon exchange of DownREIT units for the Company's common stock, the carrying amount of the DownREIT units is reclassified to stockholders' equity.

Foreign Currency Translation and Transactions

Assets and liabilities denominated in foreign currencies that are translated into U.S. dollars use exchange rates in effect at the end of the period, and revenues and expenses denominated in foreign currencies that are translated into U.S. dollars use average rates of exchange in effect during the related period. Gains or losses resulting from translation are included in accumulated other comprehensive income (loss), a component of stockholders' equity on the consolidated balance sheets. Gains or losses resulting from foreign currency transactions are translated into U.S. dollars at the rates of exchange prevailing at the dates of the transactions. The effects of transaction gains or losses are included in other income (expense), net in the consolidated statements of operations.

Fair Value Measurement

The Company measures and discloses the fair value of nonfinancial and financial assets and liabilities utilizing a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. This hierarchy requires the use of observable market data when available. These inputs have created the following fair value hierarchy:

- Level 1—quoted prices for identical instruments in active markets;
- Level 2—quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
- Level 3—fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The Company measures fair value using a set of standardized procedures that are outlined herein for all assets and liabilities which are required to be measured at fair value. When available, the Company utilizes quoted market prices from an independent third party source to determine fair value and classifies such items in Level 1. In instances where a market price is available, but the instrument is in an inactive or over-the-counter market, the Company consistently applies the dealer (market maker) pricing estimate and classifies the asset or liability in Level 2.

If quoted market prices or inputs are not available, fair value measurements are based upon valuation models that utilize current market or independently sourced market inputs, such as interest rates, option volatilities, credit spreads and/or market capitalization rates. Items valued using such internally-generated valuation techniques are classified according to the lowest level input that is significant to the fair value measurement. As a result, the asset or liability could be classified in either Level 2 or Level 3 even though there may be some significant inputs that are readily observable. Internal fair value models and techniques used by the Company include discounted cash flow models. The Company also considers its counterparty's and own credit risk for derivative instruments and other liabilities measured at fair value. The Company has elected the mid-market pricing expedient when determining fair value.

Earnings per Share

Basic earnings per common share is computed by dividing net income (loss) applicable to common shares by the weighted average number of shares of common stock

outstanding during the period. The Company accounts for unvested share-based payment awards that contain non-forfeitable dividend rights or dividend equivalents (whether paid or unpaid) as participating securities, which are included in the computation of earnings per share pursuant to the two-class method. Diluted earnings per common share is calculated by including the effect of dilutive securities.

Recent Accounting Pronouncements

Adopted

Between May 2014 and February 2017, the Financial Accounting Standards Board ("FASB") issued four ASUs changing the requirements for recognizing and reporting revenue (together, herein referred to as the "Revenue ASUs"): (i) ASU No. 2014-09, *Revenue from Contracts with Customers* ("ASU 2014-09"), (ii) ASU No. 2016-08, *Principal versus Agent Considerations (Reporting Revenue Gross versus Net)* ("ASU 2016-08"), (iii) ASU No. 2016-12, *Narrow-Scope Improvements and Practical Expedients* ("ASU 2016-12"), and (iv) ASU No. 2017-05, *Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* ("ASU 2017-05"). ASU 2014-09 provides guidance for revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2016-08 is intended to improve the operability and understandability of the implementation guidance on principal versus agent considerations. ASU 2016-12 provides practical expedients and improvements on the previously narrow scope of ASU 2014-09. ASU 2017-05 clarifies the scope of the FASB's guidance on nonfinancial asset derecognition and aligns the accounting for partial sales of nonfinancial assets and in-substance nonfinancial assets with the guidance in ASU 2014-09. The Company adopted the Revenue ASUs effective January 1, 2018 and utilized a modified retrospective adoption approach, resulting in a cumulative-effect adjustment to equity of $79 million as of January 1, 2018. Under the Revenue ASUs, the Company also elected to utilize a practical expedient which allows the Company to only reassess contracts that were not completed as of the adoption date, rather than all historical contracts.

As the primary source of revenue for the Company is generated through leasing arrangements, for which timing and recognition of revenue will be the same whether accounted for under the Revenue ASUs or lease accounting guidance (see discussion below), the impact of the Revenue ASUs, upon and subsequent to adoption, is generally limited to the following:

- Prior to the adoption of the Revenue ASUs, the Company recognized a gain on sale of real estate using the full accrual method when collectibility of the sales price was reasonably assured, the Company was not obligated to perform additional activities that may be considered significant, the initial investment from the buyer was sufficient and other profit recognition criteria had been satisfied. The Company deferred all or a portion of a gain on sale of real estate if the requirements for gain recognition were not met at the time of sale. Subsequent to adopting the Revenue ASUs on January 1, 2018, the Company began recognizing a gain on sale of real estate upon transferring control of the asset to the purchaser, which is generally satisfied at the time of sale. In conjunction with its adoption of the Revenue ASUs, the Company reassessed its historical partial sale of real estate transactions to determine which transactions, if any, were not completed contracts (i.e., the transaction did not qualify for sale treatment under previous guidance). The Company concluded that it had one such material transaction, its partial sale of RIDEA II in the first quarter of 2017 (which was not a completed sale under historical guidance as of the Company's adoption date due to a minor obligation related to the interest sold). In accordance with the Revenue ASUs, the Company recorded its retained 40% equity investment at fair value as of the sale date. As a result, the Company recorded an adjustment to equity as of January 1, 2018 (under the modified retrospective transition approach) representing a step-up in the fair value of its equity investment in RIDEA II of $107 million (to a carrying value of $121 million as of January 1, 2018) and a $30 million impairment charge to decrease the carrying value to the sales price of the investment (see Note 5). The Company completed the sale of its equity investment in June 2018 and no longer holds an economic interest in RIDEA II.
- The Company generally expects that the new guidance will result in certain transactions qualifying as sales of real estate at an earlier date than under historical accounting guidance.
- The Company, along with its joint venture partners and independent SHOP operators, provide certain ancillary services to SHOP residents that are not contemplated in the lease with each resident (i.e., guest meals, concierge services, pharmacy services, etc.). These services are provided and paid for in addition to the standard services included in each resident lease (i.e., room and board, standard meals, etc.). The Company bills residents for ancillary services one month in arrears and recognizes revenue as the services are provided, as the Company has no continuing performance obligation related to those services. Included within resident fees and services for the years ended December 31, 2018, 2017 and 2016 is $40 million, $38 million and $51 million, respectively, of ancillary service revenue.

Additionally, during the year ended December 31, 2018, the Company adopted the following ASUs:

- ASU No. 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities* ("ASU 2016-01") and ASU No. 2018-03, *Technical Corrections and Improvements to Financial Instruments - Overall* ("ASU 2018-03"). The core principle of the amendments in ASU 2016-01 and ASU 2018-03 involves the measurement of equity investments (except those accounted for under the equity method of accounting or those that result in consolidation) at fair value and the recognition of changes in fair value of those investments during each reporting period in net income (loss). As a result, ASU 2016-01 and ASU 2018-03 eliminate the cost method of accounting for equity securities that do not have readily determinable fair values. Pursuant to the new guidance, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer. The adoption of ASU 2016-01 and 2018-03 did not have a material impact to the Company's consolidated financial position, results of operations, cash flows, or disclosures.
- ASU No. 2016-16, *Intra-Entity Transfers of Assets Other Than Inventory* ("ASU 2016-16"). The amendments in ASU 2016-16 require an entity to recognize the income tax consequences of intra-entity transfers of assets, other than inventory, at the time that the transfer occurs. Historical guidance does not require recognition of tax consequences until the asset is eventually sold to a third party. The adoption of ASU 2016-16 did not have a material impact to the Company's consolidated financial position, results of operations, cash flows, or disclosures.

On January 1, 2017 the Company adopted ASU No. 2017-01, *Clarifying the Definition of a Business* ("ASU 2017-01") which narrows the FASB's definition of a business and provides a framework that gives entities a basis for making reasonable judgments about whether a transaction involves an asset, or a group of assets, or a business. ASU 2017-01 states that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or group of similar identifiable assets, the set is not a business. If this initial test is not met, a set cannot be considered a business unless it includes an acquired input and a substantive process that together significantly contribute to the ability to create outputs. In addition, ASU 2017-01 clarifies the requirements for a set of activities to be considered a business and narrows the definition of an output. As a result of prospectively adopting ASU 2017-01, the majority of the Company's real estate acquisitions subsequent to January 1, 2017 are classified as asset acquisitions for which the Company records identifiable assets acquired, liabilities assumed and any associated noncontrolling interests at cost on a relative fair value basis. In addition, for such asset acquisitions, no goodwill is recognized, third party transaction costs are capitalized and any associated contingent consideration is recorded when the contingency is resolved.

Not Yet Adopted

Leases. In February 2016, the FASB issued ASU No. 2016-02, *Leases* ("ASU 2016-02"). ASU 2016-02 (codified under Accounting Standards Codification ("ASC") 842) amends the current accounting for leases to: (i) require lessees to put most leases on their balance sheets (not required for short-term leases with lease terms of 12 months or less), but continue recognizing expenses on their income statements in a manner similar to requirements under prior accounting guidance, (ii) eliminate real estate specific lease provisions, and (iii) modify the classification criteria and accounting for sales-type leases for lessors. Additionally, ASU 2016-02 provides a practical expedient, which the Company elected, that allows an entity to not reassess the following upon adoption (must be elected as a group): (i) whether an expired or existing contract contains a lease arrangement, (ii) lease classification related to expired or existing lease arrangements, or (iii) whether costs incurred on expired or existing leases qualify as initial direct costs.

As a result of adopting ASU 2016-02 on January 1, 2019 using the modified retrospective transition approach, the Company will capitalize fewer costs related to the drafting and negotiation of its lease agreements. Additionally, the Company will recognize all of its significant operating leases for which it is the lessee, including corporate office leases, equipment leases, and ground leases, on its consolidated balance sheets through a lease liability and corresponding right-of-use asset. As such, the Company expects to recognize a lease liability between $130 million and $165 million and right-of-use asset between $145 million and $180 million (lease liability, net of the existing accrued straight-line rent liability balance and adjusted for unamortized above/below market ground lease intangibles) during the first quarter of 2019.

Under ASU 2016-02, a practical expedient was offered to lessees to make a policy election, which the Company elected, to not separate lease and nonlease components, but rather account for the combined components as a single lease component under ASC 842. In July 2018, the FASB issued ASU No. 2018-11, *Leases - Targeted Improvements* ("ASU 2018-11"), which provides lessors with a similar option to elect a practical expedient allowing them to not separate lease and nonlease components in a contract for the purpose of revenue recognition and disclosure.

This practical expedient is limited to circumstances in which: (i) the timing and pattern of transfer are the same for the nonlease component and the related lease component and (ii) the lease component, if accounted for separately, would be classified as an operating lease. This practical expedient causes an entity to assess whether a contract is predominantly lease or service based and recognize the entire contract under the relevant accounting guidance (i.e., predominantly lease-based would be accounted for under ASU 2016-02 and predominantly service-based would be accounted for under the Revenue ASUs). The Company elected this practical expedient as well and, as a result, beginning January 1, 2019, the Company will recognize revenue from its senior housing triple-net, medical office, and life science segments under ASC 842 and revenue from its SHOP segment under the Revenue ASUs (codified under ASC 606).

In conjunction with reaching the conclusions above, the Company concluded it was appropriate (under ASC 205, *Presentation of Financial Statements*) to reclassify amounts previously classified as revenue from tenant recoveries (within the senior housing triple-net, life science, and medical office segments) and present them combined with rental and related revenues within the statements of operations. The Company implemented this change during the fourth quarter of 2018. Included within rental and related revenues for the years ended December 31, 2018, 2017 and 2016 is $157 million, $142 million and $134 million, respectively, of tenant recoveries.

In December 2018, the FASB issued ASU No. 2018-20, *Narrow Scope Improvements for Lessors* ("ASU 2018-20"), which requires that a lessor: (i) exclude certain lessor costs paid directly by a lessee to third parties on behalf of the lessor from a lessor's measurement of variable lease revenue and associated expense (i.e., no gross up of revenue and expense for these costs), and (ii) include lessor costs that are paid by the lessor and reimbursed by the lessee in the measurement of variable lease revenue and the associated expense (i.e., gross up revenue and expense for these costs). This is consistent with the Company's current presentation and will not require a material change on January 1, 2019.

Credit Losses. In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* ("ASU 2016-13"). ASU 2016-13 is intended to improve financial reporting by requiring timelier recognition of credit losses on loans and other financial instruments held by financial institutions and other organizations. The amendments in ASU 2016-13 eliminate the "probable" initial threshold for recognition of credit losses in current accounting guidance and, instead, reflect an entity's current estimate of all expected credit losses over the life of the financial instrument. Previously, when credit losses were measured under current accounting guidance, an entity generally only considered past events and current conditions in measuring the incurred loss. The amendments in ASU 2016-13 broaden the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually. The use of forecasted information incorporates more timely information in the estimate of expected credit loss. ASU 2016-13 is effective for fiscal years, and interim periods within, beginning after December 15, 2019. Early adoption is permitted for fiscal years, and interim periods within, beginning after December 15, 2018. A reporting entity is required to apply the amendments in ASU 2016-13 using a modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. A prospective transition approach is required for debt securities for which an other-than-temporary impairment had been recognized before the effective date. Upon adoption of ASU 2016-13, the Company is required to reassess its financing receivables, including DFLs and loans receivable, and expects that application of ASU 2016-13 may result in the Company recognizing credit losses at an earlier date than would otherwise be recognized under current accounting guidance. The Company is evaluating the impact of the adoption of ASU 2016-13 on January 1, 2020 to its consolidated financial position and results of operations.

The following ASU has been issued, but not yet adopted, and the Company does not expect a material impact to its consolidated financial position, results of operations, cash flows, or disclosures upon adoption:

- ASU No. 2017-12, *Targeted Improvements to Accounting for Hedging Activities* ("ASU 2017-12"). ASU 2017-12 is effective for fiscal years, including interim periods within, beginning after December 15, 2018 and early adoption is permitted. For cash flow and net investment hedges existing at the date of adoption, a reporting entity must apply the amendments in ASU 2017-12 using the modified retrospective approach by recording a cumulative-effect adjustment to equity as of the beginning of the fiscal year of adoption. The presentation and disclosure amendments in ASU 2017-12 must be applied using a prospective approach.

Note 3. Master Transactions and Cooperation Agreement with Brookdale

Master Transactions and Cooperation Agreement with Brookdale

In November 2017, the Company and Brookdale Senior Living Inc. ("Brookdale") entered into a Master Transactions and Cooperation Agreement (the "MTCA") to provide the Company with the ability to significantly reduce its concentration of assets leased to and/or managed by Brookdale (the "Brookdale Transactions"). In connection with the overall transaction pursuant to the MTCA, the Company and Brookdale, and certain of their respective subsidiaries, agreed to the following:

- The Company, which owned 90% of the interests in its RIDEA I and RIDEA III joint ventures with Brookdale at the time the MTCA was executed, agreed to purchase Brookdale's 10% noncontrolling interest in each joint venture for an aggregate purchase price of $95 million. At the time the MTCA was executed, these joint ventures collectively owned and operated 58 independent living, assisted living, memory care and/or skilled nursing facilities (the "RIDEA Facilities"). The Company completed its acquisitions of the RIDEA III noncontrolling interest for $32 million in December 2017 and the RIDEA I noncontrolling interest for $63 million in March 2018;
- The Company received the right to sell, or transition to other operators, 32 of the 78 total assets under an Amended and Restated Master Lease and Security Agreement (the "Amended Master Lease") with Brookdale and 36 of the RIDEA Facilities (and terminate related management agreements with an affiliate of Brookdale without penalty);
- The Company provided an aggregate $5 million annual reduction in rent on three assets, effective January 1, 2018; and
- Brookdale agreed to purchase two of the assets under the Amended Master Lease for $35 million, both of which were sold in April 2018, and four of the RIDEA Facilities for $240 million, one of which was sold in January 2018 for $32 million and the remaining three of which were sold in April 2018 for $208 million.

During the fourth quarter of 2018, the Company sold 19 assets (11 of the 32 senior housing triple-net assets noted above and eight RIDEA Facilities) to a third-party buyer for $377 million. Additionally, during the year ended December 31, 2018, the Company terminated the previous management agreements or leases with Brookdale on 37 assets contemplated under the MTCA and completed the transition of 20 SHOP assets and 17 senior housing triple-net assets to other managers.

Fair Value Measurement Techniques and Quantitative Information

During the fourth quarter of 2017, the Company performed a fair value assessment of each of the MTCA components that provided measurable economic benefit or detriment to the Company. Each fair value calculation is based on an income or market approach and relies on historical and forecasted EBITDAR (defined as earnings before interest, taxes, depreciation, amortization and rent) and revenue, as well as market data, including, but not limited to, a discount rate of 12%, a management fee rate of 5% of revenue, EBITDAR growth rates ranging from zero to 3%, and real estate capitalization rates ranging from 6% to 7%. All assumptions are supported by independent market data and considered to be Level 2 measurements within the fair value hierarchy.

As a result of the assessment, the Company recognized a $20 million net reduction of rental and related revenues related to the right to terminate leases for 32 triple-net assets and the write-off of unamortized lease intangible assets related to those same 32 triple-net assets during the year ended December 31, 2017. Additionally, the Company recognized $35 million of operating expenses related to the right to terminate management agreements for 36 SHOP assets during the year ended December 31, 2017.

Note 4. Other Real Estate Property Investments

MSREI MOB JV

In August 2018, the Company and Morgan Stanley Real Estate Investment ("MSREI") formed a joint venture (the "MSREI JV") to own a portfolio of medical office buildings ("MOBs"), which the Company owns 51% of and consolidates. To form the joint venture, MSREI contributed cash of $298 million and HCP contributed nine wholly-owned MOBs (the "Contributed Assets"). The Contributed Assets are primarily located in Texas and Florida and were valued at approximately $320 million at the time of contribution. The MSREI JV used substantially all of the cash contributed by MSREI to acquire an additional portfolio of 16 MOBs in Greenville, South Carolina (the "Greenville Portfolio") for $285 million. Concurrent with acquiring the additional MOBs, the MSREI JV entered into 10-year leases with an anchor tenant on each MOB in the Greenville Portfolio.

The Contributed Assets are accounted for at historical depreciated cost by the Company, as the assets continue to be consolidated. The Greenville Portfolio is accounted for as an asset acquisition, which requires the Company to record the individual components of the acquisition at each component's relative fair value. As a result, the Company recorded net real estate of $276 million and net intangible assets of $20 million during the year ended December 31, 2018 related to the Greenville Portfolio. Additionally, the Company recognized a noncontrolling interest of $298 million related to the interest owned by MSREI. Refer to Note 19 for a discussion of the Company's consolidation of the MSREI JV.

Life Science JV Interest Purchase

In November 2018, the Company acquired the outstanding equity interests in three life science joint ventures (which owned four buildings) for $92 million, bringing the Company's equity ownership to 100% for all three joint ventures. As the Company began consolidating the assets upon acquisition, it derecognized the existing investment in the joint ventures, marked the real estate to fair value (using a relative fair value allocation), and recognized a gain on consolidation of $50 million within other income (expense), net.

Sierra Point Towers Acquisition

In November 2018, the Company entered into definitive agreements to acquire two life science buildings in South San Francisco, California adjacent to the Company's The Shore at Sierra Point development, for $245 million. The Company made a $15 million nonrefundable deposit upon completing due diligence and expects to close the transaction in the first half of 2019.

Other Real Estate Acquisitions

During the year ended December 31, 2018, the Company acquired development rights on a land parcel in the Boston suburb of Lexington, Massachusetts for $21 million. The Company commenced a life science development on the land in 2018.

Additionally, in January and February 2019, the Company acquired a life science facility for $71 million and development rights at an adjacent undeveloped land parcel for consideration of up to $27 million. The existing facility and land parcel are located in Cambridge, Massachusetts.

2017 Real Estate Acquisitions

The following table summarizes real estate acquisitions for the year ended December 31, 2017 (in thousands):

	Consideration		Assets Acquired	
Segment	Cash Paid	Net Liabilities Assumed	Real Estate	Net Intangibles
SHOP	$ 44,258	$ 797	$ 37,940	$ 7,115
Life science	315,255	3,524	305,760	13,019
Medical office	201,240	1,104	184,115	18,229
	$560,753	$5,425	$527,815	$38,363

Construction, Tenant and Other Capital Improvements

The following table summarizes the Company's expenditures for construction, tenant and other capital improvements (in thousands):

	Year Ended December 31,		
Segment	2018	2017	2016
Senior housing triple-net	$ 11,311	$ 32,343	$ 49,109
SHOP	53,389	49,473	74,158
Life science	396,431	240,901	200,122
Medical office	144,694	148,926	128,308
Other	1,361	135	7,203
	$607,186	$471,778	$458,900

Note 5. Dispositions of Real Estate and Discontinued Operations

Dispositions of Real Estate

Held for Sale

At December 31, 2018, nine SHOP facilities and one undeveloped life science land parcel were classified as held for sale, with an aggregate carrying value of $108 million, primarily comprised of real estate assets of $101 million, net of accumulated depreciation of $30 million. At December 31, 2017, two senior housing triple-net facilities, four life science facilities and six SHOP facilities were classified as held for sale, with an aggregate carrying value of $417 million, primarily comprised of real estate assets of $393 million, net of accumulated depreciation of $93 million. Liabilities of assets held for sale is primarily comprised of intangible and other liabilities at both December 31, 2018 and 2017.

Shoreline Technology Center

In November 2018, the Company sold its Shoreline Technology Center life science campus located in Mountain View, California for $1.0 billion and recognized a gain on sale of $726 million.

Brookdale MTCA Disposition

As noted in Note 3, during the fourth quarter of 2018, the Company sold 19 assets (11 senior housing triple-net assets and eight SHOP assets) to a third-party for $377 million and recognized a gain on sale of $40 million. Refer to Note 3 for further detail on the Brookdale Transactions.

RIDEA II Sale Transaction

In January 2017, the Company completed the contribution of its ownership interest in RIDEA II to an unconsolidated joint venture owned by HCP and an investor group led by Columbia Pacific Advisors, LLC ("CPA") ("HCP/CPA PropCo" and "HCP/CPA OpCo," together, the "HCP/CPA JV"). Also in January 2017, RIDEA II was recapitalized with $602 million of debt, of which $360 million was provided by a third-party and $242 million was provided by HCP. In return for both transaction elements, the Company received combined proceeds of $480 million from the HCP/CPA JV and $242 million in loans receivable and retained an approximately 40% ownership interest in RIDEA II. This transaction resulted in the Company deconsolidating the net assets of RIDEA II and recognizing a net gain on sale of $99 million. Refer to Note 2 for the impact of adopting the Revenue ASUs on January 1, 2018 to the Company's partial sale of RIDEA II in the first quarter of 2017.

On November 1, 2017, the Company entered into a definitive agreement with an investor group led by CPA to sell its remaining 40% ownership interest in RIDEA II for $91 million and cause CPA to refinance the Company's $242 million of loans receivable from RIDEA II. The Company completed the transaction in June 2018, resulting in proceeds of $332 million. The Company no longer holds an economic interest in RIDEA II.

U.K. Portfolio

In June 2018, the Company entered into a joint venture with an institutional investor (the "U.K. JV") through which the Company sold a 51% interest in substantially all United Kingdom ("U.K.") assets previously owned by the Company (the "U.K. Portfolio") based on a total value of £382 million ($507 million). The Company retained a 49% noncontrolling interest in the U.K. JV and received gross proceeds of $402 million, including proceeds from the refinancing of the Company's previously held intercompany loans. Upon closing the U.K. JV, the Company deconsolidated the U.K. Portfolio, recognized its retained noncontrolling interest investment at fair value ($105 million) and recognized a gain on sale of $11 million, net of $17 million of cumulative foreign currency translation reclassified from other comprehensive income (see Note 22 for the reclassification impact of the Company's hedge of its net investment in the U.K.). The U.K. JV provides numerous mechanisms by which the joint venture partner can acquire the Company's remaining interest in the U.K. JV. The fair value of the Company's retained noncontrolling interest investment is based on Level 2 measurements within the fair value hierarchy.

Additionally, in August 2018, the Company sold its remaining £11 million U.K. development loan at par.

2018 Other Dispositions

During the quarter ended March 31, 2018, the Company sold two SHOP assets for $35 million, resulting in total gain on sales of $21 million (includes asset sales to Brookdale as discussed in Note 3 above).

During the quarter ended June 30, 2018, the Company sold eight SHOP assets for $268 million and two senior housing triple-net assets for $35 million, resulting in total gain on sales of $25 million (includes asset sales to Brookdale as discussed in Note 3 above).

During the quarter ended September 30, 2018, the Company sold four life science assets for $269 million, 11 SHOP assets for $76 million and two MOBs for $21 million, resulting in total gain on sales of $95 million.

During the quarter ended December 31, 2018, the Company sold two SHOP facilities for $15 million, two MOBs for $4 million, and one undeveloped land parcel for $3 million, resulting in no material gain or loss on sales.

2017 Dispositions

In January 2017, the Company sold four life science facilities in Salt Lake City, Utah for $76 million, resulting in a net gain on sale of $45 million.

In March 2017, the Company sold 64 senior housing triple-net assets, previously under triple-net leases with Brookdale, for $1.125 billion to affiliates of Blackstone Real Estate Partners VIII, L.P., resulting in a net gain on sale of $170 million.

Additionally, during the year ended December 31, 2017, the Company sold the following: (i) a life science land parcel for $27 million, (ii) one life science building for $5 million, (iii) four senior housing triple-net facilities for $27 million, (iv) five SHOP facilities for $43 million and (v) four MOBs for $15 million, and recorded a net gain on sale of $41 million.

2016 Dispositions

During the year ended December 31, 2016, the Company sold the following: (i) a portfolio of five post-acute/skilled nursing facilities and two senior housing triple-net facilities for $130 million, (ii) five life science facilities for $386 million, (iii) seven senior housing triple-net facilities for $88 million, (iv) three MOBs for $20 million and (v) three SHOP facilities for $41 million.

Discontinued Operations - Quality Care Properties, Inc.

Quality Care Properties, Inc.

On October 31, 2016, the Company completed the spin-off (the "Spin-Off") of its subsidiary, Quality Care Properties, Inc. ("QCP"). The Spin-Off assets were primarily comprised of the HCR ManorCare, Inc. ("HCRMC") DFL investments and an equity investment in HCRMC. As a result of the Spin-Off, the operations of QCP are classified as discontinued operations for the year ended December 31, 2016.

On October 17, 2016, subsidiaries of QCP issued $750 million in aggregate principal amount of senior secured notes due 2023 (the "QCP Notes"), the gross proceeds of which were deposited in escrow until they were released in connection with the consummation of the Spin-Off on October 31, 2016. The QCP Notes bear interest at a rate of 8.125% per annum, payable semiannually. From October 17, 2016 until the completion of the Spin-Off, QCP (a then wholly-owned subsidiary of HCP) incurred $2 million in interest expense. In addition, immediately prior to the effectiveness of the Spin-Off, subsidiaries of QCP received $1.0 billion of proceeds from their borrowings under a senior secured term loan, bearing interest at a rate at QCP's option of either: (i) LIBOR plus 5.25%, subject to a 1% floor or (ii) a base rate specified in the first lien credit and guaranty agreement plus 4.25%, bringing the total gross proceeds raised by QCP and its subsidiaries under those financings to $1.75 billion. In connection with the consummation of the Spin-Off, QCP and its subsidiaries transferred $1.69 billion in cash and 94 million shares of QCP common stock to HCP and certain of its other subsidiaries, and HCP and its applicable subsidiaries transferred the assets comprising the QCP portfolio to QCP and its subsidiaries. HCP then distributed substantially all of the outstanding shares of QCP common stock to its stockholders, based on the distribution ratio of one share of QCP common stock for every five shares of HCP common stock held by HCP stockholders as of the October 24, 2016 record date for the distribution. The Company recorded the distribution of the assets and liabilities of QCP from its consolidated balance sheet on a historical cost basis as a dividend from stockholders' equity of $3.5 billion, and zero gain or loss was recognized. The Company primarily used the $1.69 billion proceeds of the cash distribution it received from QCP upon consummation of the Spin-Off to pay down certain of the Company's existing debt obligations.

The Company entered into a Separation and Distribution Agreement (the "Separation and Distribution Agreement") with QCP in connection with the Spin-Off. The Separation and Distribution Agreement divides and allocates the assets and liabilities of the Company prior to the Spin-Off between QCP and HCP, governs the rights and obligations of the parties regarding the Spin-Off, and contains other key provisions relating to the separation of QCP's business from HCP.

In connection with the Spin-Off, the Company entered into a Transition Services Agreement ("TSA") with QCP. Per the terms of the TSA, the Company agreed to provide certain administrative and support services to QCP on a transitional basis for established fees. The TSA terminated on October 31, 2017.

From October 31, 2016 through June 2017, HCP was the sole lender to QCP of an unsecured revolving credit facility (the "Unsecured Revolving Credit Facility") which had a total commitment of $100 million at inception. No amounts were drawn on the Unsecured Revolving Credit Facility and the total commitment was reduced to zero at June 30, 2017.

The results of discontinued operations through October 31, 2016, the Spin-Off date, are included in the consolidated results for the year ended December 31, 2016. Summarized financial information for discontinued operations for the year ended December 31, 2016 is as follows (in thousands):

Revenues:	
Rental and related revenues	$ 24,204
Income from direct financing leases	384,752
Total revenues	408,956
Costs and expenses:	
Depreciation and amortization	(4,892)
Operating	(3,367)
General and administrative	(67)
Transaction costs	(86,765)
Other income (expense), net	71
Income (loss) before income taxes	313,936
Income tax benefit (expense)	(48,181)
Total discontinued operations	$ 265,755

During the fourth quarter of 2016, using proceeds from the Spin-Off, the Company repaid $500 million of 6.0% senior unsecured notes that were due to mature in January 2017, $600 million of 6.7% senior unsecured notes that were due to mature in January 2018 and $108 million of mortgage debt; incurring aggregate loss on debt extinguishments of $46 million.

HCR ManorCare, Inc.

Discontinued operations is primarily comprised of QCP's HCRMC DFL investments and equity investment in HCRMC. During the year ended December 31, 2016, the Company recognized DFL income of $385 million and received cash payments of $385 million from the HCRMC DFL investments. During the year ended December 31, 2016, the Company sold 13 HCRMC facilities for $153 million.

The Company's acquisition of the HCRMC DFL investments in 2011 was subject to federal and state built-in gain tax of up to $2 billion if all the assets were sold within 10 years. At the time of acquisition, the Company intended to hold the assets for at least 10 years, at which time the assets would no longer be subject to the built-in gain tax. In December 2015, the U.S. Federal Government passed legislation which permanently reduced the holding period, for federal tax purposes, to five years. The Company satisfied the five year holding period requirement in April 2016. This legislation was not extended to certain states, which maintain a 10 year requirement.

During the year ended December 31, 2016, the Company determined that it may sell assets during the next five years and, therefore, recorded a deferred tax liability of $47 million, representing its estimated exposure to state built-in gain tax.

Note 6. Leases

Net Investment in Direct Financing Leases

The components of net investment in DFLs consisted of the following (dollars in thousands):

	December 31,	
	2018	**2017**
Minimum lease payments receivable	$1,013,976	$1,062,452
Estimated residual value	507,484	504,457
Less unearned income	(807,642)	(852,557)
Net investment in direct financing leases	$ 713,818	$ 714,352
Properties subject to direct financing leases	29	29

Certain DFLs contain provisions that allow the tenants to elect to purchase the properties during or at the end of the lease terms for the aggregate initial investment amount plus adjustments, if any, as defined in the lease agreements.

Certain leases also permit the Company to require the tenants to purchase the properties at the end of the lease terms.

The following table summarizes future minimum lease payments contractually due under DFLs at December 31, 2018 (in thousands):

Year	Amount
2019	$ 114,970
2020	63,308
2021	63,687
2022	58,135
2023	58,570
Thereafter	655,306
	$1,013,976

Direct Financing Lease Internal Ratings

The following table summarizes the Company's internal ratings for net investment in DFLs at December 31, 2018 (dollars in thousands):

			Internal Ratings		
Segment	Carrying Amount	Percentage of DFL Portfolio	Performing DFLs	Watch List DFLs	Workout DFLs
Senior housing triple-net	$629,214	88	$278,503	$350,711	$—
Other non-reportable segments	84,604	12	84,604	—	—
	$713,818	100	$363,107	$350,711	$—

Beginning September 30, 2013, the Company placed a 14 property senior housing DFL (the "DFL Portfolio") on nonaccrual status and classified the DFL Portfolio on "Watch List" status. The Company determined that the collection of all rental payments was and continues to be no longer reasonably assured; therefore, rental revenue for the DFL Portfolio has been recognized on a cash basis. The Company re-assessed the DFL Portfolio for impairment on December 31, 2018 and determined that the DFL Portfolio was not impaired based on its belief that: (i) it was not probable that it will not collect all of the rental payments under the terms of the lease; and (ii) the fair value of the underlying collateral exceeded the DFL Portfolio's carrying amount. The fair value of the DFL Portfolio was estimated based on an income approach and utilizes inputs which are considered to be a Level 3 measurement within the fair value hierarchy. Inputs to this valuation model include real estate capitalization rates, industry growth rates, and operating margins, some of which influence the Company's expectation of future cash flows from the DFL Portfolio and, accordingly, the fair value of its investment. During the years ended December 31, 2018, 2017 and 2016, the Company recognized DFL income of $14 million, $13 million and $13 million, respectively, and received cash payments of $19 million, $18 million and $18 million, respectively, from the DFL Portfolio. The carrying value of the DFL Portfolio was $351 million and $356 million at December 31, 2018 and 2017, respectively.

Operating Leases

Future Minimum Rents

The following table summarizes future minimum lease payments to be received, excluding operating expense reimbursements, from tenants under non-cancelable operating leases as of December 31, 2018 (in thousands):

Year	Amount
2019	$ 971,417
2020	928,102
2021	853,451
2022	751,972
2023	675,537
Thereafter	2,320,847
	$6,501,326

Tenant Purchase Options

Certain leases, including DFLs contain purchase options whereby the tenant may elect to acquire the underlying real estate. Annualized base rent from leases subject to purchase options, summarized by the year the purchase options are exercisable, are as follows (dollars in thousands):

Year	Annualized Base Rent[1]	Number of Properties
2019	$ 23,771	10
2020	14,545	4
2021	12,747	6
2022	13,315	3
Thereafter	50,577	34
	$114,955	57

(1) Represents the most recent month's base rent including additional rent floors and cash income from DFLs annualized for 12 months. Base rent does not include tenant recoveries, additional rents in excess of floors and non-cash revenue adjustments (i.e., straight-line rents, amortization of market lease intangibles, DFL non-cash interest and deferred revenues).

Operating Lease Expense

In certain situations, the Company leases land or equipment needed for the operation of its business. Such leases generally require fixed annual rent payments, may include escalation clauses and renewal options, and have terms that are up to 99 years, excluding extension options. The Company's rental expense attributable to continuing operations was $10 million for each of the years ended December 31, 2018, 2017 and 2016.

Future minimum lease obligations under non-cancelable ground and other operating leases as of December 31, 2018 were as follows (in thousands):

Year	Amount
2019	$ 5,597
2020	5,687
2021	5,776
2022	5,862
2023	5,983
Thereafter	466,130
	$ 495,035

Note 7. Loans Receivable

The following table summarizes the Company's loans receivable (in thousands):

	December 31,					
	2018			2017		
	Real Estate Secured	Other Secured	Total	Real Estate Secured	Other Secured	Total
Mezzanine[1]	$ —	$21,013	$21,013	$ —	$269,299	$269,299
Other[2]	42,037	—	42,037	188,418	—	188,418
Unamortized discounts, fees and costs	—	(52)	(52)	—	(596)	(596)
Allowance for loan losses[1]	—	—	—	—	(143,795)	(143,795)
	$42,037	$20,961	$62,998	$188,418	$124,908	$313,326

(1) At December 31, 2017, primarily related to the Company's mezzanine loan facility to Tandem Health Care discussed below.

(2) At December 31, 2018, the Company had $73 million remaining of commitments to fund a $115 million senior living development project. At December 31, 2017, includes the U.K. Bridge Loan discussed below.

The following table summarizes the Company's internal ratings for loans receivable at December 31, 2018 (dollars in thousands):

Investment Type	Carrying Amount	Percentage of Loan Portfolio	Internal Ratings Performing Loans	Watch List Loans	Workout Loans
Real estate secured	$42,037	67	$42,037	$—	$ —
Other secured	20,961	33	20,961	—	—
	$62,998	100	$62,998	$—	$ —

Real Estate Secured Loans

The following table summarizes the Company's loan receivable secured by real estate at December 31, 2018 (dollars in thousands):

Final Maturity Date	Number of Loans	Payment Terms	Principal Amount[1]	Carrying Amount
2022	1	monthly interest-only payments, accrues interest at 6.5% and secured by a senior housing facility in Washington[2]	$42,037	$42,037

(1) Represents future contractual principal payments to be received on loans receivable secured by real estate.

(2) Contains a participation feature that allows the Company to participate in up to 20% of the appreciation of the asset through the time the loan is refinanced or repaid.

During the year ended December 31, 2018, the Company recognized $5 million in interest income related to loans secured by real estate, including interest income related to the U.K. Bridge Loan discussed below.

Four Seasons Health Care

In March 2017, the Company sold its investment in Four Seasons Health Care's ("Four Seasons") senior secured term loan at par plus accrued interest for £29 million ($35 million).

Additionally, in March 2017, pursuant to a shift in the Company's investment strategy, the Company sold its £138.5 million par value Four Seasons senior notes (the "Four Seasons Notes") for £83 million ($101 million). The disposition of the Four Seasons Notes generated a £42 million ($51 million) gain on sale, recognized in other income (expense), net.

Other Secured Loans

HC-One Facility

On June 30, 2017, the Company received £283 million ($367 million) from the repayment of its HC-One mezzanine loan.

Tandem Health Care Loan

From July 2012 through May 2015, the Company funded, in aggregate, $257 million under a collateralized mezzanine loan facility (the "Mezzanine Loan") to certain affiliates of Tandem Health Care (together with its affiliates, "Tandem").

As part of its quarterly review process, the Company recorded an impairment charge and related allowance of $57 million during the three months ended June 30, 2017, reducing the carrying value to $200 million. The decline in fair value was driven by a variety of factors, including recent operating results of the underlying real estate assets, as well as market and industry data, that reflect a declining trend in admissions and a continuing shift away from higher-rate Medicare plans in the post-acute/skilled nursing sector. The calculation of the fair value was primarily based on an income approach and relies on forecasted EBITDAR and market data, including, but not limited to, sales price per unit/bed, rent coverage ratios, and real estate capitalization rates. All valuation inputs are considered to be Level 2 measurements within the fair value hierarchy.

Additionally, on July 31, 2017, subsequent to its second quarter 2017 quarterly review process and the aforementioned impairment, the Company entered into a binding agreement (the "Repurchase Agreement") with the borrowers to provide an option to repay the Mezzanine Loan at a discounted value of $197 million (the "Repayment Value") by October 25, 2017, which date was subsequently extended to December 31, 2017 (the "Agreement Maturity Date"). As a result of entering into the Repurchase Agreement, the Company recorded an additional impairment charge and related allowance of $3 million during the quarter ended September 30, 2017 to write down the carrying value of the Mezzanine Loan to the Repayment Value and assigned the loan an internal rating of Workout. As part of the Repurchase Agreement, Tandem

posted, in aggregate, $8 million of non-refundable deposits (the "Deposits"), which the Company was entitled to retain (without any credit against the Mezzanine Loan) if Tandem failed to make interest payments on the $257 million par value of the Mezzanine Loan through the repayment date or the Agreement Maturity Date, as applicable, adjusted for any principal payments received.

On November 17, 2017, the Company declared an event of default under the Mezzanine Loan. Tandem also failed to make its December 2017, January 2018 and February 2018 interest payments to the Company. As a result of the aforementioned events that occurred during the fourth quarter of 2017 and first quarter of 2018 (during the Company's fourth quarter 2017 financial statement close process), the Company concluded that the Mezzanine Loan was impaired and recorded an impairment charge and related allowance of $84 million, reducing the carrying value of the loan to $105 million as of December 31, 2017. Aggregate impairments on the Mezzanine Loan for the year ended December 31, 2017 were $144 million.

The decline in expected recoverable value of the Mezzanine Loan was primarily driven by the Company's conclusion that the collateral supporting the Mezzanine Loan may no longer be the sole source in recovering the Company's investment. As a result, the Company utilized a discounted cash flow model to determine expected recoverability of the Mezzanine Loan. Additionally, a variety of factors further impacted the impairment analysis completed during the Company's fourth quarter 2017 financial statement close process including operating results of the underlying real estate assets, as well as market and industry data, that reflect a declining trend in admissions and a continuing shift away from higher-rate Medicare plans in the post-acute/skilled nursing sector. The calculation relied on: (i) forecasted EBITDAR and market data, including, but not limited to, sales price per unit/bed, rent coverage ratios, and real estate capitalization rates and (ii) bids for a sale of the Mezzanine Loan received in February 2018, which incorporate market participant required rates of return and expected hold periods.

Beginning in the first quarter of 2017, the Company elected to recognize interest income on a cash basis. During the years ended December 31, 2018, 2017 and 2016, the Company recognized interest income of zero, $23 million, and $31 million, respectively, and received cash payments of $25 million and $30 million, respectively, from Tandem. The carrying value of the Mezzanine Loan was $105 million at December 31, 2017.

In March 2018, the Company sold the Mezzanine Loan to a third party for approximately $112 million, resulting in an impairment recovery, net of transaction costs and fees, of $3 million included in other income (expense), net. The Company holds no further economic interest in the operations of Tandem.

U.K. Bridge Loan

In 2016, the Company provided a £105 million ($131 million at closing) bridge loan (the "U.K. Bridge Loan") to Maria Mallaband Care Group Ltd. ("MMCG") to fund the acquisition of a portfolio of seven care homes in the U.K. Under the U.K. Bridge Loan, the Company retained a three-year call option to acquire those seven care homes at a future date for £105 million, subject to certain conditions precedent being met. In March 2018, upon resolution of all conditions precedent, the Company began the process of exercising its call option to acquire the seven care homes and concluded that it should consolidate the real estate. As a result, the Company derecognized the outstanding loan receivable of £105 million and recognized a £29 million ($41 million) loss on consolidation. Refer to Note 19 for further discussion regarding impact of consolidating the seven care homes during the first quarter of 2018.

In June 2018, the Company completed the process of exercising the above-mentioned call option. The seven care homes acquired through the call option were included in the U.K. JV transaction (see Note 5).

Note 8. Investments in and Advances to Unconsolidated Joint Ventures

The Company owns interests in the following entities that are accounted for under the equity method (dollars in thousands):

		Carrying Amount	
		December 31,	
Entity[1]	Ownership %	2018	2017
CCRC JV	49	$365,764	$400,241
RIDEA II[2]	40	—	259,651
U.K. JV[3]	49	101,735	—
Life Science JVs[4]	50 - 63	—	65,581
MBK JV	50	35,435	38,005
Development JVs[5]	50 - 90	25,493	23,365
Medical Office JVs[6]	20 - 67	10,160	12,488
K&Y JVs[7]	80	1,430	1,283
Advances to unconsolidated joint ventures, net		71	226
		$540,088	$800,840

(1) These entities are not consolidated because the Company does not control, through voting rights or other means, the joint venture.

(2) In June 2018, the Company sold its equity method investment in RIDEA II (see Note 5).

(3) See Note 5 for discussion of the formation of the U.K. JV and the Company's equity method investment.

(4) Includes the following unconsolidated partnerships (and the Company's ownership percentage): (i) Torrey Pines Science Center, LP (50%); (ii) Britannia Biotech Gateway, LP (55%); and (iii) LASDK, LP (63%). In November 2018, the Company acquired the outstanding equity interests and began consolidating the entities (see Note 4).

(5) Includes four unconsolidated development partnerships (and the Company's ownership percentage): (i) Vintage Park Development JV (85%); (ii) Waldwick JV (85%); (iii) Otay Ranch JV (90%); and (iv) MBK Development JV (50%).

(6) Includes three unconsolidated medical office partnerships (and the Company's ownership percentage): (i) HCP Ventures IV, LLC (20%); (ii) HCP Ventures III, LLC (30%); and (iii) Suburban Properties, LLC (67%).

(7) Includes three unconsolidated joint ventures.

The following tables summarize combined financial information for the Company's unconsolidated joint ventures (in thousands):

	December 31,	
	2018	2017
Real estate, net	$2,128,147	$2,104,090
Other assets, net	479,935	928,790
Total assets	$2,608,082	$3,032,880
Mortgage and other debt	$ 827,622	$ 900,911
Accounts payable and other	655,177	561,523
Other partners' capital	515,791	655,311
HCP's capital[1]	609,492	915,135
Total liabilities and partners' capital	$2,608,082	$3,032,880

	Year Ended December 31,		
	2018	2017	2016
Total revenues	$ 642,724	$ 810,216	$ 424,134
Total operating expense	(492,784)	(643,452)	(344,553)
Income (loss) from discontinued operations	—	—	8,810
Net income (loss)	(43,704)	(42,408)	43,015
HCP's share in earnings	(2,594)	10,901	11,360
Fees earned by HCP	125	133	299
Distributions received by HCP	48,939	81,165	54,858

At December 31, 2018 and 2017, the aggregate unamortized basis difference of the Company's investments in unconsolidated joint ventures of $69 million and $115 million, respectively, is primarily attributable to the difference between the amount for which the Company purchased its interest in the entity and the historical carrying value of the net assets of the entity. The difference is being amortized over the remaining useful life of the related assets and included in equity income (loss) from unconsolidated joint ventures.

Note 9. Intangibles

The following table summarizes the Company's intangible lease assets (in thousands):

	December 31,	
Intangible lease assets	**2018**	**2017**
Gross intangible lease assets	$ 556,114	$ 795,305
Accumulated depreciation and amortization	(251,035)	(385,223)
Net intangible lease assets	$ 305,079	$ 410,082

The following table summarizes the Company's intangible lease liabilities (in thousands):

	December 31,	
Intangible lease liabilities	**2018**	**2017**
Gross intangible lease liabilities	$ 94,444	$ 126,212
Accumulated depreciation and amortization	(39,781)	(73,633)
Net intangible lease liabilities	$ 54,663	$ 52,579

The following table sets forth amortization related to deferred leasing costs and acquisition-related intangibles (in thousands):

	Year Ended December 31,		
	2018	**2017**	**2016**
Depreciation and amortization expense related to amortization of lease-up intangibles	$67,350	$76,732	$84,487
Rental and related revenues related to amortization of net below market lease liabilities	5,253	2,030	3,877
Operating expense related to amortization of net below market ground lease intangibles	636	740	664

The following table summarizes the estimated annual amortization for each of the five succeeding fiscal years and thereafter (in thousands):

	Rental and Related Revenues[1]	Operating Expense[2]	Depreciation and Amortization[3]
2019	$ 4,399	$ 505	$ 50,762
2020	3,670	621	39,433
2021	3,587	738	32,214
2022	4,331	738	26,438
2023	4,269	738	24,293
Thereafter	16,521	29,901	80,812
	$36,777	$33,241	$253,952

(1) The amortization of net below market lease intangibles is recorded as an increase to rental and related income.

(2) The amortization of net below market ground lease intangibles is recorded as an increase to operating expense.

(3) The amortization of lease-up intangibles is recorded to depreciation and amortization expense.

Note 10. Debt

Bank Line of Credit and Term Loans

The Company's $2.0 billion unsecured revolving line of credit facility (the "Facility") matures on October 19, 2021 and contains two, six-month extension options. Borrowings under the Facility accrue interest at LIBOR plus a margin that depends upon the Company's credit ratings. The Company pays a facility fee on the entire revolving commitment that depends on its credit ratings. Based on the Company's credit ratings at December 31, 2018, the margin on the Facility was 0.875%, and the facility fee was 0.15%. The Facility also includes a feature that allows the Company to increase the borrowing capacity by an aggregate amount of up to $750 million, subject to securing additional commitments. At December 31, 2018, the Company had $80 million, including £55 million ($70 million), outstanding under the Facility with a weighted average effective interest rate of 2.12%.

In March 2017, the Company repaid a £137 million unsecured term loan. On June 30, 2017, the Company repaid £51 million of its four-year unsecured term loan entered into in January 2015 (the "2015 Term Loan"). Concurrently, the Company terminated its three-year interest rate swap which fixed the interest of the 2015 Term Loan and therefore, beginning June 30, 2017, the 2015 Term Loan accrued interest at a rate of GBP LIBOR plus 1.15%, subject to adjustments based on the Company's credit ratings.

On July 3, 2018, the Company exercised its one-time right to repay the outstanding GBP balance and re-borrow in USD with all other key terms unchanged, which resulted in repayment of the £169 million balance and re-borrowing of $224 million. In November 2018, the Company repaid the $224 million unsecured term loan, bringing the total term loan balance to zero as of December 31, 2018.

The Facility contains certain financial restrictions and other customary requirements, including cross-default provisions to other indebtedness. Among other things, these covenants, using terms defined in the agreements: (i) limit the ratio of Consolidated Total Indebtedness to Consolidated Total Asset Value to 60%, (ii) limit the ratio of Secured Debt to Consolidated Total Asset Value to 30%, (iii) limit the ratio of Unsecured Debt to Consolidated Unencumbered Asset Value to 60%; (iv) require a minimum Fixed Charge Coverage ratio of 1.5 times; and (v) require a Minimum Consolidated Tangible Net Worth of $6.5 billion at December 31, 2018. At December 31, 2018, the Company believes it was in compliance with each of these restrictions and requirements of the Facility.

Senior Unsecured Notes

At December 31, 2018, the Company had senior unsecured notes outstanding with an aggregate principal balance of $5.3 billion. The senior unsecured notes contain certain covenants including limitations on debt, maintenance of unencumbered assets, cross-acceleration provisions and other customary terms. The Company believes it was in compliance with these covenants at December 31, 2018.

The following table summarizes the Company's senior unsecured notes payoffs for the periods presented (dollars in thousands):

Period	Amount	Coupon Rate
Year ended December 31, 2018:		
July 16, 2018[1]	$700,000	5.375%
November 8, 2018	$450,000	3.750%
Year ended December 31, 2017:		
May 1, 2017	$250,000	5.625%
July 27, 2017[2]	$500,000	5.375%
Year ended December 31, 2016:		
February 1, 2016	$500,000	3.750%
September 15, 2016	$400,000	6.300%
November 30, 2016[3]	$500,000	6.000%
November 30, 2016[3]	$600,000	6.700%

(1) The Company recorded a $44 million loss on debt extinguishment related to the repurchase of senior notes.
(2) The Company recorded a $54 million loss on debt extinguishment related to the repurchase of senior notes.
(3) The Company recorded a $46 million loss on debt extinguishment related to the repurchase of senior notes.

There were no senior unsecured notes issuances for the years ended December 31, 2018, 2017, and 2016.

Mortgage Debt

At December 31, 2018, the Company had $133 million in aggregate principal of mortgage debt outstanding, which is secured by 15 healthcare facilities with a carrying value of $278 million. In March 2017, the Company paid off $472 million of mortgage debt.

Mortgage debt generally requires monthly principal and interest payments, is collateralized by real estate assets and is generally non-recourse. Mortgage debt typically restricts transfer of the encumbered assets, prohibits additional liens, restricts prepayment, requires payment of real estate taxes, requires maintenance of the assets in good condition, requires maintenance of insurance on the assets and includes conditions to obtain lender consent to enter into or terminate material leases. Some of the mortgage debt is also cross-collateralized by multiple assets and may require tenants or operators to maintain compliance with the applicable leases or operating agreements of such real estate assets.

Debt Maturities

The following table summarizes the Company's stated debt maturities and scheduled principal repayments at December 31, 2018 (dollars in thousands):

		Senior Unsecured Notes[2]		Mortgage Debt[3]		
Year	Bank Line of Credit[1]	Amount	Interest Rate	Amount	Interest Rate	Total[4]
2019	$ —	$ —	—%	$ 3,561	—%	$ 3,561
2020	—	800,000	2.79%	3,609	5.08%	803,609
2021	80,103	—	—%	10,957	5.26%	91,060
2022	—	900,000	3.93%	2,691	—%	902,691
2023	—	800,000	4.39%	2,811	—%	802,811
Thereafter	—	2,800,000	4.34%	109,705	4.10%	2,909,705
	80,103	5,300,000		133,334		5,513,437
(Discounts), premium and debt costs, net	—	(41,450)		5,136		(36,314)
	$80,103	$5,258,550		$138,470		$5,477,123

(1) Includes £55 million translated into USD.

(2) Interest rates on the notes range from 2.79% to 6.87% with a weighted average effective rate of 4.03% and a weighted average maturity of six years.

(3) Interest rates on the mortgage debt range from 2.80% to 5.91% with a weighted average effective interest rate of 4.20% and a weighted average maturity of 19 years.

(4) Excludes $91 million of other debt that have no scheduled maturities. Other debt represents (i) $58 million of non-interest bearing life care bonds and occupancy fee deposits at certain of the Company's senior housing facilities and (ii) $33 million of on-demand notes from the CCRC JV which bear interest at a rate of 3.6%.

Note 11. Commitments and Contingencies

Legal Proceedings

From time to time, the Company is a party to, or has a significant relationship to, legal proceedings, lawsuits and other claims. Except as described below, the Company is not aware of any legal proceedings or claims that it believes may have, individually or taken together, a material adverse effect on the Company's financial condition, results of operations or cash flows. The Company's policy is to expense legal costs as they are incurred.

Class Action. On May 9, 2016, a purported stockholder of the Company filed a putative class action complaint, *Boynton Beach Firefighters' Pension Fund v. HCP, Inc., et al.*, Case No. 3:16-cv-01106-JJH, in the U.S. District Court for the Northern District of Ohio against the Company, certain of its officers, HCR ManorCare, Inc. ("HCRMC"), and certain of its officers, asserting violations of the federal securities laws. The suit asserts claims under sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and alleges that the Company made certain false or misleading statements relating to the value of and risks concerning its investment in HCRMC by allegedly failing to disclose that HCRMC had engaged in billing fraud, as alleged by the U.S. Department of Justice ("DoJ") in a suit against HCRMC arising from the False Claims Act that the DoJ voluntarily dismissed with prejudice. The plaintiff in the class action suit demands compensatory damages (in an unspecified amount), costs and expenses (including attorneys' fees and expert fees), and equitable, injunctive, or other relief as the Court deems just and proper. On November 28, 2017, the Court appointed Societe Generale Securities GmbH (SGSS

Germany) and the City of Birmingham Retirement and Relief Systems (Birmingham) as Co-Lead Plaintiffs in the class action. The motion to dismiss was fully briefed on May 21, 2018 and oral arguments were held on October 23, 2018. Subsequently, on December 6, 2018, HCRMC and its officers were voluntarily dismissed from the class action lawsuit without prejudice to such claims being refiled. The Company believes the suit to be without merit and intends to vigorously defend against it.

Derivative Actions. On June 16, 2016 and July 5, 2016, purported stockholders of the Company filed two derivative actions, respectively *Subodh v. HCR ManorCare Inc., et al.*, Case No. 30-2016-00858497-CU-PT-CXC and *Stearns v. HCR ManorCare, Inc., et al.*, Case No. 30-2016-00861646-CU-MC-CJC, in the Superior Court of California, County of Orange, against certain of the Company's current and former directors and officers and HCRMC. The Company is named as a nominal defendant. As both derivative actions contained substantially the same allegations, they have been consolidated into a single action (the "California derivative action"). The consolidated action alleges that the defendants engaged in various acts of wrongdoing, including, among other things, breaching fiduciary duties by publicly making false or misleading statements of fact regarding HCRMC's finances and prospects, and failing to maintain adequate internal controls. On April 18, 2017, the Court approved the parties' stipulation to stay the case pending disposition of the motion to dismiss the class action litigation.

On April 10, 2017, a purported stockholder of the Company filed a derivative action, *Weldon v. Martin et al.*, Case No. 3:17-cv-755, in federal court in the Northern District of Ohio, Western Division, against certain of the Company's current and former directors and officers and HCRMC. The Company is named as a nominal defendant. The *Weldon* complaint asserts similar claims to those asserted in the California derivative action. In addition, the complaint asserts a claim under Section 14(a) of the Exchange Act, alleging that the Company made false statements in its 2016 proxy statement by not disclosing that the Company's performance issues in 2015 were the direct result of alleged billing fraud at HCRMC. On April 18, 2017, the Court re-assigned and transferred this action to the judge presiding over the related federal securities class action. On July 11, 2017, the Court approved a stipulation by the parties to stay the case pending disposition of the motion to dismiss the class action.

On July 21, 2017, a purported stockholder of the Company filed another derivative action, Kelley v. HCR ManorCare, Inc., et al., Case No. 8:17-cv-01259, in federal court in the Central District of California, against certain of the Company's current and former directors and officers and HCRMC. The Company is named as a nominal defendant. The Kelley complaint asserts similar claims to those asserted in Weldon and in the California derivative action. Like Weldon, the Kelley complaint also additionally alleges that the Company made false statements in its 2016 proxy statement, and asserts a claim for a violation of Section 14(a) of the Exchange Act. On November 28, 2017, the federal court in the Central District of California granted Defendants' motion to transfer the action to the Northern District of Ohio (i.e., the court where the class action and other federal derivative action are pending). The Court in the Northern District of Ohio is currently considering whether to consolidate the Weldon and Kelley actions, appointment of lead plaintiffs and counsel, and whether the stay in Weldon should continue as to either or both actions.

The Company's Board of Directors received letters dated August 17, 2016, April 19, 2017, and April 20, 2017 from private law firms acting on behalf of clients who are purported stockholders of the Company, each asserting allegations similar to those made in the California derivative action matters discussed above. Each letter demands that the Board of Directors take action to assert the Company's rights. The Board of Directors completed its evaluation and rejected the demand letters in December of 2017.

The Company believes that the plaintiffs lack standing or the lawsuits and demands are without merit, but cannot predict the outcome of these proceedings or reasonably estimate any potential loss at this time. Accordingly, no loss contingency has been recorded for these matters as of December 31, 2018, as the likelihood of loss is not considered probable or estimable.

DownREIT LLCs

In connection with the formation of certain DownREIT LLCs, members may contribute appreciated real estate to a DownREIT LLC in exchange for DownREIT units. These contributions are generally tax-deferred, so that the pre-contribution gain related to the property is not taxed to the member. However, if a contributed property is later sold by the DownREIT LLC, the unamortized pre-contribution gain that exists at the date of sale is specifically allocated and taxed to the contributing members. In many of the DownREITs, the Company has entered into indemnification agreements with those members who contributed appreciated property into the DownREIT LLC. Under these indemnification agreements, if any of the appreciated real estate contributed by the members is sold by the DownREIT LLC in a taxable transaction within a specified number of years, the Company will reimburse the affected members for the federal and state income taxes associated with the pre-contribution gain that is specially allocated to the affected member under the Code ("make-whole payments"). These make-whole payments include a tax gross-up provision. These indemnification agreements have expiration terms that range through 2033 on a total of 35 properties.

Commitments

The following table summarizes the Company's material commitments, excluding debt service obligations (see Note 10) and operating leases (see Note 6), at December 31, 2018 (in thousands):

	Total	2019	2020-2021	2022-2023	More than Five Years
Construction loan commitments[1]	$ 72,654	$ 68,365	$ 4,289	$—	$—
Development commitments[2]	299,702	273,625	26,077	—	—
Total	$372,356	$341,990	$30,366	$—	$—

(1) Represents commitments to finance development projects.

(2) Represents construction and other commitments for developments in progress.

Credit Enhancement Guarantee

At December 31, 2018, certain of the Company's senior housing facilities serve as collateral for $74 million of debt (maturing May 1, 2025) that is owed by a previous owner of the facilities. This indebtedness is guaranteed by the previous owner who has an investment grade credit rating. These senior housing facilities, which are classified as DFLs, had a carrying value of $351 million as of December 31, 2018.

Environmental Costs

Various environmental laws govern certain aspects of the ongoing management and operation of our facilities, including those related to presence of asbestos-containing materials. The presence of, or the failure to manage and/or remediate, such materials may adversely affect the occupancy and performance of the Company's facilities. The Company monitors its properties for the presence of such hazardous or toxic substances and is not aware of any environmental liability with respect to the properties that would have a material adverse effect on the Company's business, financial condition or results of operations. The Company carries environmental insurance and believes that the policy terms, conditions, limitations and deductibles are adequate and appropriate under the circumstances, given the relative risk of loss, the cost of such coverage and current industry practice.

General Uninsured Losses

The Company obtains various types of insurance to mitigate the impact of property, business interruption, liability, workers' compensation, flood, windstorm, earthquake, environmental, cyber and terrorism related losses. The Company attempts to obtain appropriate policy terms, conditions, limits and deductibles considering the relative risk of loss, the cost of such coverage and current industry practice. There are, however, certain types of extraordinary losses, such as those due to acts of war or other events that may be either uninsurable or not economically insurable. In addition, the Company has a large number of properties that are exposed to earthquake, flood and windstorm occurrences for which the related insurances carry high deductibles and have limits.

Note 12. Equity

Dividends

On January 31, 2019, the Company announced that its Board of Directors declared a quarterly cash dividend of $0.37 per share. The common stock cash dividend will be paid on February 28, 2019 to stockholders of record as of the close of business on February 19, 2019.

During the years ended December 31, 2018, 2017 and 2016, the Company declared and paid common stock cash dividends of $1.480, $1.480 and $2.095 per share, respectively.

At-The-Market Equity Offering Program

In June 2015, the Company established an at-the-market equity offering program ("ATM Program"). In May 2018, the Company renewed its ATM Program. Under this program, the Company may sell shares of its common stock from time to time having an aggregate gross sales price of up to $750 million through a consortium of banks acting as sales agents or directly to the banks acting as principals. During the year ended December 31, 2018, the Company issued 5.4 million shares of common stock at a weighted average

net price of $28.27 for net proceeds of $154 million. At December 31, 2018, $594 million of our common stock remained available for sale under the ATM Program. There was no activity during the years ended December 31, 2017 and 2016.

Forward Equity Offering

In December 2018, the Company entered into a forward equity sales agreement to sell up to an aggregate of 15.25 million shares of its common stock (including shares issued through the exercise of underwriters' options) at an initial net price of $28.60 per share, after underwriting discounts and commissions. The agreement has a one year term and expires on December 13, 2019. The forward sale price that the Company expects to receive upon settlement of the agreement will be subject to adjustments for: (i) the forward purchasers' stock borrowing costs and (ii) certain fixed price reductions during the term of the agreement. At December 31, 2018, no shares have been issued under the forward equity sales agreement.

In December 2018, contemporaneous with the forward equity offering discussed above, the Company completed an offering of two million shares of common stock at a net price of $28.60 per share, resulting in net proceeds of $57 million.

The following table summarizes the Company's other common stock activities (shares in thousands):

	Year Ended December 31,		
	2018	2017	2016
Dividend Reinvestment and Stock Purchase Plan	237	983	2,021
Conversion of DownREIT units	3	78	145
Exercise of stock options	120	32	133
Vesting of restricted stock units	401	419	529
Repurchase of common stock	141	157	237

Accumulated Other Comprehensive Loss

The following table summarizes the Company's accumulated other comprehensive loss (in thousands):

	December 31,	
	2018	2017
Cumulative foreign currency translation adjustment[1]	$(1,683)	$ (6,955)
Unrealized gains (losses) on derivatives, net	(467)	(13,950)
Supplemental Executive Retirement plan minimum liability and other	(2,558)	(3,119)
Total accumulated other comprehensive income (loss)	$(4,708)	$(24,024)

[1] See Notes 5 and 19 for a discussion of the U.K. JV transaction.

Noncontrolling Interests

At December 31, 2018, there were four million DownREIT units (seven million shares of HCP common stock are issuable upon conversion) outstanding in five DownREIT LLCs, all of which the Company is the managing member of. At December 31, 2018, the carrying and market values of the four million DownREIT units were $177 million and $185 million, respectively.

See Notes 3, 4 and 5 for transactions involving noncontrolling interests.

Note 13. Segment Disclosures

The Company evaluates its business and allocates resources based on its reportable business segments: (i) senior housing triple-net, (ii) SHOP, (iii) life science and (iv) medical office. The Company has non-reportable segments that are comprised primarily of the Company's debt investments, hospital properties, unconsolidated joint ventures, and U.K. investments. The accounting policies of the segments are the same as those described under Summary of Significant Accounting Policies (see Note 2).

During the years ended December 31, 2018, 2017 and 2016, 22, 25 and 17 senior housing triple-net facilities, respectively, were transferred to the Company's SHOP segment. When an asset is transferred from one segment to another, the results associated with that asset are included in the original segment until the date of transfer. Results generated after the transfer date are included in the new segment.

The Company evaluates performance based upon: (i) property net operating income from continuing operations ("NOI") and (ii) Adjusted NOI. NOI is defined as real estate revenues (inclusive of rental and related revenues, resident fees and services, and income from direct financing leases), less property level operating expenses (which exclude transition costs); NOI excludes all other financial statement amounts included in net income (loss). Adjusted NOI is calculated as NOI after eliminating the effects of straight-line rents, DFL non-cash interest, amortization of market lease intangibles, lease termination fees, actuarial reserves for insurance claims that have been incurred but not reported and the impact of deferred community fee income and expense. NOI and Adjusted NOI exclude the Company's share of income (loss) generated by unconsolidated joint ventures, which is recognized in equity income (loss) from unconsolidated joint ventures in the consolidated statements of operations.

Non-segment assets consist of assets in the Company's other non-reportable segments (see above) and corporate non-segment assets. Corporate non-segment assets consist primarily of corporate assets, including cash and cash equivalents, restricted cash, accounts receivable, net, marketable equity securities and, if any, real estate held for sale. See Note 20 for other information regarding concentrations of credit risk.

The following tables summarize information for the reportable segments (in thousands):

For the year ended December 31, 2018:

Segments	Senior Housing Triple-Net	SHOP	Life Science	Medical Office	Other Non-reportable	Corporate Non-segment	Total
Real estate revenues[1]	$ 276,091	$ 547,976	$ 395,064	$ 509,019	$ 108,133	$ —	$1,836,283
Operating expenses	(3,618)	(414,312)	(91,742)	(189,859)	(5,507)	—	(705,038)
NOI	272,473	133,664	303,322	319,160	102,626	—	1,131,245
Adjustments to NOI[2]	2,127	2,875	(9,589)	(2,899)	(4,418)	—	(11,904)
Adjusted NOI	274,600	136,539	293,733	316,261	98,208	—	1,119,341
Addback adjustments	(2,127)	(2,875)	9,589	2,899	4,418	—	11,904
Interest income	—	—	—	—	10,406	—	10,406
Interest expense	(2,404)	(2,725)	(316)	(474)	(1,469)	(258,955)	(266,343)
Depreciation and amortization	(79,605)	(104,405)	(140,480)	(193,710)	(31,299)	—	(549,499)
General and administrative	—	—	—	—	—	(96,702)	(96,702)
Transaction costs	—	—	—	—	—	(10,772)	(10,772)
Recoveries (impairments), net	—	(44,343)	(7,639)	—	(3,278)	—	(55,260)
Gain (loss) on sales of real estate, net	641	93,977	806,184	4,428	20,755	—	925,985
Loss on debt extinguishment	—	—	—	—	—	(44,162)	(44,162)
Other income (expense), net	—	—	—	—	9,605	3,711	13,316
Income tax benefit (expense)	—	—	—	—	—	17,854	17,854
Equity income (loss) from unconsolidated joint ventures	—	—	—	—	(2,594)	—	(2,594)
Net income (loss)	$ 191,105	$ 76,168	$ 961,071	$ 129,404	$ 104,752	$(389,026)	$1,073,474

(1) Represents rental and related revenues, resident fees and services, and income from DFLs.

(2) Represents straight-line rents, DFL non-cash interest, amortization of market lease intangibles, net, actuarial reserves for insurance claims that have been incurred but not reported, deferral of community fees, net and termination fees.

For the year ended December 31, 2017:

Segments	Senior Housing Triple-Net	SHOP	Life Science	Medical Office	Other Non-reportable	Corporate Non-segment	Total
Real estate revenues[1]	$ 313,547	$ 525,473	$ 358,816	$ 477,459	$ 116,846	$ —	$1,792,141
Operating expenses	(3,819)	(396,491)	(78,001)	(183,197)	(4,743)	—	(666,251)
NOI	309,728	128,982	280,815	294,262	112,103	—	1,125,890
Adjustments to NOI[2]	17,098	33,227	(4,517)	(2,952)	(4,446)	—	38,410
Adjusted NOI	326,826	162,209	276,298	291,310	107,657	—	1,164,300
Addback adjustments	(17,098)	(33,227)	4,517	2,952	4,446	—	(38,410)
Interest income	—	—	—	—	56,237	—	56,237
Interest expense	(2,518)	(7,920)	(373)	(506)	(4,230)	(292,169)	(307,716)
Depreciation and amortization	(103,820)	(103,162)	(128,864)	(169,795)	(29,085)	—	(534,726)
General and administrative	—	—	—	—	—	(88,772)	(88,772)
Transaction costs	—	—	—	—	—	(7,963)	(7,963)
Recoveries (impairments), net	(22,590)	—	—	—	(143,794)	—	(166,384)
Gain (loss) on sales of real estate, net	280,349	17,485	45,916	9,095	3,796	—	356,641
Loss on debt extinguishment	—	—	—	—	—	(54,227)	(54,227)
Other income (expense), net	—	—	—	—	50,895	(19,475)	31,420
Income tax benefit (expense)	—	—	—	—	—	1,333	1,333
Equity income (loss) from unconsolidated joint ventures	—	—	—	—	10,901	—	10,901
Net income (loss)	$ 461,149	$ 35,385	$ 197,494	$ 133,056	$ 56,823	$(461,273)	$ 422,634

(1) Represents rental and related revenues, resident fees and services, and income from DFLs.

(2) Represents straight-line rents, DFL non-cash interest, amortization of market lease intangibles, net, actuarial reserves for insurance claims that have been incurred but not reported, deferral of community fees, net and termination fees.

For the year ended December 31, 2016:

Segments	Senior Housing Triple-Net	SHOP	Life Science	Medical Office	Other Non-reportable	Corporate Non-segment	Total
Real estate revenues[1]	$ 423,118	$ 686,822	$ 358,537	$ 446,280	$ 125,729	$ —	$2,040,486
Operating expenses	(6,710)	(480,870)	(72,478)	(173,687)	(4,654)	—	(738,399)
NOI	416,408	205,952	286,059	272,593	121,075	—	1,302,087
Adjustments to NOI[2]	(7,566)	(2,686)	(2,954)	(3,536)	(3,022)	—	(19,764)
Adjusted NOI	408,842	203,266	283,105	269,057	118,053	—	1,282,323
Addback adjustments	7,566	2,686	2,954	3,536	3,022	—	19,764
Interest income	—	—	—	—	88,808	—	88,808
Interest expense	(9,499)	(29,745)	(2,357)	(5,895)	(9,153)	(407,754)	(464,403)
Depreciation and amortization	(136,146)	(108,806)	(130,829)	(161,790)	(30,537)	—	(568,108)
General and administrative	—	—	—	—	—	(103,611)	(103,611)
Transaction costs	—	—	—	—	—	(9,821)	(9,821)
Gain (loss) on sales of real estate, net	48,744	675	49,042	8,333	57,904	—	164,698
Loss on debt extinguishment	—	—	—	—	—	(46,020)	(46,020)
Other income (expense), net	—	—	—	—	—	3,654	3,654
Income tax benefit (expense)	—	—	—	—	—	(4,473)	(4,473)
Equity income (loss) from unconsolidated joint ventures	—	—	—	—	11,360	—	11,360
Discontinued operations	—	—	—	—	—	265,755	265,755
Net income (loss)	$ 319,507	$ 68,076	$ 201,915	$ 113,241	$ 239,457	$ (302,270)	$ 639,926

(1) Represents rental and related revenues, resident fees and services, and income from DFLs.

(2) Represents straight-line rents, DFL non-cash interest, amortization of market lease intangibles, net, actuarial reserves for insurance claims that have been incurred but not reported, deferral of community fees, net and termination fees.

The following table summarizes the Company's revenues by segment (in thousands):

	Year Ended December 31,		
Segments	2018	2017	2016
Senior housing triple-net	$ 276,091	$ 313,547	$ 423,118
SHOP	547,976	525,473	686,822
Life science	395,064	358,816	358,537
Medical office	509,019	477,459	446,280
Other non-reportable segments	118,539	173,083	214,537
Total revenues	$1,846,689	$1,848,378	$2,129,294

The following table summarizes the Company's total assets by segment (in thousands):

	December 31,		
Segments	2018	2017	2016
Senior housing triple-net	$ 2,965,679	$ 3,515,400	$ 3,871,720
SHOP	2,173,795	2,392,130	3,135,115
Life science	4,303,471	4,154,372	3,961,623
Medical office	4,354,441	3,989,168	3,724,483
Reportable segment assets	13,797,386	14,051,070	14,692,941
Accumulated depreciation and amortization	(2,915,592)	(2,919,278)	(2,900,060)
Net reportable segment assets	10,881,794	11,131,792	11,792,881
Other non-reportable segment assets	1,015,854	1,904,433	2,255,712
Assets held for sale, net	108,086	417,014	927,866
Other non-segment assets	712,819	635,222	782,806
Total assets	$12,718,553	$14,088,461	$15,759,265

The Company completed the required annual goodwill impairment test during the fourth quarter of 2018, 2017 and 2016, and no impairment was recognized. At December 31, 2018 and 2017, goodwill of $47 million was allocated to segment assets as follows: (i) senior housing triple-net—$21 million, (ii) SHOP—$9 million, (iii) medical office—$11 million and (iv) other—$6 million.

Note 14. Compensation Plans

Stock Based Compensation

On May 11, 2006, the Company's stockholders approved the 2006 Performance Incentive Plan, which was amended and restated in 2009 ("the 2006 Plan"). On May 1, 2014, the Company's stockholders approved the 2014 Performance Incentive Plan ("the 2014 Plan") (collectively, "the Plans"). Following the adoption of the 2014 Plan, no new awards will be issued under the 2006 Plan. The Plans provide for the granting of stock-based compensation, including stock options, restricted stock and restricted stock units to officers, employees and directors in connection with their employment with or services provided to the Company. The maximum number of shares reserved for awards under the 2014 Plan is 33 million shares, and, as of December 31, 2018, 29 million of the reserved shares under the 2014 Plan are available for future awards, of which 19 million shares may be issued as restricted stock or restricted stock units.

Total share-based compensation expense recognized during the years ended December 31, 2018, 2017 and 2016 was $15 million, $14 million, and $23 million, respectively. The year ended December 31, 2018 includes a $2 million charge recognized in general and administrative expenses primarily resulting from the departure of our Executive Chairman that was comprised of the accelerated vesting of restricted stock units. The year ended December 31, 2017 includes a $1 million charge recognized in general and administrative expenses related to the accelerated vesting of restricted stock units primarily resulting from the departure of the Company's former Chief Accounting Officer. The year ended December 31, 2016 includes a $7 million charge recognized in general and administrative expenses related to the accelerated vesting of restricted stock units primarily resulting from the departure of the Company's former chief executive officer ("CEO"). As of December 31, 2018, there was $26 million of future expense related to unvested share-based compensation arrangements granted under the Company's incentive plans, which is expected to be recognized over a weighted average period of two years associated with future employee service.

Conversion of Equity Awards at the Spin-Off Date

The Plans were established with anti-dilution provisions, such that in the event of an equity restructuring of the Company (including spin-off transactions), equity awards would preserve their value post-transaction. In order to achieve an equitable modification of the existing awards following the Spin-Off, the Company converted pre-spin awards to their post-spin value, resulting in grants to remaining employees denominated solely in the Company's common stock. The conversion impacted 133 participants, resulting in additional awards being granted. The fair value of these additional awards was immaterial.

Stock Options

There have been no grants of stock options since 2014. Stock options outstanding and exercisable were 0.8 million at December 31, 2018 and 1.1 million at December 31, 2017. Proceeds received from stock options exercised under the Plans for the years ended December 31, 2018, 2017 and 2016 were $2 million, $1 million and $4 million, respectively. Compensation expense related to stock options was immaterial for all periods presented.

Restricted Stock Awards

Under the Plans, restricted stock awards, including restricted stock units and performance stock units are granted subject to certain restrictions. Conditions of vesting are determined at the time of grant. Restrictions on certain awards generally lapse, as provided in the Plans or in the applicable award agreement, upon retirement, a change in control or other specified events. The fair market value of restricted stock awards, both time vesting and those subject to specific performance criteria, are expensed over the period of vesting. Restricted stock units, which vest based solely upon passage of time generally vest over a period of three to six years. The fair value of restricted stock units is determined based on the closing market price of the Company's shares on the grant date. Performance stock units, which are restricted stock awards that vest dependent upon attainment of various levels of performance that equal or exceed targeted levels, generally vest in their entirety at the end of a three year performance period. The number of shares that ultimately vest can vary from 0% to 200% of target depending on the level of achievement of the performance criteria. The fair value of performance stock units is determined based on the Monte Carlo valuation model. The compensation expense recognized for all restricted stock awards is net of actual forfeitures.

Upon vesting of restricted stock awards, the participant is required to pay the related tax withholding obligation. Participants can generally elect to have the Company reduce the number of common stock shares delivered to pay the employee tax withholding obligation. The value of the shares withheld is dependent on the closing market price of the Company's common stock on the trading date prior to the relevant transaction occurring. During the years ended December 31, 2018, 2017 and 2016, the Company withheld 141,000, 157,000 and 237,000 shares, respectively, to offset tax withholding obligations with respect to the vesting of the restricted stock and performance restricted stock unit awards.

Holders of restricted stock awards, including restricted stock units and performance stock units, are generally entitled to receive dividends equal to the amount that would be paid on an equivalent number of shares of common stock.

The following table summarizes restricted stock award activity, including performance stock units, for the year ended December 31, 2018 (units in thousands):

	Restricted Stock Units	Weighted Average Grant Date Fair Value
Unvested at January 1, 2018	1,139	$33.41
Granted	1,097	22.95
Vested	(401)	32.42
Forfeited	(137)	30.34
Unvested at December 31, 2018	1,698	27.13

At December 31, 2018, the weighted average remaining vesting period of restricted stock and performance based units was two years. The total fair value (at vesting) of restricted stock and performance based units which vested for the years ended December 31, 2018, 2017 and 2016 was $10 million, $15 million and $24 million, respectively.

Note 15. Impairments

Real Estate

During 2018, in conjunction with classifying the assets as held for sale, the Company determined that 17 underperforming SHOP assets and an undeveloped life science land parcel were impaired. Additionally, the Company determined that three additional underperforming SHOP assets that were candidates for potential future sale were impaired under the held-for-use impairment model. Accordingly, the Company recognized total impairment charges of $52 million during 2018 to write-down the carrying value of the assets to their respective fair values (less an estimate of costs to sell for assets classified as held for sale). The fair value of the assets was based on contracted or forecasted sales prices and expected future cash flows, which are considered to be Level 2 measurements within the fair value hierarchy.

During 2017, the Company determined that 11 underperforming senior housing triple-net assets that were candidates for potential future sale were impaired under the held-for-use impairment model. Accordingly, the Company wrote-down the carrying amount of these 11 assets to their fair value, which resulted in an aggregate impairment charge of $23 million. The fair value of the assets was based on forecasted sales prices which are considered to be Level 2 measurements within the fair value hierarchy.

Casualty-Related

As a result of Hurricane Harvey and Hurricane Irma during the year ended December 31, 2017, the Company recorded an estimated $13 million of casualty-related losses, net of a small insurance recovery. The losses are comprised of $8 million of property damage and $5 million of other associated costs, including storm preparation, clean up, relocation and other costs. Of the total $13 million casualty losses incurred, $12 million was recorded in other income (expense), net, and $1 million was recorded in equity income (loss) from unconsolidated joint ventures as it relates to casualty losses for properties owned by certain of our unconsolidated joint ventures. In addition, the Company recorded a $1 million deferred tax benefit associated with the casualty-related losses.

Other

See Note 7 for information on the impairment charge related to the mezzanine loan facility to Tandem and the impairment recovery related to Four Season Notes.

Note 16. Income Taxes

The Company has elected to be taxed as a REIT under the applicable provisions of the Code for every year beginning with the year ended December 31, 1985. The Company has also elected for certain of its subsidiaries to be treated as TRSs (the "TRS entities") which are subject to federal and state income taxes. All entities other than the TRS entities are collectively referred to as the "REIT" within this Note 16. Certain REIT entities are also subject to state, local and foreign income taxes.

Distributions with respect to our common stock can be characterized for federal income tax purposes as ordinary dividends, capital gains, nondividend distributions or a combination thereof. The following table shows the characterization of our annual common stock distributions per share:

	Year Ended December 31,		
	2018	2017	2016
Ordinary dividends[1]	$0.9578	$1.4800	$1.5561
Capital gains	0.5222	—	—
Nondividend distributions	—	—	6.7089
	$1.4800	$1.4800	$8.2650[2]

[1] The 2018 amount includes $0.0164 of qualified dividend income for purposes of Code Section 1(h)(11), and $0.9414 of qualified business income for purposes of Code Section 199A.

[2] Consists of $2.095 per common share of quarterly cash dividends and $6.17 per common share of stock dividends related to the Spin-Off (see Note 5).

HCP common stockholders on October 24, 2016, the record date for the Spin-Off (the "Record Date"), received upon the Spin-Off on October 31, 2016, one share of QCP common stock for every five shares of HCP common stock they held (the "Distributed Shares") and cash in lieu of fractional shares of QCP. For U.S. federal income tax purposes, HCP reported the fair market value of the QCP common stock distributed per each share of HCP common stock outstanding on the Record Date as $6.17, or $30.85 for each share of QCP common stock.

The TRS entities subject to tax reported losses before income taxes from continuing operations of $59 million, $58 million and $9 million for the years ended December 31, 2018, 2017 and 2016, respectively. The REIT's losses from continuing operations before income taxes from the U.K. were $11 million, $4 million and $4 million for the years ended December 31, 2018, 2017 and 2016, respectively.

The total income tax expense (benefit) from continuing operations consists of the following components (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Current			
Federal	$ (568)	$ 949	$ 8,525
State	4,003	1,504	8,307
Foreign	84	1,737	1,332
Total current	$ 3,519	$ 4,190	$ 18,164
Deferred			
Federal	$(11,905)	$ 2,730	$(10,241)
State	(4,589)	(5,889)	(1,401)
Foreign	(4,879)	(2,364)	(2,049)
Total deferred	$(21,373)	$ (5,523)	$(13,691)
Total income tax expense (benefit)	$(17,854)	$ (1,333)	$ 4,473

On December 22, 2017, the Tax Cuts and Jobs Act was signed into law. As a result of the reduced U.S. federal corporate tax rate, the Company recorded a tax expense of $17 million, due to a remeasurement of deferred tax assets and liabilities, which is included in total deferred tax expense (benefit) in the table above.

The Company's income tax expense from discontinued operations was $48 million for the year ended December 31, 2016 (see Note 5). There was no income tax expense from discontinued operations for the years ended December 31, 2018 and 2017.

The following table reconciles income tax expense (benefit) from continuing operations at statutory rates to actual income tax expense recorded (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Tax benefit at U.S. federal statutory income tax rate on income or loss subject to tax	$(17,857)	$(21,085)	$ (4,581)
State income tax expense, net of federal tax	(1,313)	(1,222)	6,081
Gross receipts and margin taxes	1,580	1,716	1,847
Foreign rate differential	301	632	647
Effect of permanent differences	(34)	6	(280)
Return to provision adjustments	(278)	1,597	287
Remeasurement of deferred tax assets and liabilities	—	17,080	—
Increase (decrease) in valuation allowance	(253)	(57)	472
Total income tax expense (benefit)	$(17,854)	$ (1,333)	$ 4,473

Deferred income taxes reflect the net effects of temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following table summarizes the significant components of the Company's deferred tax assets and liabilities from continuing operations (in thousands):

	December 31,		
	2018	2017	2016
Property, primarily differences in depreciation and amortization, the basis of land, and the treatment of interest and certain costs	$31,034	$31,691	$28,940
Net operating loss carryforward	20,559	10,720	8,784
Expense accruals and other	2,424	229	(847)
Valuation allowance	(295)	(548)	(606)
Net deferred tax assets	$53,722	$42,092	$36,271

Deferred tax assets and liabilities are included in other assets, net and accounts payable and accrued liabilities, respectively.

At December 31, 2018 the Company had a net operating loss ("NOL") carryforward of $80 million related to the TRS entities. These amounts can be used to offset future taxable income, if any. If unused, $44 million will begin to expire in 2033. The remainder, totaling $36 million, may be carried forward indefinitely.

The Company records a valuation allowance against deferred tax assets in certain jurisdictions when it cannot sustain a conclusion that it is more likely than not that it can realize the deferred tax assets during the periods in which these temporary differences become deductible. The deferred tax asset valuation allowance is adequate to reduce the total deferred tax assets to an amount that the Company estimates will "more-likely-than-not" be realized.

The Company files numerous U.S. federal, state and local income and franchise tax returns. With a few exceptions, the Company is no longer subject to U.S. federal, state, or local tax examinations by taxing authorities for years prior to 2015.

For the years ended December 31, 2018, 2017, and 2016 the tax basis of the Company's net assets was less than the reported amounts by $1.4 billion, $1.7 billion, and $2.0 billion, respectively. The difference between the reported amounts and the tax basis was primarily related to the Slough Estates USA, Inc. ("SEUSA") acquisition, which occurred in 2007. SEUSA was a corporation subject to federal and state income taxes. As a result of this acquisition, the Company succeeded to the tax attributes of SEUSA, including the tax basis in the acquired company's assets and liabilities.

Note 17. Earnings Per Common Share

Basic income (loss) per common share is computed based upon the weighted average number of common shares outstanding. Diluted income (loss) per common share is computed based upon the weighted average number of common shares outstanding plus the common shares issuable from the assumed conversion of DownREIT units, stock options, certain performance restricted stock units and unvested restricted stock units. Only those instruments having a dilutive impact on our basic income (loss) per share are included in diluted income (loss) per share during the periods presented.

Restricted stock and certain performance restricted stock units are considered participating securities, because dividend payments are not forfeited even if the underlying award does not vest, and require use of the two-class method when computing basic and diluted earnings per share.

In December 2018, the Company entered into forward equity sales agreement to sell up to an aggregate of 15.25 million shares of its common stock (see Note 12) by no later than December 13, 2019. The Company expects to settle this agreement with shares of common stock prior to expiration.

The Company considered the potential dilution resulting from the forward equity sales agreement to the calculation of earnings per share. At inception, the agreement does not have an effect on the computation of basic EPS as no shares are delivered until settlement. However, the Company uses the treasury stock method to determine the dilution resulting from the forward equity sales agreement during the period of time prior to settlement. As the issuance price under the forward equity sales agreement was greater than the average market price at December 31, 2018, the agreement was anti-dilutive.

The following table illustrates the computation of basic and diluted earnings per share (in thousands, except per share data):

	Year Ended December 31,		
	2018	2017	2016
Numerator			
Net income (loss) from continuing operations	$1,073,474	$422,634	$374,171
Noncontrolling interests' share in earnings	(12,381)	(8,465)	(12,179)
Net income (loss) attributable to HCP, Inc.	1,061,093	414,169	361,992
Less: Participating securities' share in earnings	(2,669)	(1,156)	(1,198)
Income (loss) from continuing operations applicable to common shares	1,058,424	413,013	360,794
Discontinued operations	—	—	265,755
Net income (loss) applicable to common shares	$1,058,424	$413,013	$626,549
Numerator - Dilutive			
Net income (loss) applicable to common shares	$1,058,424	$413,013	$626,549
Add: distributions on dilutive convertible units and other	6,919	—	—
Dilutive net income (loss) available to common shares	$1,065,343	$413,013	$626,549
Denominator			
Basic weighted average shares outstanding	470,551	468,759	467,195
Dilutive potential common shares - equity awards	168	176	208
Dilutive potential common shares - DownREIT conversions	4,668	—	—
Diluted weighted average common shares	475,387	468,935	467,403
Basic earnings per common share			
Continuing operations	$ 2.25	$ 0.88	$ 0.77
Discontinued operations	—	—	0.57
Net income (loss) applicable to common shares	$ 2.25	$ 0.88	$ 1.34
Diluted earnings per common share			
Continuing operations	$ 2.24	$ 0.88	$ 0.77
Discontinued operations	—	—	0.57
Net income (loss) applicable to common shares	$ 2.24	$ 0.88	$ 1.34

For all periods presented in the above table, approximately 1 million equity awards (restricted stock units and stock options) and all shares of common stock issuable pursuant to the settlement of forward equity sales agreement (see discussion above) were not included because they are anti-dilutive. For the years ended December 31, 2018, 2017 and 2016, 2 million, 7 million and 7 million shares, respectively, issuable upon conversion of DownREIT units were not included because they are anti-dilutive.

Note 18. Supplemental Cash Flow Information

The following table summarizes supplemental cash flow information (in thousands):

	Year Ended December 31,		
	2018	2017	2016
Supplemental cash flow information:			
Interest paid, net of capitalized interest	$275,690	$ 309,111	$ 489,453
Income taxes paid	4,480	10,045	13,727
Capitalized interest	21,056	16,937	11,108
Supplemental schedule of non-cash investing and financing activities:			
Accrued construction costs	88,826	67,425	49,999
Non-cash impact of QCP Spin-Off, net	—	—	3,539,584
Securities transferred for debt defeasance	—	—	73,278
Retained equity method investment from U.K. JV transaction	104,922	—	—
Derecognition of U.K. Bridge Loan receivable	147,474	—	—
Consolidation of net assets related to U.K. Bridge Loan	106,457	—	—
Vesting of restricted stock units and conversion of non-managing member units into common stock	537	2,908	6,622
Net noncash impact from the consolidation of previously unconsolidated joint ventures (see Note 4)	68,293	—	—
Deconsolidation of noncontrolling interest in connection with RIDEA II transaction	—	58,061	—
Mortgages and other liabilities assumed with real estate acquisitions	8,457	5,425	82,985

See discussions related to: (i) the Brookdale Transactions in Note 3, (ii) the Spin-Off, RIDEA II transaction and U.K. JV transaction in Note 5, (iii) the U.K. Bridge Loan in Notes 7 and 19, and (iv) the acquisition of the outstanding equity interests in three life science joint ventures in Note 4.

The following table summarizes cash, cash equivalents and restricted cash (in thousands):

	December 31,	
	2018	2017
Cash and cash equivalents	$110,790	$55,306
Restricted cash	29,056	26,897
Cash, cash equivalents and restricted cash	$139,846	$82,203

Note 19. Variable Interest Entities

Unconsolidated Variable Interest Entities

At December 31, 2018, the Company had investments in: (i) 48 properties leased to VIE tenants; (ii) four unconsolidated VIE joint ventures; (iii) marketable debt securities of one VIE; and (iv) one loan to a VIE borrower. The Company has determined that it is not the primary beneficiary of and therefore does not consolidate these VIEs because it does not have the ability to control the activities that most significantly impact their economic performance. Except for the Company's equity interest in the unconsolidated joint ventures (CCRC OpCo, Vintage Park Development JV, Waldwick JV and the LLC investment discussed below), it has no formal involvement in these VIEs beyond its investments.

The Company leases 48 properties to a total of seven tenants that have also been identified as VIEs ("VIE tenants"). These VIE tenants are "thinly capitalized" entities that rely on the operating cash flows generated from the senior housing facilities to pay operating expenses, including the rent obligations under their leases.

The Company holds a 49% ownership interest in CCRC OpCo, a joint venture entity formed in August 2014 that operates senior housing properties in a RIDEA structure and has been identified as a VIE. The equity members of CCRC OpCo "lack power" because they share certain operating rights with Brookdale, as manager of the CCRCs. The assets of CCRC OpCo primarily consist of the CCRCs that it owns and leases, resident fees receivable, notes receivable, and cash and cash equivalents; its obligations primarily consist of operating lease obligations to CCRC PropCo, debt service payments and capital expenditures for the properties, and accounts payable and expense accruals associated with the cost of its CCRCs' operations. Assets generated by the CCRC operations (primarily rents from CCRC residents) of CCRC OpCo may only be used to settle its contractual

obligations (primarily from debt service payments, capital expenditures, and rental costs and operating expenses incurred to manage such facilities).

The Company holds an 85% ownership interest in a joint venture (Vintage Park Development JV), which has been identified as a VIE as power is shared with a member that does not have a substantive equity investment at risk. The assets of the joint venture primarily consist of a leased property (net real estate), rents receivable, and cash and cash equivalents; its obligations primarily consist of debt-service payments. Any assets generated by the joint venture may only be used to settle its respective contractual obligations (primarily debt service payments).

The Company holds an 85% ownership interest in a development joint venture (Waldwick JV), which has been identified as a VIE as power is shared with a member that does not have a substantive equity investment at risk. The assets of the joint venture primarily consist of an in-progress senior housing facility development project that it owns and cash and cash equivalents; its obligations primarily consist of accounts payable and expense accruals associated with the cost of its development obligations. Any assets generated by the joint venture may only be used to settle its respective contractual obligations (primarily development expenses and debt service payments).

The Company holds a limited partner ownership interest in an unconsolidated LLC that has been identified as a VIE. The Company's involvement in the entity is limited to its equity investment as a limited partner, and it does not have any substantive participating rights or kick-out rights over the general partner. The assets and liabilities of the entity primarily consist of those associated with its senior housing real estate and development activities. Any assets generated by the entity may only be used to settle its contractual obligations (primarily development expenses and debt service payments).

The Company holds commercial mortgage-backed securities ("CMBS") issued by Federal Home Loan Mortgage Corporation (commonly referred to as Freddie MAC) through a special purpose entity that has been identified as a VIE because it is "thinly capitalized." The CMBS issued by the VIE are backed by mortgage debt obligations on real estate assets.

The Company provided seller financing of $10 million related to its sale of seven senior housing triple-net facilities. The financing was provided in the form of a secured five-year mezzanine loan to a "thinly capitalized" borrower created to acquire the facilities.

The classification of the related assets and liabilities and their maximum loss exposure as a result of the Company's involvement with these VIEs at December 31, 2018 are presented below (in thousands):

VIE Type	Asset/Liability Type	Maximum Loss Exposure and Carrying Amount[1]
VIE tenants - DFLs[2]	Net investment in DFLs	$ 600,230
VIE tenants - operating leases[2]	Lease intangibles, net and straight-line rent receivables	7,396
CCRC OpCo	Investments in unconsolidated joint ventures	176,236
Unconsolidated development joint ventures	Investments in unconsolidated joint ventures	15,176
Loan - seller financing	Loans Receivable, net	10,000
CMBS and LLC investment	Marketable debt and cost method investment	34,263

(1) The Company's maximum loss exposure represents the aggregate carrying amount of such investments (including accrued interest).

(2) The Company's maximum loss exposure may be mitigated by re-leasing the underlying properties to new tenants upon an event of default.

As of December 31, 2018, the Company had not provided, and is not required to provide, financial support through a liquidity arrangement or otherwise, to its unconsolidated VIEs, including circumstances in which it could be exposed to further losses (e.g., cash shortfalls). See Notes 4, 6, 7 and 8 for additional descriptions of the nature, purpose and operating activities of the Company's unconsolidated VIEs and interests therein.

Consolidated Variable Interest Entities

HCP, Inc.'s consolidated total assets and total liabilities at December 31, 2018 and December 31, 2017 include certain assets of VIEs that can only be used to settle the liabilities of the related VIE. The VIE creditors do not have recourse to HCP, Inc. Total assets at December 31, 2018 and December 31, 2017 include VIE assets as follows (in thousands):

	December 31,	
	2018	2017
Assets		
Building and improvements	$1,949,582	$2,436,414
Developments in process	39,584	32,285
Land	151,746	227,162
Accumulated depreciation	(398,143)	(542,091)
Net real estate	1,742,769	2,153,770
Investments in and advances to unconsolidated joint ventures	1,550	2,231
Accounts receivable, net	7,904	10,242
Cash and cash equivalents	23,772	15,861
Restricted cash	3,399	2,619
Intangible assets, net	111,333	125,475
Other assets, net	43,149	33,749
Total assets	$1,933,876	$2,343,947
Liabilities		
Mortgage debt	$ 44,598	$ 45,016
Intangible liabilities, net	19,128	10,672
Accounts payable and accrued expenses	66,736	269,280
Deferred revenue	24,215	14,432
Total liabilities	$ 154,677	$ 339,400

HCP Ventures V, LLC. The Company holds a 51% ownership interest in and is the managing member of a joint venture entity formed in October 2015 that owns and leases MOBs ("HCP Ventures V"). Upon adoption of ASU No. 2015-02, *Amendments to the Consolidation Analysis* ("ASU 2015-02"), the Company classified HCP Ventures V as a VIE due to the non-managing member lacking substantive participation rights in the management of HCP Ventures V or kick-out rights over the managing member. The Company consolidates HCP Ventures V as the primary beneficiary because it has the ability to control the activities that most significantly impact the VIE's economic performance. The assets of HCP Ventures V primarily consist of leased properties (net real estate), rents receivable, and cash and cash equivalents; its obligations primarily consist of capital expenditures for the properties. Assets generated by HCP Ventures V may only be used to settle its contractual obligations (primarily from capital expenditures).

Vintage Park JV. The Company holds a 90% ownership interest in and is the managing member of a joint venture entity formed in January 2015 ("Vintage Park JV") that owns an 85% interest in an unconsolidated development VIE. Upon adoption of ASU 2015-02, the Company classified Vintage Park JV as a VIE due to the non-managing member lacking substantive participation rights in the management of the Vintage Park JV or kick-out rights over the managing member. The Company consolidates Vintage Park JV as the primary beneficiary because it has the ability to control the activities that most significantly impact the VIE's economic performance. The assets of Vintage Park JV primarily consist of an investment in the Vintage Park Development JV and cash and cash equivalents; its obligations primarily consist of funding the ongoing development of the Vintage Park Development JV. Assets generated by the Vintage Park JV may only be used to settle its contractual obligations (primarily from the funding of the Vintage Park Development JV).

Watertown JV. The Company holds a 95% ownership interest in and is the managing member of joint venture entities formed in November 2017 that own and operate a senior housing property in a RIDEA structure ("Watertown JV"). Watertown PropCo is a VIE as the Company and the non-managing member share in control of the entity, but substantially all of the entity's activities are performed on behalf of the Company. Watertown OpCo is a VIE as the non-managing member, through its equity interest, lacks substantive participation rights in the management of Watertown OpCo or kick-out rights over the managing member. The Company consolidates Watertown PropCo and Watertown OpCo as the primary beneficiary because it has the ability to control the activities that most significantly impact these VIEs' economic performance. The assets of Watertown PropCo primarily consist of a leased property (net real estate), rents

receivable, and cash and cash equivalents; its obligations primarily consist of notes payable to a non-VIE consolidated subsidiary of the Company. The assets of Watertown OpCo primarily consist of leasehold interests in a senior housing facility (operating lease), resident fees receivable, and cash and cash equivalents; its obligations primarily consist of lease payments to Watertown PropCo and operating expenses of its senior housing facilities (accounts payable and accrued expenses). Assets generated by the senior housing operations (primarily from senior housing resident rents) of the Watertown structure may only be used to settle its contractual obligations (primarily from the rental costs, operating expenses incurred to manage such facilities and debt costs).

Hayden JV. The Company holds a 99% ownership interest in a joint venture entity formed in December 2017 that owns and leases a life science complex ("Hayden JV"). The Hayden JV is a VIE as the members share in control of the entity, but substantially all of the entity's activities are performed on behalf of the Company. The Company consolidates the Hayden JV as the primary beneficiary because it has the ability to control the activities that most significantly impact these VIEs' economic performance. The assets of the Hayden JV primarily consist of leased properties (net real estate), rents receivable, and cash and cash equivalents; its obligations primarily consist of debt service payments and capital expenditures for the properties. Assets generated by Hayden JV may only be used to settle its contractual obligations (primarily from capital expenditures).

MSREI JV. The Company holds a 51% ownership interest in, and is the managing member of, a joint venture entity formed in August 2018 that owns and leases MOBs (the "MSREI JV" - see Note 4). The MSREI JV is a VIE due to the non-managing member lacking substantive participation rights in the management of the joint venture or kick-out rights over the managing member. The Company consolidates the MSREI JV as the primary beneficiary because it has the ability to control the activities that most significantly impact the VIE's economic performance. The assets of the MSREI JV primarily consist of leased properties (net real estate), rents receivable, and cash and cash equivalents; its obligations primarily consist of capital expenditures for the properties. Assets generated by the MSREI JV may only be used to settle its contractual obligations (primarily from capital expenditures).

Consolidated Lessees. The Company leases six senior housing properties to lessee entities under cash flow leases through which the Company receives monthly rent equal to the residual cash flows of the properties. The lessee entities are classified as VIEs as they are "thinly capitalized" entities. The Company consolidates the lessee entities as it has the ability to control the activities that most significantly impact the economic performance of the lessee entities. The lessee entities' assets primarily consist of leasehold interests in senior housing facilities (operating leases), resident fees receivable, and cash and cash equivalents; its obligations primarily consist of lease payments to the Company and operating expenses of the senior housing facilities (accounts payable and accrued expenses). Assets generated by the senior housing operations (primarily from senior housing resident rents) may only be used to settle its contractual obligations (primarily from the rental costs, operating expenses incurred to manage such facilities and debt costs).

DownREITs. The Company holds a controlling ownership interest in and is the managing member of five DownREITs. The Company classifies the DownREITs as VIEs due to the non-managing members lacking substantive participation rights in the management of the DownREITs or kick-out rights over the managing member. The Company consolidates the DownREITs as the primary beneficiary because it has the ability to control the activities that most significantly impact these VIEs' economic performance. The assets of the DownREITs primarily consist of leased properties (net real estate), rents receivable, and cash and cash equivalents; their obligations primarily consist of debt service payments and capital expenditures for the properties. Assets generated by the DownREITs (primarily from resident rents) may only be used to settle their contractual obligations (primarily from debt service and capital expenditures).

Other Consolidated Real Estate Partnerships. The Company holds a controlling ownership interest in and is the general partner (or managing member) of multiple partnerships that own and lease real estate assets (the "Partnerships"). The Company classifies the Partnerships as VIEs due to the limited partners (non-managing members) lacking substantive participation rights in the management of the Partnerships or kick-out rights over the general partner (managing member). The Company consolidates the Partnerships as the primary beneficiary because it has the ability to control the activities that most significantly impact these VIEs' economic performance. The assets of the Partnerships primarily consist of leased properties (net real estate), rents receivable, and cash and cash equivalents; their obligations primarily consist of debt service payments and capital expenditures for the properties. Assets generated by the Partnerships (primarily from resident rents) may only be used to settle their contractual obligations (primarily from debt service and capital expenditures).

Other consolidated VIEs. The Company made a loan to an entity that entered into a tax credit structure ("Tax Credit Subsidiary") and a loan to an entity that made an investment

in a development joint venture ("Development JV") both of which are considered VIEs. The Company consolidates the Tax Credit Subsidiary and Development JV as the primary beneficiary because it has the ability to control the activities that most significantly impact the VIEs' economic performance. The assets and liabilities of the Tax Credit Subsidiary and Development JV substantially consist of a development in progress, notes receivable, prepaid expenses, notes payable, and accounts payable and accrued liabilities generated from their operating activities. Any assets generated by the operating activities of the Tax Credit Subsidiary and Development JV may only be used to settle their contractual obligations.

U.K. Bridge Loan. In 2016, the Company provided a £105 million ($131 million at closing) bridge loan to MMCG to fund the acquisition of a portfolio of seven care homes in the U.K. MMCG created a special purpose entity to acquire the portfolio and funded it entirely using the Company's bridge loan. As such, the special purpose entity had historically been identified as a VIE because it was "thinly capitalized." The Company retained a three-year call option to acquire all the shares of the special purpose entity, which it could only exercise upon the occurrence of certain events. During the quarter ended March 31, 2018, the Company concluded that the conditions required to exercise the call option had been met and initiated the call option process to acquire the special purpose entity. In conjunction with initiating the process to legally exercise its call option and the satisfaction of required contingencies, the Company concluded that it was the primary beneficiary of the special purpose entity and therefore, should consolidate the entity. As such, during the quarter ended March 31, 2018, the Company derecognized the previously outstanding loan receivable, recognized the special purpose entity's assets and liabilities at their respective fair values, and recognized a £29 million ($41 million) loss on consolidation, net of a tax benefit of £2 million ($3 million), to account for the difference between the carrying value of the loan receivable and the fair value of net assets and liabilities assumed. The loss on consolidation is recognized within other income (expense), net and the tax benefit is recognized within income tax benefit (expense). The fair value of net assets and liabilities consolidated during the first quarter of 2018 consisted of £81 million ($114 million) of net real estate, £4 million ($5 million) of intangible assets, and £9 million ($13 million) of net deferred tax liabilities.

In June 2018, the Company completed the exercise of the above-mentioned call option and formally acquired full ownership of the special purpose entity. As such, the Company reconsidered whether the special purpose entity was a VIE and concluded that it was no longer "thinly capitalized" as the previously outstanding bridge loan converted to equity at risk and, therefore, was no longer a VIE. The real estate assets held by the special purpose entity were contributed to the U.K. JV formed by the Company in June 2018 (see Note 5).

Note 20. Concentration of Credit Risk

Concentrations of credit risk arise when one or more tenants, operators or obligors related to the Company's investments are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations, including those to the Company, to be similarly affected by changes in economic conditions. The Company regularly monitors various segments of its portfolio to assess potential concentrations of credit risks.

The following tables provide information regarding the Company's concentrations with respect to Brookdale as a tenant as of and for the periods presented:

	Percentage of Total Assets			
	Total Company		Senior Housing Triple-Net	
	December 31,		December 31,	
Tenant	2018	2017	2018	2017
Brookdale[1]	6	10	27	39

	Percentage of Revenues					
	Total Company			Senior Housing Triple-Net		
	Year Ended December 31,			Year Ended December 31,		
Tenant	2018	2017	2016	2018	2017	2016
Brookdale[1]	6	8	12	38	47	59

[1] Excludes senior housing facilities operated by Brookdale in the Company's SHOP segment as discussed below. Percentages of segment and total company revenues include partial-year revenue earned from senior housing triple-net facilities that were sold during 2018. Accordingly, the percentages of segment and total company revenues are expected to decrease in 2019. The years ended December 31, 2017 and 2016 include revenues from 64 senior housing triple-net facilities that were sold in March 2017.

As of December 31, 2018 and 2017, Brookdale managed or operated, in the Company's SHOP segment, approximately 7% and 13%, respectively, of the Company's real estate investments based on total assets. Because an operator manages the Company's facilities in exchange for the receipt of a management fee, the Company is not directly exposed to the credit risk of its operators in the same manner or to the same extent as its triple-net tenants. As of December 31, 2018, Brookdale provided comprehensive facility management and accounting services with respect to 35 of the Company's SHOP facilities and 16 SHOP facilities owned by its unconsolidated joint ventures, for which the Company or joint venture pay annual management fees pursuant to long-term management agreements. Most of the management agreements have terms ranging from 10 to 15 years, with three to four 5-year renewals. The base management fees are 4.5% to 5.0% of gross revenues (as defined) generated by the RIDEA facilities. In addition, there are incentive management fees payable to Brookdale if operating results of the RIDEA properties exceed pre-established EBITDAR (as defined) thresholds.

Brookdale is subject to the registration and reporting requirements of the U.S. Securities and Exchange Commission ("SEC") and is required to file with the SEC annual reports containing audited financial information and quarterly reports containing unaudited financial information. The information related to Brookdale contained or referred to in this report has been derived from SEC filings made by Brookdale or other publicly available information, or was provided to the Company by Brookdale, and the Company has not verified this information through an independent investigation or otherwise. The Company has no reason to believe that this information is inaccurate in any material respect, but the Company cannot assure the reader of its accuracy. The Company is providing this data for informational purposes only, and encourages the reader to obtain Brookdale's publicly available filings, which can be found on the SEC's website at www.sec.gov.

See Note 3 for further information on the reduction of concentration related to Brookdale.

To mitigate the credit risk of leasing properties to certain senior housing operators, leases with operators are often combined into portfolios that contain cross-default terms, so that if a tenant of any of the properties in a portfolio defaults on its obligations under its lease, the Company may pursue its remedies under the lease with respect to any of the properties in the portfolio. Certain portfolios also contain terms whereby the net operating profits of the properties are combined for the purpose of securing the funding of rental payments due under each lease.

The following table provides information regarding the Company's concentrations with respect to certain states; the information provided is presented for the gross assets and revenues that are associated with certain real estate assets as percentages of total Company's total assets and revenues:

	Percentage of Total Company Assets		Percentage of Total Company Revenues		
	December 31,		Year Ended December 31,		
State	2018	2017	2018	2017	2016
California	34	31	26	26	26
Texas	16	14	18	17	17

Note 21. Fair Value Measurements

Financial assets and liabilities measured at fair value on a recurring basis at December 31, 2018 in the consolidated balance sheets are immaterial.

The table below summarizes the carrying amounts and fair values of the Company's financial instruments (in thousands):

	December 31,			
	2018[3]		2017[3]	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Loans receivable, net[2]	$ 62,998	$ 62,998	$ 313,326	$ 313,242
Marketable debt securities[2]	19,202	19,202	18,690	18,690
Bank line of credit[2]	80,103	80,103	1,017,076	1,017,076
Term loan[2]	—	—	228,288	228,288
Senior unsecured notes[1]	5,258,550	5,302,485	6,396,451	6,737,825
Mortgage debt[2]	138,470	136,161	144,486	125,984
Other debt[2]	90,785	90,785	94,165	94,165
Interest-rate swap liabilities[2]	1,310	1,310	2,483	2,483
Cross currency swap liability[2]	—	—	10,968	10,968

(1) Level 1: Fair value calculated based on quoted prices in active markets.

(2) Level 2: Fair value based on (i) for marketable debt securities, quoted prices for similar or identical instruments in active or inactive markets, respectively, or (ii) or for loans receivable, net, mortgage debt, and swaps, calculated utilizing standardized pricing models in which significant inputs or value drivers are observable in active markets. For bank line of credit, term loans and other debt, the carrying values are a reasonable estimate of fair value because the borrowings are primarily based on market interest rates and the Company's credit rating.

(3) During the years ended December 31, 2018 and 2017, there were no transfers of financial assets or liabilities within the fair value hierarchy.

Note 22. Derivative Financial Instruments

The following table summarizes the Company's outstanding interest-rate contracts as of December 31, 2018 (dollars in thousands):

Date Entered	Maturity Date	Hedge Designation	Notional	Pay Rate	Receive Rate	Fair Value[1]
Interest rate:						
July 2005[2]	July 2020	Cash Flow	$43,000	3.820%	BMA Swap Index	$(1,310)

(1) Derivative liabilities are recorded in accounts payable and accrued liabilities on the consolidated balance sheets.

(2) Represents three interest-rate swap contracts, which hedge fluctuations in interest payments on variable-rate secured debt due to overall changes in hedged cash flows.

The Company uses derivative instruments to mitigate the effects of interest rate fluctuations on specific forecasted transactions as well as recognized financial obligations or assets. Utilizing derivative instruments allows the Company to manage the risk of fluctuations in interest rates related to the potential impact these changes could have on future earnings and forecasted cash flows. The Company does not use derivative instruments for speculative or trading purposes. Assuming a one percentage point shift in the underlying interest rate curve, the estimated change in fair value of each of the underlying derivative instruments would not exceed $1 million.

On June 29, 2018, concurrent with closing the U.K. JV transaction, the Company terminated a cross currency swap contract, which was designated as a hedge of the Company's net investment in the U.K. As such, upon deconsolidation of the U.K. Portfolio, the Company reclassified the $6 million loss in other comprehensive income related to the cross currency swap through gain (loss) on sales of real estate, net.

As of December 31, 2018, £55 million of the Company's GBP-denominated borrowings under the Facility are designated as a hedge of a portion of the Company's net investments in GBP-functional currency unconsolidated subsidiaries to mitigate its exposure to fluctuations in the GBP to USD exchange rate. For instruments that are designated and qualify as net investment hedges, the variability in the foreign currency to USD exchange rate of the instrument is recorded as part of the cumulative translation adjustment component of accumulated other comprehensive income (loss). Accordingly, the remeasurement value of the designated £55 million

GBP-denominated borrowings due primarily to fluctuations in the GBP to USD exchange rate are reported in accumulated other comprehensive income (loss) as the hedging relationship is considered to be effective. The balance in accumulated other comprehensive income (loss) (loss of $2 million at December 31, 2018) will be reclassified to earnings when the Company sells its remaining U.K. investments.

Note 23. Selected Quarterly Financial Data (Unaudited)

The following table summarizes selected quarterly information for the years ended December 31, 2018 and 2017 (in thousands, except per share amounts):

	Three Months Ended 2018			
	March 31	June 30	September 30	December 31
Total revenues	$479,197	$469,551	$456,022	$441,919
Income (loss) before income taxes and equity income from investments in unconsolidated joint ventures	37,331	88,375	98,908	833,600
Net income (loss)	43,237	92,928	102,926	834,383
Net income (loss) applicable to HCP, Inc.	40,232	89,942	99,371	831,548
Dividends paid per common share	0.37	0.37	0.37	0.37
Basic earnings per common share	0.08	0.19	0.21	1.75
Diluted earnings per common share	0.08	0.19	0.21	1.73

	Three Months Ended 2017			
	March 31	June 30	September 30	December 31
Total revenues	$492,168	$458,928	$454,023	$443,259
Income (loss) before income taxes and equity income from investments in unconsolidated joint ventures	454,746	18,874	(12,263)	(50,957)
Net (loss) income	464,177	22,101	(5,720)	(57,924)
Net (loss) income applicable to HCP, Inc.	461,145	19,383	(7,657)	(58,702)
Dividends paid per common share	0.37	0.37	0.37	0.37
Basic earnings per common share	0.98	0.04	(0.02)	(0.13)
Diluted earnings per common share	0.97	0.04	(0.02)	(0.13)

The above selected quarterly financial data includes the following significant transactions:

2018

- During the quarter ended December 31, 2018, the Company sold its Shoreline Technology Center life science campus for $1.0 billion and recognized a gain on sale of $726 million.
- During the quarter ended December 31, 2018, the Company acquired the outstanding equity interests in three life science joint ventures for $92 million and recognized a gain on consolidation of $50 million.
- During the quarter ended December 31, 2018, the Company sold 19 senior housing assets (11 senior housing triple-net assets and eight SHOP assets) for $377 million and recognized gain on sales of $40 million.
- During the quarter ended December 31, 2018, the Company recognized impairment charges of $33 million related to four underperforming SHOP assets.
- During the quarter ended September 30, 2018, the Company repurchased $700 million of its 5.375% senior notes due 2021 and recorded a $44 million loss on debt extinguishment.
- During the quarter ended March 31, 2018, The Company recognized a £29 million ($41 million) loss on consolidation related to the U.K. Bridge Loan (see Notes 7 and 19).

2017

- During the quarter ended December 31, 2017, the Company recognized a $20 million net reduction of rental and related revenues and $35 million of operating expense related to the Brookdale Transactions.
- During the quarter ended December 31, 2017, the Company recorded an impairment charge of $84 million related to the Tandem Mezzanine Loan.
- During the quarter ended December 31, 2017, the Company recognized a tax expense of $17 million due to a remeasurement of deferred tax assets and liabilities.
- During the quarter ended September 30, 2017, the Company repurchased $500 million of its 5.375% senior notes due 2021 and recorded a $54 million loss on debt extinguishment.

- During the quarter ended June 30, 2017, the Company recorded an impairment charge of $57 million related to the Tandem Mezzanine Loan.
- During the quarter ended March 31, 2017, the Company deconsolidated the net assets of RIDEA II and recognized a net gain on sale of $99 million.
- During the quarter ended March 31, 2017, the Company sold 64 senior housing triple-net assets, resulting in a net gain on sale of $170 million.
- During the quarter ended March 31, 2017, the Company sold its Four Seasons Notes, which generated a £42 million ($51 million) gain on sale.

Schedule II: Valuation and Qualifying Accounts

Allowance Accounts[1]		Additions		Deductions		
Year Ended December 31,	Balance at Beginning of Year	Amounts Charged Against Operations, net	Acquired Properties	Uncollectible Accounts Written-off	Dispositions	Balance at End of Year
2018	$ 169,374	$ 4,105	$—	$ (1,887)	$ (143,795)	$ 27,797
2017	29,518	144,135	—	(2,732)	(1,547)	169,374
2016	36,180	1,177	—	(2,843)	(4,996)	29,518

[1] Includes allowance for doubtful accounts, straight-line rent reserves, and allowances for loan and direct financing lease losses (see Note 6 to the Consolidated Financial Statements).

Schedule III: Real Estate and Accumulated Depreciation

City	State	Encumbrances at December 31, 2018	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition	Gross Amount at Which Carried As of December 31, 2018			Accumulated Depreciation[2]	Year Acquired/ Constructed
			Land	Buildings and Improvements		Land	Buildings and Improvements	Total[1]		
Senior housing triple-net										
1107 Huntsville	AL	$ —	$ 307	$ 5,813	$ —	$ 307	$ 5,453	$ 5,760	$ (1,670)	2006
0786 Douglas	AZ	—	110	703	—	110	703	813	(385)	2005
0518 Tucson	AZ	—	2,350	24,037	—	2,350	24,037	26,387	(12,219)	2002
1238 Beverly Hills	CA	—	9,872	32,590	9,257	9,872	38,972	48,844	(11,638)	2006
0883 Carmichael	CA	—	4,270	13,846	—	4,270	13,236	17,506	(3,998)	2006
2204 Chino Hills	CA	—	3,720	41,183	—	3,720	41,183	44,903	(6,307)	2014
0851 Citrus Heights	CA	—	1,180	8,367	—	1,180	8,037	9,217	(3,370)	2006
0790 Concord	CA	25,000	6,010	39,601	—	6,010	38,301	44,311	(12,835)	2005
0787 Dana Point	CA	—	1,960	15,946	—	1,960	15,466	17,426	(5,187)	2005
0798 Escondido	CA	14,340	5,090	24,253	—	5,090	23,353	28,443	(7,833)	2005
0791 Fremont	CA	—	2,360	11,672	—	2,360	11,192	13,552	(3,754)	2005
0788 Granada Hills	CA	—	2,200	18,257	—	2,200	17,637	19,837	(5,916)	2005
0227 Lodi	CA	—	732	5,453	—	732	5,453	6,185	(3,164)	1997
0226 Murietta	CA	—	435	5,729	—	435	5,729	6,164	(3,257)	1997
1165 Northridge	CA	—	6,718	26,309	2,820	6,752	27,890	34,642	(9,012)	2006
0789 Pleasant Hill	CA	6,270	2,480	21,333	—	2,480	20,633	23,113	(6,921)	2005
2205 Roseville	CA	—	3,844	33,527	—	3,844	33,527	37,371	(5,038)	2014
0793 South San Francisco	CA	—	3,000	16,586	—	3,000	16,056	19,056	(5,380)	2005
0792 Ventura	CA	—	2,030	17,379	—	2,030	16,749	18,779	(5,618)	2005
0512 Denver	CO	—	2,810	36,021	1,885	2,810	37,686	40,496	(18,826)	2002
1000 Greenwood Village	CO	—	3,367	43,610	2,894	3,367	45,708	49,075	(13,295)	2006
0861 Apopka	FL	—	920	4,816	994	920	5,710	6,630	(2,073)	2006
0852 Boca Raton	FL	—	4,730	17,532	5,471	4,730	22,391	27,121	(8,375)	2006
2467 Ft Myers	FL	—	2,782	21,827	—	2,782	21,827	24,609	(2,400)	2016
1095 Gainesville	FL	—	1,221	12,226	83	1,221	12,084	13,305	(3,675)	2006
0490 Jacksonville	FL	—	3,250	25,936	6,170	3,250	32,106	35,356	(13,791)	2002
1096 Jacksonville	FL	—	1,587	15,616	65	1,587	15,363	16,950	(4,685)	2006
1017 Palm Harbor	FL	—	1,462	16,774	696	1,462	17,084	18,546	(5,277)	2006
0802 St. Augustine	FL	—	830	11,627	1,471	830	12,698	13,528	(4,887)	2005
1097 Tallahassee	FL	—	1,331	19,039	123	1,331	18,818	20,149	(5,725)	2006
1605 Vero Beach	FL	—	700	16,234	—	700	15,484	16,184	(3,539)	2010
1257 Vero Beach	FL	—	2,035	34,993	201	2,035	33,634	35,669	(10,298)	2006
2165 Hartwell	GA	—	368	6,337	320	368	6,657	7,025	(1,235)	2012
2066 Lawrenceville	GA	—	581	2,669	576	581	3,245	3,826	(860)	2012
1241 Lilburn	GA	—	907	17,340	370	907	17,125	18,032	(5,296)	2006
2086 Newnan	GA	—	1,227	4,202	533	1,227	4,735	5,962	(1,183)	2012
1005 Oak Park	IL	—	3,476	35,259	1,862	3,476	36,575	40,051	(10,507)	2006
1162 Orland Park	IL	—	2,623	23,154	1,732	2,623	24,111	26,734	(7,514)	2006
1237 Wilmette	IL	—	1,100	9,373	791	1,100	9,940	11,040	(3,091)	2006
2115 Murray	KY	—	288	7,400	319	288	7,719	8,007	(1,574)	2012
1249 Frederick	MD	—	609	9,158	1,217	609	9,811	10,420	(2,948)	2006
0546 Cape Elizabeth	ME	—	630	3,524	93	630	3,617	4,247	(1,428)	2003
0545 Saco	ME	—	80	2,363	155	80	2,518	2,598	(991)	2003
1258 Auburn Hills	MI	—	2,281	10,692	—	2,281	10,692	12,973	(3,274)	2006
1248 Farmington Hills	MI	—	1,013	12,119	968	1,013	12,435	13,448	(3,928)	2006
1259 Sterling Heights	MI	—	1,593	11,500	—	1,593	11,181	12,774	(3,424)	2006
1235 Des Peres	MO	—	4,361	20,664	1,333	4,361	21,379	25,740	(6,385)	2006
1236 Richmond Heights	MO	—	1,744	24,232	413	1,744	23,961	25,705	(7,364)	2006
0853 St. Louis	MO	—	2,500	20,343	—	2,500	19,853	22,353	(8,327)	2006
0878 Charlotte	NC	—	710	9,559	—	710	9,159	9,869	(2,767)	2006
2465 Charlotte	NC	—	1,373	10,774	—	1,373	10,774	12,147	(1,185)	2016
2468 Franklin	NC	—	1,082	8,489	—	1,082	8,489	9,571	(933)	2016
2466 Raeford	NC	—	1,304	10,230	—	1,304	10,230	11,534	(1,125)	2016
1254 Raleigh	NC	—	1,191	11,532	1,198	1,191	12,182	13,373	(3,572)	2006
1239 Cresskill	NJ	—	4,684	53,927	618	4,684	53,503	58,187	(16,460)	2006

City	State	Encumbrances at December 31, 2018	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition	Gross Amount at Which Carried As of December 31, 2018			Accumulated Depreciation[2]	Year Acquired/ Constructed
			Land	Buildings and Improvements		Land	Buildings and Improvements	Total[1]		
0734 Hillsborough	NJ	—	1,042	10,042	796	1,042	10,372	11,414	(3,485)	2005
1242 Madison	NJ	—	3,157	19,909	252	3,157	19,523	22,680	(5,969)	2006
1231 Saddle River	NJ	—	1,784	15,625	754	1,784	15,710	17,494	(4,848)	2006
0796 Las Vegas	NV	—	1,960	5,816	—	1,960	5,426	7,386	(1,820)	2005
1252 Brooklyn	NY	—	8,117	23,627	1,198	8,117	23,669	31,786	(7,319)	2006
1256 Brooklyn	NY	—	5,215	39,052	1,290	5,215	39,312	44,527	(12,230)	2006
1253 Youngstown	OH	—	695	10,444	760	695	10,824	11,519	(3,478)	2006
2131 Keizer	OR	2,262	551	6,454	—	551	6,454	7,005	(1,136)	2013
2152 McMinnville	OR	—	3,203	24,909	5,839	3,203	29,253	32,456	(6,757)	2012
2089 Newberg	OR	—	1,889	16,855	874	1,889	17,729	19,618	(3,025)	2012
2133 Portland	OR	—	1,615	12,030	189	1,615	12,219	13,834	(1,926)	2012
2050 Redmond	OR	—	1,229	21,921	844	1,229	22,765	23,994	(3,594)	2012
2084 Roseburg	OR	—	1,042	12,090	145	1,042	12,235	13,277	(2,305)	2012
2134 Scappoose	OR	—	353	1,258	17	353	1,275	1,628	(317)	2012
2153 Scappoose	OR	—	971	7,116	162	971	7,278	8,249	(1,584)	2012
2088 Tualatin	OR	—	—	6,326	396	—	6,722	6,722	(1,687)	2012
2180 Windfield Village	OR	2,456	580	9,817	—	580	9,817	10,397	(1,723)	2013
1163 Haverford	PA	—	16,461	108,816	14,337	16,461	118,289	134,750	(37,303)	2006
2063 Selinsgrove	PA	—	529	9,111	255	529	9,366	9,895	(1,971)	2012
1973 South Kingstown	RI	—	1,390	12,551	630	1,390	12,918	14,308	(3,660)	2011
1975 Tiverton	RI	—	3,240	25,735	651	3,240	25,939	29,179	(7,152)	2011
1104 Aiken	SC	—	357	14,832	151	363	14,395	14,758	(4,447)	2006
1109 Columbia	SC	—	408	7,527	131	412	7,411	7,823	(2,311)	2006
0306 Georgetown	SC	—	239	3,008	—	239	3,008	3,247	(1,303)	1998
0879 Greenville	SC	—	1,090	12,558	—	1,090	12,058	13,148	(3,642)	2006
0305 Lancaster	SC	—	84	2,982	—	84	2,982	3,066	(1,208)	1998
0880 Myrtle Beach	SC	—	900	10,913	—	900	10,513	11,413	(3,176)	2006
0312 Rock Hill	SC	—	203	2,671	—	203	2,671	2,874	(1,136)	1998
1113 Rock Hill	SC	—	695	4,119	322	795	4,074	4,869	(1,440)	2006
0313 Sumter	SC	—	196	2,623	—	196	2,623	2,819	(1,136)	1998
2073 Kingsport	TN	—	1,113	8,625	335	1,113	8,960	10,073	(1,732)	2012
1003 Nashville	TN	—	812	16,983	2,524	812	18,759	19,571	(5,180)	2006
0843 Abilene	TX	—	300	2,830	—	300	2,710	3,010	(853)	2006
2107 Amarillo	TX	—	1,315	26,838	894	1,315	27,732	29,047	(4,649)	2012
0511 Austin	TX	—	2,960	41,645	—	2,960	41,645	44,605	(21,169)	2002
2075 Bedford	TX	—	1,204	26,845	1,704	1,204	28,549	29,753	(5,120)	2012
0844 Burleson	TX	—	1,050	5,242	—	1,050	4,902	5,952	(1,542)	2006
0848 Cedar Hill	TX	—	1,070	11,554	—	1,070	11,104	12,174	(3,493)	2006
1325 Cedar Hill	TX	—	440	7,494	—	440	6,974	7,414	(2,048)	2007
1106 Houston	TX	—	1,008	15,333	183	1,020	14,955	15,975	(4,601)	2006
0845 North Richland Hills	TX	—	520	5,117	—	520	4,807	5,327	(1,512)	2006
0846 North Richland Hills	TX	—	870	9,259	—	870	8,819	9,689	(3,171)	2006
2162 Portland	TX	—	1,233	14,001	3,027	1,233	17,028	18,261	(3,484)	2012
2116 Sherman	TX	—	209	3,492	187	209	3,679	3,888	(787)	2012
0847 Waxahachie	TX	—	390	3,879	—	390	3,659	4,049	(1,151)	2006
2470 Abingdon	VA	—	1,584	12,431	—	1,584	12,431	14,015	(1,367)	2016
1244 Arlington	VA	—	3,833	7,076	940	3,833	7,573	11,406	(2,456)	2006
1245 Arlington	VA	—	7,278	37,407	3,543	7,278	39,779	47,057	(12,340)	2006
0881 Chesapeake	VA	—	1,090	12,444	—	1,090	11,944	13,034	(3,608)	2006
1247 Falls Church	VA	—	2,228	8,887	969	2,228	9,522	11,750	(3,051)	2006
1164 Fort Belvoir	VA	—	11,594	99,528	12,927	11,594	109,472	121,066	(35,474)	2006
1250 Leesburg	VA	—	607	3,236	275	607	3,296	3,903	(3,415)	2006
1246 Sterling	VA	—	2,360	22,932	1,279	2,360	23,297	25,657	(7,241)	2006
0225 Woodbridge	VA	—	950	6,983	1,652	950	8,460	9,410	(3,916)	1997
2095 College Place	WA	—	758	8,051	720	758	8,771	9,529	(1,814)	2012
1240 Edmonds	WA	—	1,418	16,502	155	1,418	16,138	17,556	(4,953)	2006
0797 Kirkland	WA	—	1,000	13,403	—	1,000	13,043	14,043	(4,375)	2005
1251 Mercer Island	WA	—	4,209	8,123	640	4,209	8,253	12,462	(2,575)	2006

City	State	Encumbrances at December 31, 2018	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition	Gross Amount at Which Carried As of December 31, 2018			Accumulated Depreciation[2]	Year Acquired/ Constructed
			Land	Buildings and Improvements		Land	Buildings and Improvements	Total[1]		
2096 Poulsbo	WA	—	1,801	18,068	231	1,801	18,299	20,100	(3,288)	2012
2102 Richland	WA	—	249	5,067	138	249	5,205	5,454	(926)	2012
0794 Shoreline	WA	—	1,590	10,671	—	1,590	10,261	11,851	(3,442)	2005
0795 Shoreline	WA	—	4,030	26,421	—	4,030	25,651	29,681	(8,542)	2005
2061 Vancouver	WA	—	513	4,556	263	513	4,819	5,332	(1,092)	2012
2062 Vancouver	WA	—	1,498	9,997	211	1,498	10,207	11,705	(1,787)	2012
		$50,328	$243,697	$1,955,332	$107,418	$243,853	$2,011,624	$2,255,477	$(604,961)	

City	State	Encumbrances at December 31, 2018	Initial Cost to Company Land	Initial Cost to Company Buildings and Improvements	Costs Capitalized Subsequent to Acquisition	Gross Amount at Which Carried As of December 31, 2018 Land	Gross Amount at Which Carried As of December 31, 2018 Buildings and Improvements	Gross Amount at Which Carried As of December 31, 2018 Total[1]	Accumulated Depreciation[2]	Year Acquired/ Constructed
Senior housing operating portfolio										
1974 Sun City	AZ	$ —	$ 2,640	$ 33,223	$ 3,260	$ 2,640	$ 35,953	$ 38,593	$ (10,613)	2011
1965 Fresno	CA	—	1,730	31,918	2,583	1,730	34,071	35,801	(9,839)	2011
2593 Irvine	CA	—	8,220	14,104	3,191	8,220	16,755	24,975	(3,846)	2006
2792 Santa Rosa	CA	—	3,582	21,113	2,314	3,627	22,087	25,714	(6,971)	2006
1966 Sun City	CA	—	2,650	22,709	4,471	2,650	26,725	29,375	(8,704)	2011
2505 Arvada	CO	—	1,788	29,896	1,744	1,788	31,640	33,428	(3,885)	2015
2506 Boulder	CO	—	2,424	36,746	2,064	2,424	38,810	41,234	(3,546)	2015
2515 Denver	CO	—	2,311	18,645	2,204	2,311	20,849	23,160	(3,673)	2015
2508 Lakewood	CO	—	4,384	60,795	2,244	4,384	63,039	67,423	(7,050)	2015
2509 Lakewood	CO	—	2,296	37,236	1,815	2,296	39,051	41,347	(3,664)	2015
2782 Glastonbury	CT	—	1,658	16,046	653	1,658	16,699	18,357	(3,148)	2012
2783 Torrington	CT	—	166	11,001	4,637	166	15,228	15,394	(4,941)	2005
2603 Boca Raton	FL	—	2,415	17,923	2,062	2,415	18,960	21,375	(5,124)	2006
1963 Boynton Beach	FL	—	2,550	31,521	4,971	2,550	35,827	38,377	(11,022)	2011
1964 Boynton Beach	FL	—	570	5,649	2,550	570	8,006	8,576	(3,052)	2011
2602 Boynton Beach	FL	—	1,270	4,773	4,124	1,270	7,123	8,393	(1,589)	2003
2520 Clearwater	FL	—	2,250	2,627	2,284	2,250	4,331	6,581	(1,353)	2015
2604 Coconut Creek	FL	—	2,461	16,006	3,026	2,461	17,598	20,059	(4,568)	2006
2601 Delray Beach	FL	—	850	6,637	3,139	850	8,863	9,713	(2,587)	2002
2517 Ft Lauderdale	FL	—	2,867	43,126	4,806	2,867	47,776	50,643	(6,847)	2015
2592 Lantana	FL	—	3,520	26,452	1,317	3,520	26,969	30,489	(10,731)	2006
2522 Lutz	FL	—	902	15,169	2,494	902	17,663	18,565	(1,759)	2015
2523 Orange City	FL	—	912	9,724	1,320	912	11,044	11,956	(1,599)	2015
2775 Port Orange	FL	—	2,340	9,898	1,498	2,340	10,875	13,215	(3,737)	2005
2524 Port St Lucie	FL	—	893	10,333	1,319	893	11,652	12,545	(1,802)	2015
1971 Sarasota	FL	—	3,050	29,516	7,938	3,050	37,025	40,075	(11,489)	2011
2861 Springtree	FL	—	1,066	15,874	1,451	1,066	8,429	9,495	(3,258)	2013
2526 Tamarac	FL	—	970	16,037	1,577	970	17,614	18,584	(1,943)	2015
2527 Vero Beach	FL	—	1,048	17,392	1,762	1,048	19,154	20,202	(2,124)	2015
2858 Canton	GA	—	401	17,888	473	401	6,609	7,010	(2,881)	2012
2859 Bufford	GA	—	562	3,604	500	562	4,104	4,666	(994)	2015
2860 Bufford	GA	—	536	3,142	343	536	3,485	4,021	(803)	2012
2200 Deer Park	IL	—	4,172	2,417	44,603	4,229	44,546	48,775	(3,584)	2014
1961 Olympia Fields	IL	—	4,120	29,400	4,420	4,120	33,294	37,414	(9,914)	2011
1952 Vernon Hills	IL	—	4,900	45,854	7,677	4,900	52,835	57,735	(16,017)	2011
2595 Indianapolis	IN	—	1,197	7,718	1,092	1,197	8,578	9,775	(2,448)	2006
2596 W Lafayette	IN	—	813	10,876	1,432	813	8,011	8,824	(3,433)	2006
2778 Louisville	KY	—	1,499	26,252	734	1,513	26,138	27,651	(7,869)	2006
2787 Plymouth	MA	—	2,434	9,027	1,033	2,438	9,260	11,698	(2,855)	2006
2746 Watertown	MA	—	8,828	29,317	203	8,828	29,520	38,348	(923)	2017
2583 Ellicott City	MD	18,985	3,607	31,720	1,626	3,607	33,346	36,953	(2,413)	2016
2584 Hanover	MD	8,839	4,513	25,625	1,208	4,513	26,833	31,346	(1,907)	2016
2585 Laurel	MD	5,733	3,895	13,331	1,279	3,895	14,610	18,505	(1,381)	2016
2541 Olney	MD	—	1,580	33,802	228	1,580	34,030	35,610	(3,309)	2015
2586 Parkville	MD	20,485	3,854	29,061	1,209	3,854	30,270	34,124	(2,558)	2016
2587 Waldorf	MD	8,289	392	20,514	868	392	21,382	21,774	(1,507)	2016
2788 Westminster	MD	—	768	5,251	1,963	768	6,902	7,670	(2,908)	1998
2776 Mooresville	NC	—	2,538	37,617	2,114	2,538	39,731	42,269	(6,653)	2012
2780 Cherry Hill	NJ	—	2,420	11,042	2,545	2,420	13,037	15,457	(4,374)	2010
2781 Manahawkin	NJ	—	921	9,927	891	921	10,352	11,273	(3,544)	2005
2779 Voorhees Township	NJ	—	900	7,629	934	900	8,224	9,124	(3,542)	1998
2589 Albuquerque	NM	—	767	9,324	539	767	9,364	10,131	(4,322)	1996
2516 Centerville	OH	—	1,065	10,901	1,658	1,065	12,559	13,624	(2,337)	2015
2512 Cincinnati	OH	—	1,180	6,157	2,702	1,180	8,859	10,039	(2,137)	2015
2597 Fairborn	OH	—	298	10,704	3,983	298	14,456	14,754	(4,140)	2006

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2789 Portland	OR	—	—	16,087	486	—	16,573	16,573	(2,512)	2012
1962 Warwick	RI	—	1,050	17,389	5,807	1,050	22,841	23,891	(6,867)	2011
2401 Germantown	TN	—	3,640	64,588	528	3,640	65,116	68,756	(7,538)	2015
2784 Arlington	TX	—	2,494	12,192	576	2,540	12,012	14,552	(3,622)	2006
2608 Arlington	TX	—	2,002	19,110	239	2,002	18,968	20,970	(5,553)	2006
2531 Austin	TX	—	607	15,972	573	607	16,545	17,152	(1,624)	2015
2786 Friendswood	TX	—	400	7,354	723	400	7,756	8,156	(2,776)	2002
2529 Grand Prairie	TX	—	865	10,650	1,395	865	12,045	12,910	(1,728)	2015
1955 Houston	TX	—	9,820	50,079	11,978	9,820	60,746	70,566	(19,773)	2011
1957 Houston	TX	—	8,170	37,285	6,545	8,170	42,999	51,169	(13,451)	2011
2785 Houston	TX	—	835	7,195	671	835	7,866	8,701	(3,557)	1997
2402 Houston	TX	—	1,740	32,057	153	1,740	32,210	33,950	(3,840)	2015
2606 Houston	TX	—	2,470	21,710	4,132	2,470	24,992	27,462	(11,297)	2002
2530 N Richland Hills	TX	—	1,190	17,756	1,493	1,190	19,249	20,439	(2,434)	2015
2532 San Antonio	TX	—	613	5,874	1,027	613	6,901	7,514	(1,367)	2015
2607 San Antonio	TX	—	730	3,961	421	730	4,067	4,797	(1,500)	2002
2533 San Marcos	TX	—	765	18,175	996	765	19,171	19,936	(1,980)	2015
1954 Sugar Land	TX	—	3,420	36,846	6,275	3,420	42,422	45,842	(13,190)	2011
2510 Temple	TX	—	2,354	52,859	1,384	2,354	54,243	56,597	(5,438)	2015
2400 Victoria	TX	—	1,032	7,743	2,406	1,032	9,253	10,285	(1,347)	2015
2605 Victoria	TX	—	175	4,290	5,589	175	8,424	8,599	(2,878)	1995
1953 Webster	TX	—	4,780	30,854	8,547	4,780	35,409	40,189	(9,958)	2011
2582 Fredericksburg	VA	—	2,370	19,725	157	2,370	19,882	22,252	(1,260)	2016
2581 Leesburg	VA	12,039	1,340	17,605	1,054	1,340	18,659	19,999	(1,304)	2016
2514 Richmond	VA	—	2,981	54,203	2,437	2,981	56,640	59,621	(5,253)	2015
2777 Sterling	VA	—	1,046	15,788	599	1,046	16,378	17,424	(2,690)	2012
2790 Bellevue	WA	—	3,734	16,171	775	3,737	16,224	19,961	(5,014)	2006
2791 Kenmore	WA	—	3,284	16,641	694	3,284	17,335	20,619	(2,954)	2012
2745 Madison	WI	—	834	10,050	449	834	10,499	11,333	(2,116)	2012
		$74,370	$186,684	$1,700,398	$233,184	$186,853	$1,875,576	$2,062,429	$(388,038)	

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			Land	Buildings and Improvements		Land	Buildings and Improvements	Total[1]		
Life science										
1483 Brisbane	CA	$ —	$ 8,498	$ 500	$ 5,740	$ 8,498	$ 6,240	$ 14,738	$ —	2007
1484 Brisbane	CA	—	11,331	689	8,775	11,331	9,464	20,795	—	2007
1485 Brisbane	CA	—	11,331	600	7,648	11,331	8,248	19,579	—	2007
1486 Brisbane	CA	—	11,331	—	75,700	11,331	75,700	87,031	—	2007
1487 Brisbane	CA	—	8,498	—	6,940	8,498	6,940	15,438	—	2007
1401 Hayward	CA	—	900	7,100	1,746	900	7,992	8,892	(2,077)	2007
1402 Hayward	CA	—	1,500	6,400	3,682	1,719	9,863	11,582	(4,881)	2007
1403 Hayward	CA	—	1,900	7,100	4,722	1,900	11,568	13,468	(3,734)	2007
1404 Hayward	CA	—	2,200	17,200	1,402	2,200	18,602	20,802	(4,987)	2007
1405 Hayward	CA	—	1,000	3,200	7,478	1,000	10,678	11,678	(7,239)	2007
1549 Hayward	CA	—	1,006	4,259	3,463	1,055	6,409	7,464	(3,005)	2007
1550 Hayward	CA	—	677	2,761	5,583	710	2,836	3,546	(1,695)	2007
1551 Hayward	CA	—	661	1,995	4,632	693	5,489	6,182	(3,885)	2007
1552 Hayward	CA	—	1,187	7,139	1,346	1,222	8,094	9,316	(3,874)	2007
1553 Hayward	CA	—	1,189	9,465	7,361	1,225	16,265	17,490	(6,377)	2007
1554 Hayward	CA	—	1,246	5,179	3,332	1,283	7,599	8,882	(3,070)	2007
1555 Hayward	CA	—	1,521	13,546	6,401	1,566	19,888	21,454	(8,316)	2007
1556 Hayward	CA	—	1,212	5,120	3,661	1,249	5,828	7,077	(2,324)	2007
1424 La Jolla	CA	—	9,600	25,283	9,309	9,719	32,286	42,005	(10,326)	2007
1425 La Jolla	CA	—	6,200	19,883	431	6,276	20,228	26,504	(5,764)	2007
1426 La Jolla	CA	—	7,200	12,412	12,379	7,287	21,690	28,977	(6,393)	2007
1427 La Jolla	CA	—	8,700	16,983	6,273	8,767	21,894	30,661	(8,488)	2007
1949 La Jolla	CA	—	2,686	11,045	769	2,686	11,474	14,160	(3,106)	2011
2229 La Jolla	CA	—	8,753	32,528	7,427	8,777	39,791	48,568	(5,363)	2014
1470 Poway	CA	—	5,826	12,200	6,048	5,826	12,542	18,368	(3,515)	2007
1471 Poway	CA	—	5,978	14,200	4,253	5,978	14,200	20,178	(4,053)	2007
1472 Poway	CA	—	8,654	—	11,906	8,654	11,906	20,560	(1,692)	2007
1473 Poway	CA	—	11,024	2,405	26,213	11,024	28,618	39,642	—	2007
1474 Poway	CA	—	5,051	—	8,345	5,051	8,345	13,396	—	2007
1475 Poway	CA	—	5,655	—	9,051	5,655	9,051	14,706	—	2007
1478 Poway	CA	—	6,700	14,400	6,145	6,700	14,400	21,100	(4,110)	2007
1499 Redwood City	CA	—	3,400	5,500	2,631	3,407	7,231	10,638	(2,881)	2007
1500 Redwood City	CA	—	2,500	4,100	1,220	2,506	4,563	7,069	(1,657)	2007
1501 Redwood City	CA	—	3,600	4,600	860	3,607	5,024	8,631	(1,892)	2007
1502 Redwood City	CA	—	3,100	5,100	954	3,107	5,801	8,908	(2,157)	2007
1503 Redwood City	CA	—	4,800	17,300	3,794	4,818	21,076	25,894	(6,984)	2007
1504 Redwood City	CA	—	5,400	15,500	10,450	5,418	25,932	31,350	(4,889)	2007
1505 Redwood City	CA	—	3,000	3,500	826	3,006	4,115	7,121	(1,842)	2007
1506 Redwood City	CA	—	6,000	14,300	14,556	6,018	28,230	34,248	(6,207)	2007
1507 Redwood City	CA	—	1,900	12,800	13,559	1,912	26,347	28,259	(8,935)	2007
1508 Redwood City	CA	—	2,700	11,300	12,120	2,712	23,408	26,120	(7,055)	2007
1509 Redwood City	CA	—	2,700	10,900	10,476	2,712	20,841	23,553	(8,950)	2007
1510 Redwood City	CA	—	2,200	12,000	5,515	2,212	13,621	15,833	(3,912)	2007
1511 Redwood City	CA	—	2,600	9,300	2,031	2,612	10,764	13,376	(2,992)	2007
1512 Redwood City	CA	—	3,300	18,000	12,425	3,300	30,425	33,725	(9,824)	2007
1513 Redwood City	CA	—	3,300	17,900	14,794	3,326	32,668	35,994	(11,920)	2007
0678 San Diego	CA	—	2,603	11,051	3,143	2,603	14,194	16,797	(4,995)	2002
0679 San Diego	CA	—	5,269	23,566	21,860	5,669	41,726	47,395	(13,463)	2002
0837 San Diego	CA	—	4,630	2,028	8,982	4,630	7,850	12,480	(4,139)	2006
0838 San Diego	CA	—	2,040	903	5,111	2,040	6,014	8,054	(2,710)	2006
0839 San Diego	CA	—	3,940	3,184	5,733	4,047	5,591	9,638	(2,245)	2006
0840 San Diego	CA	—	5,690	4,579	789	5,830	4,802	10,632	(1,747)	2006
1418 San Diego	CA	—	11,700	31,243	6,408	11,700	37,651	49,351	(14,414)	2007
1420 San Diego	CA	—	6,524	—	5,327	6,524	5,327	11,851	—	2007
1421 San Diego	CA	—	7,000	33,779	1,209	7,000	34,988	41,988	(10,073)	2007

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			Land	Buildings and Improvements		Land	Buildings and Improvements	Total[1]		
1422 San Diego	CA	—	7,179	3,687	4,681	7,336	8,211	15,547	(2,911)	2007
1423 San Diego	CA	—	8,400	33,144	466	8,400	33,610	42,010	(9,467)	2007
1514 San Diego	CA	—	5,200	—	—	5,200	—	5,200	—	2007
1558 San Diego	CA	—	7,740	22,654	3,461	7,888	24,736	32,624	(7,051)	2007
1947 San Diego	CA	—	2,581	10,534	4,164	2,581	14,698	17,279	(3,905)	2011
1948 San Diego	CA	—	5,879	25,305	2,619	5,879	26,741	32,620	(7,767)	2011
2197 San Diego	CA	—	7,621	3,913	8,150	7,626	10,767	18,393	(2,868)	2007
2476 San Diego	CA	—	7,661	9,918	5,388	7,661	15,306	22,967	(194)	2016
2477 San Diego	CA	—	9,207	14,613	6,543	9,207	21,156	30,363	(1,779)	2016
2478 San Diego	CA	—	6,000	—	517	6,000	517	6,517	—	2016
2617 San Diego	CA	—	2,734	5,195	8,494	2,734	13,689	16,423	—	2017
2618 San Diego	CA	—	4,100	12,395	69	4,100	12,464	16,564	(860)	2017
2622 San Diego	CA	—	—	—	5,899	—	5,899	5,899	—	2004
2872 San Diego	CA	—	10,120	38,351	1,265	10,120	39,616	49,736	(121)	2018
2873 San Diego	CA	—	6,052	14,122	—	6,052	14,122	20,174	(52)	2018
1407 South San Francisco	CA	—	7,182	12,140	9,752	7,186	13,134	20,320	(4,173)	2007
1408 South San Francisco	CA	—	9,000	17,800	1,460	9,000	18,237	27,237	(5,160)	2007
1409 South San Francisco	CA	—	18,000	38,043	5,248	18,000	43,291	61,291	(12,226)	2007
1410 South San Francisco	CA	—	4,900	18,100	6,506	4,900	24,606	29,506	(5,067)	2007
1411 South San Francisco	CA	—	8,000	27,700	2,812	8,000	30,512	38,512	(7,701)	2007
1412 South San Francisco	CA	—	10,100	22,521	2,222	10,100	24,504	34,604	(6,981)	2007
1413 South San Francisco	CA	—	8,000	28,299	7,826	8,000	36,125	44,125	(8,450)	2007
1414 South San Francisco	CA	—	3,700	20,800	2,248	3,700	22,845	26,545	(6,881)	2007
1430 South San Francisco	CA	—	10,700	23,621	9,224	10,700	31,485	42,185	(6,318)	2007
1431 South San Francisco	CA	—	7,000	15,500	5,096	7,000	20,596	27,596	(4,608)	2007
1435 South San Francisco	CA	—	13,800	42,500	37,058	13,800	79,558	93,358	(22,319)	2008
1436 South San Francisco	CA	—	14,500	45,300	36,935	14,500	82,235	96,735	(22,804)	2008
1437 South San Francisco	CA	—	9,400	24,800	50,276	9,400	73,506	82,906	(18,430)	2008
1439 South San Francisco	CA	—	11,900	68,848	95	11,900	68,943	80,843	(19,674)	2007
1440 South San Francisco	CA	—	10,000	57,954	448	10,000	58,402	68,402	(16,543)	2007
1441 South San Francisco	CA	—	9,300	43,549	8	9,300	43,557	52,857	(12,432)	2007
1442 South San Francisco	CA	—	11,000	47,289	91	11,000	47,380	58,380	(13,561)	2007
1443 South San Francisco	CA	—	13,200	60,932	2,642	13,200	63,574	76,774	(17,643)	2007
1444 South San Francisco	CA	—	10,500	33,776	360	10,500	34,136	44,636	(9,874)	2007
1445 South San Francisco	CA	—	10,600	34,083	9	10,600	34,092	44,692	(9,730)	2007
1458 South San Francisco	CA	—	10,900	20,900	8,704	10,909	24,372	35,281	(8,268)	2007
1459 South San Francisco	CA	—	3,600	100	276	3,600	376	3,976	(94)	2007
1460 South San Francisco	CA	—	2,300	100	145	2,300	245	2,545	(100)	2007
1461 South San Francisco	CA	—	3,900	200	267	3,900	467	4,367	(200)	2007
1462 South San Francisco	CA	—	7,117	600	4,939	7,117	5,191	12,308	(2,438)	2007
1463 South San Francisco	CA	—	10,381	2,300	20,647	10,381	20,599	30,980	(4,210)	2007
1464 South San Francisco	CA	—	7,403	700	11,638	7,403	7,987	15,390	(1,670)	2007
1468 South San Francisco	CA	—	10,100	24,013	4,774	10,100	26,642	36,742	(8,863)	2007
1480 South San Francisco	CA	—	32,210	3,110	11,653	32,210	14,763	46,973	—	2007
1559 South San Francisco	CA	—	5,666	5,773	12,970	5,695	18,645	24,340	(12,153)	2007
1560 South San Francisco	CA	—	1,204	1,293	2,627	1,210	3,799	5,009	(1,421)	2007
1983 South San Francisco	CA	—	8,648	—	95,927	8,648	95,927	104,575	(10,795)	2016
1984 South San Francisco	CA	—	7,845	—	84,580	7,844	84,581	92,425	(6,250)	2017
1985 South San Francisco	CA	—	6,708	—	120,735	6,708	120,735	127,443	(7,119)	2017
1986 South San Francisco	CA	—	6,708	—	106,278	6,708	106,278	112,986	(4,392)	2018
1987 South San Francisco	CA	—	8,544	—	143,536	8,544	143,536	152,080	—	2011
1988 South San Francisco	CA	—	10,120	—	11,437	10,120	11,437	21,557	—	2011
1989 South San Francisco	CA	—	9,169	—	22,380	9,169	22,380	31,549	—	2011
2553 South San Francisco	CA	—	2,897	8,691	2,824	2,897	11,515	14,412	(1,297)	2015
2554 South San Francisco	CA	—	995	2,754	1,930	995	4,684	5,679	(276)	2015
2555 South San Francisco	CA	—	2,202	10,776	578	2,202	11,354	13,556	(1,048)	2015

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			Land	Buildings and Improvements		Land	Buildings and Improvements	Total[1]		
2556 South San Francisco	CA	—	2,962	15,108	210	2,962	15,318	18,280	(1,356)	2015
2557 South San Francisco	CA	—	2,453	13,063	3,616	2,453	16,679	19,132	(1,418)	2015
2558 South San Francisco	CA	—	1,163	5,925	58	1,163	5,983	7,146	(531)	2015
2614 South San Francisco	CA	—	5,079	8,584	1,330	5,083	9,261	14,344	(3,110)	2007
2615 South San Francisco	CA	—	7,984	13,495	3,243	7,988	16,719	24,707	(6,514)	2007
2616 South San Francisco	CA	—	8,355	14,121	1,876	8,358	14,565	22,923	(4,722)	2007
2624 South San Francisco	CA	—	25,502	42,910	5,081	25,502	47,945	73,447	(2,064)	2017
2870 South San Francisco	CA	—	23,297	41,797	5,324	23,297	47,121	70,418	—	2018
2871 South San Francisco	CA	—	20,293	41,262	12,476	20,293	53,738	74,031	(125)	2018
9999 Denton	TX	—	100	—	—	100	—	100	—	2016
2630 Lexington	MA	—	16,411	49,681	415	16,411	50,096	66,507	(2,502)	2017
2631 Lexington	MA	—	7,759	142,081	14,269	7,759	156,350	164,109	(4,724)	2017
2632 Lexington	MA	—	—	21,390	21,055	—	42,445	42,445	—	2018
2011 Durham	NC	5,399	448	6,152	21,524	448	27,639	28,087	(6,291)	2011
2030 Durham	NC	—	1,920	5,661	34,187	1,920	39,848	41,768	(8,964)	2012
0464 Salt Lake City	UT	—	630	6,921	2,562	630	9,483	10,113	(3,571)	2001
0465 Salt Lake City	UT	—	125	6,368	68	125	6,436	6,561	(2,527)	2001
0466 Salt Lake City	UT	—	—	14,614	7	—	14,621	14,621	(5,200)	2001
0507 Salt Lake City	UT	—	280	4,345	231	280	4,350	4,630	(1,593)	2002
0799 Salt Lake City	UT	—	—	14,600	90	—	14,690	14,690	(4,343)	2005
1593 Salt Lake City	UT	—	—	23,998	—	—	23,998	23,998	(6,121)	2010
		$5,399	$833,745	$1,976,797	$1,461,433	$835,829	$3,347,365	$4,183,194	$(647,977)	

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			Land	Buildings and Improvements		Land	Buildings and Improvements	Total[1]		
Medical office										
0638 Anchorage	AK	$ —	$ 1,456	$ 10,650	$ 12,360	$ 1,456	$ 22,957	$ 24,413	$ (7,603)	2006
2572 Springdale	AR	—	—	27,714	—	—	27,714	27,714	(1,833)	2016
0520 Chandler	AZ	—	3,669	13,503	6,460	3,749	18,696	22,445	(5,558)	2002
2040 Mesa	AZ	—	—	17,314	1,303	—	18,431	18,431	(2,990)	2012
0468 Oro Valley	AZ	—	1,050	6,774	983	1,084	7,148	8,232	(3,093)	2001
0356 Phoenix	AZ	—	780	3,199	2,795	865	4,987	5,852	(2,228)	1999
0470 Phoenix	AZ	—	280	877	166	280	1,008	1,288	(386)	2001
1066 Scottsdale	AZ	—	5,115	14,064	4,215	4,839	17,150	21,989	(5,695)	2006
2021 Scottsdale	AZ	—	—	12,312	2,153	—	14,238	14,238	(4,586)	2012
2022 Scottsdale	AZ	—	—	9,179	1,684	—	10,713	10,713	(3,598)	2012
2023 Scottsdale	AZ	—	—	6,398	1,597	—	7,860	7,860	(2,380)	2012
2024 Scottsdale	AZ	—	—	9,522	905	—	10,427	10,427	(2,930)	2012
2025 Scottsdale	AZ	—	—	4,102	1,805	—	5,756	5,756	(1,999)	2012
2026 Scottsdale	AZ	—	—	3,655	2,112	—	5,692	5,692	(1,389)	2012
2027 Scottsdale	AZ	—	—	7,168	2,179	—	9,230	9,230	(2,627)	2012
2028 Scottsdale	AZ	—	—	6,659	3,658	—	10,317	10,317	(2,384)	2012
0453 Tucson	AZ	—	215	6,318	1,464	326	7,113	7,439	(3,710)	2000
0556 Tucson	AZ	—	215	3,940	1,613	267	5,073	5,340	(1,783)	2003
1041 Brentwood	CA	—	—	30,864	3,135	309	32,911	33,220	(10,485)	2006
1200 Encino	CA	—	6,151	10,438	4,890	6,646	13,427	20,073	(5,175)	2006
0436 Murietta	CA	—	400	9,266	4,755	638	12,319	12,957	(6,168)	1999
0239 Poway	CA	—	2,700	10,839	4,239	2,887	12,603	15,490	(6,904)	1997
2654 Riverside	CA	—	2,758	9,908	214	2,758	10,122	12,880	(443)	2017
0318 Sacramento	CA	—	2,860	37,566	27,503	2,911	65,005	67,916	(14,223)	1998
2404 Sacramento	CA	—	1,268	5,109	594	1,299	5,672	6,971	(926)	2015
0234 San Diego	CA	—	2,848	5,879	1,450	3,009	4,981	7,990	(3,361)	1997
0235 San Diego	CA	—	2,863	8,913	2,913	3,068	8,154	11,222	(5,437)	1997
0236 San Diego	CA	—	4,619	19,370	4,023	4,711	16,004	20,715	(9,933)	1997
0421 San Diego	CA	—	2,910	19,984	16,349	2,964	34,960	37,924	(10,037)	1999
0564 San Jose	CA	—	1,935	1,728	2,756	1,935	3,283	5,218	(1,476)	2003
0565 San Jose	CA	—	1,460	7,672	958	1,460	8,149	9,609	(3,215)	2003
0659 Los Gatos	CA	—	1,718	3,124	662	1,758	3,632	5,390	(1,487)	2000
0439 Valencia	CA	—	2,300	6,967	4,054	2,404	8,855	11,259	(4,035)	1999
1211 Valencia	CA	—	1,344	7,507	797	1,383	7,965	9,348	(2,552)	2006
0440 West Hills	CA	—	2,100	11,595	4,472	2,259	12,284	14,543	(6,231)	1999
0728 Aurora	CO	—	—	8,764	3,082	—	9,273	9,273	(3,701)	2005
1196 Aurora	CO	—	210	12,362	7,310	210	18,828	19,038	(4,677)	2006
1197 Aurora	CO	—	200	8,414	5,729	285	13,482	13,767	(3,935)	2006
0882 Colorado Springs	CO	—	—	12,933	11,273	—	19,512	19,512	(5,300)	2006
1199 Denver	CO	—	493	7,897	1,865	622	9,367	9,989	(3,916)	2006
0808 Englewood	CO	—	—	8,616	9,472	11	16,904	16,915	(7,304)	2005
0809 Englewood	CO	—	—	8,449	4,510	—	11,508	11,508	(4,680)	2005
0810 Englewood	CO	—	—	8,040	13,144	—	18,828	18,828	(5,465)	2005
0811 Englewood	CO	—	—	8,472	5,951	—	12,747	12,747	(4,403)	2005
2658 Highlands Ranch	CO	—	1,637	10,063	—	1,637	10,063	11,700	(387)	2017
0812 Littleton	CO	—	—	4,562	2,561	257	5,816	6,073	(2,497)	2005
0813 Littleton	CO	—	—	4,926	2,326	106	6,456	6,562	(2,375)	2005
0570 Lone Tree	CO	—	—	—	20,148	—	19,410	19,410	(7,306)	2003
0666 Lone Tree	CO	—	—	23,274	3,384	—	25,328	25,328	(8,783)	2000
2233 Lone Tree	CO	—	—	6,734	30,176	—	37,573	37,573	(4,704)	2014
1076 Parker	CO	—	—	13,388	1,112	8	14,240	14,248	(4,728)	2006
0510 Thornton	CO	—	236	10,206	4,332	454	13,741	14,195	(5,710)	2002
0434 Atlantis	FL	—	—	2,027	462	5	2,269	2,274	(1,152)	1999
0435 Atlantis	FL	—	—	2,000	1,190	—	2,578	2,578	(1,210)	1999
0602 Atlantis	FL	—	455	2,231	1,006	455	2,879	3,334	(1,079)	2000

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0604 Englewood	FL	—	170	1,134	495	226	1,346	1,572	(561)	2000
0609 Kissimmee	FL	—	788	174	649	788	721	1,509	(290)	2000
0610 Kissimmee	FL	—	481	347	790	494	901	1,395	(484)	2000
0671 Kissimmee	FL	—	—	7,574	2,637	—	8,483	8,483	(3,016)	2000
0603 Lake Worth	FL	—	1,507	2,894	1,807	1,507	4,562	6,069	(2,211)	2000
0612 Margate	FL	—	1,553	6,898	1,811	1,553	8,364	9,917	(3,025)	2000
0613 Miami	FL	—	4,392	11,841	5,072	4,392	14,740	19,132	(5,581)	2000
2202 Miami	FL	—	—	13,123	4,918	—	17,903	17,903	(3,791)	2014
2203 Miami	FL	—	—	8,877	3,245	—	12,111	12,111	(2,243)	2014
1067 Milton	FL	—	—	8,566	356	—	8,903	8,903	(2,781)	2006
2577 Naples	FL	—	—	29,186	97	—	29,283	29,283	(1,805)	2016
2578 Naples	FL	—	—	18,819	433	—	19,252	19,252	(989)	2016
0563 Orlando	FL	—	2,144	5,136	14,659	11,769	8,479	20,248	(4,606)	2003
0833 Pace	FL	—	—	10,309	3,528	26	11,517	11,543	(3,302)	2006
0834 Pensacola	FL	—	—	11,166	478	—	11,644	11,644	(3,612)	2006
0614 Plantation	FL	—	969	3,241	1,754	1,017	4,246	5,263	(1,638)	2000
0673 Plantation	FL	—	1,091	7,176	2,002	1,091	8,724	9,815	(2,970)	2002
2579 Punta Gorda	FL	—	—	9,379	—	—	9,379	9,379	(559)	2016
2833 St. Petersburg	FL	—	—	13,754	10,904	—	22,810	22,810	(6,704)	2006
2836 Tampa	FL	—	1,967	6,602	7,747	2,425	11,056	13,481	(4,844)	2006
1058 Blue Ridge	GA	—	—	3,231	260	—	3,473	3,473	(1,030)	2006
2576 Statesboro	GA	—	—	10,234	120	—	10,354	10,354	(823)	2016
1065 Marion	IL	—	99	11,538	2,075	100	13,184	13,284	(3,883)	2006
1057 Newburgh	IN	—	—	14,019	5,383	—	19,394	19,394	(5,950)	2006
2039 Kansas City	KS	—	440	2,173	17	448	2,182	2,630	(438)	2012
2043 Overland Park	KS	—	—	7,668	947	—	8,615	8,615	(1,603)	2012
0483 Wichita	KS	—	530	3,341	713	530	3,617	4,147	(1,323)	2001
1064 Lexington	KY	—	—	12,726	1,381	—	13,863	13,863	(4,851)	2006
0735 Louisville	KY	—	936	8,426	8,002	1,232	13,584	14,816	(10,052)	2005
0737 Louisville	KY	—	835	27,627	7,344	878	33,344	34,222	(12,665)	2005
0738 Louisville	KY	—	780	8,582	6,189	851	12,514	13,365	(8,055)	2005
0739 Louisville	KY	—	826	13,814	1,992	832	14,277	15,109	(5,127)	2005
2834 Louisville	KY	—	2,983	13,171	5,188	2,991	17,068	20,059	(7,916)	2005
1944 Louisville	KY	—	788	2,414	—	788	2,414	3,202	(773)	2010
1945 Louisville	KY	—	3,255	28,644	1,393	3,291	29,700	32,991	(8,126)	2010
1946 Louisville	KY	—	430	6,125	197	430	6,322	6,752	(1,682)	2010
2237 Louisville	KY	—	1,519	15,386	3,741	1,618	19,022	20,640	(3,185)	2014
2238 Louisville	KY	—	1,334	12,172	1,786	1,511	13,701	15,212	(2,590)	2014
2239 Louisville	KY	—	1,644	10,832	5,748	2,041	16,183	18,224	(2,886)	2014
1324 Haverhill	MA	—	800	8,537	2,327	869	9,128	9,997	(2,763)	2007
1213 Ellicott City	MD	—	1,115	3,206	3,001	1,222	5,203	6,425	(2,362)	2006
0361 GlenBurnie	MD	—	670	5,085	—	670	5,085	5,755	(2,857)	1999
1052 Towson	MD	—	—	14,233	3,754	—	12,684	12,684	(3,816)	2006
2650 Biddeford	ME	—	1,949	12,244	—	1,949	12,244	14,193	(458)	2017
0240 Minneapolis	MN	—	117	13,213	4,070	117	16,704	16,821	(9,159)	1997
0300 Minneapolis	MN	—	160	10,131	4,659	160	13,604	13,764	(7,418)	1997
2032 Independence	MO	—	—	48,025	2,304	—	50,329	50,329	(7,787)	2012
1078 Flowood	MS	—	—	8,413	1,233	—	8,979	8,979	(2,619)	2006
1059 Jackson	MS	—	—	8,868	167	—	9,027	9,027	(2,759)	2006
1060 Jackson	MS	—	—	7,187	2,217	—	9,161	9,161	(3,329)	2006
1068 Omaha	NE	—	—	16,243	1,499	17	17,367	17,384	(5,560)	2006
2651 Charlotte	NC	—	2,001	11,217	37	2,001	11,254	13,255	(419)	2017
2655 Wilmington	NC	—	1,341	17,376	—	1,341	17,376	18,717	(704)	2017
2656 Wilmington	NC	—	2,071	11,592	—	2,071	11,592	13,663	(429)	2017
2657 Shallotte	NC	—	918	3,609	—	918	3,609	4,527	(184)	2017
2647 Concord	NH	—	1,961	23,516	85	1,961	23,601	25,562	(925)	2017

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2648 Concord	NH	—	815	8,902	136	815	9,038	9,853	(371)	2017
2649 Epsom	NH	—	919	5,868	18	919	5,886	6,805	(320)	2017
0729 Albuquerque	NM	—	—	5,380	757	—	5,746	5,746	(1,880)	2005
0348 Elko	NV	—	55	2,637	22	55	2,659	2,714	(1,509)	1999
0571 Las Vegas	NV	—	—	—	19,618	—	18,200	18,200	(6,870)	2003
0660 Las Vegas	NV	—	1,121	4,363	6,756	1,328	8,395	9,723	(3,362)	2000
0661 Las Vegas	NV	—	2,305	4,829	6,057	2,447	9,458	11,905	(4,481)	2000
0662 Las Vegas	NV	—	3,480	12,305	6,385	3,480	15,850	19,330	(5,842)	2000
0663 Las Vegas	NV	—	1,717	3,597	11,588	1,724	13,468	15,192	(3,086)	2000
0664 Las Vegas	NV	—	1,172	—	633	1,805	—	1,805	(116)	2000
0691 Las Vegas	NV	—	3,244	18,339	7,961	3,338	24,718	28,056	(10,680)	2004
2037 Mesquite	NV	—	—	5,559	491	34	5,905	5,939	(974)	2012
1285 Cleveland	OH	—	823	2,726	1,259	853	3,031	3,884	(1,225)	2006
0400 Harrison	OH	—	—	4,561	300	—	4,861	4,861	(2,738)	1999
1054 Durant	OK	—	619	9,256	1,925	659	11,100	11,759	(3,440)	2006
0817 Owasso	OK	—	—	6,582	1,543	—	5,614	5,614	(1,670)	2005
0404 Roseburg	OR	—	—	5,707	700	—	6,407	6,407	(3,555)	1999
2570 Limerick	PA	—	925	20,072	51	925	20,123	21,048	(1,561)	2016
2234 Philadelphia	PA	—	24,264	99,904	36,386	24,288	136,146	160,434	(12,528)	2014
2403 Philadelphia	PA	—	26,063	97,646	14,725	26,110	112,324	138,434	(16,206)	2015
2571 Wilkes-Barre	PA	—	—	9,138	—	—	9,138	9,138	(729)	2016
2573 Florence	SC	—	—	12,090	91	—	12,181	12,181	(769)	2016
2574 Florence	SC	—	—	12,190	88	—	12,278	12,278	(774)	2016
2575 Florence	SC	—	—	11,243	56	—	11,299	11,299	(875)	2016
2841 Greenville	SC	—	627	38,391	—	627	38,391	39,018	(746)	2018
2842 Greenville	SC	—	809	41,260	—	809	41,260	42,069	(824)	2018
2843 Greenville	SC	—	610	22,251	—	610	22,251	22,861	(451)	2018
2844 Greenville	SC	—	799	18,914	—	799	18,914	19,713	(403)	2018
2845 Greenville	SC	—	944	40,841	—	944	40,841	41,785	(744)	2018
2846 Greenville	SC	—	921	38,416	—	921	38,416	39,337	(715)	2018
2847 Greenville	SC	—	621	26,358	—	621	26,358	26,979	(649)	2018
2848 Greenville	SC	—	318	5,816	—	318	5,816	6,134	(116)	2018
2849 Greenville	SC	—	310	5,675	—	310	5,675	5,985	(126)	2018
2850 Greenville	SC	—	201	6,590	—	201	6,590	6,791	(143)	2018
2853 Greenville	SC	—	503	6,522	—	503	6,522	7,025	(225)	2018
2854 Greenville	SC	—	804	13,719	—	804	13,719	14,523	(352)	2018
2855 Greenville	SC	—	377	496	—	377	496	873	(53)	2018
2856 Greenville	SC	—	246	416	—	246	416	662	(50)	2018
2857 Greenville	SC	—	186	210	—	186	210	396	(27)	2018
2851 Travelers Rest	SC	—	498	1,015	—	498	1,015	1,513	(66)	2018
2862 Myrtle Beach	SC	—	—	—	2,852	—	2,882	2,882	—	2018
0624 Hendersonville	TN	—	256	1,530	2,541	256	3,372	3,628	(1,169)	2000
0559 Hermitage	TN	—	830	5,036	12,083	851	15,024	15,875	(3,735)	2003
0561 Hermitage	TN	—	596	9,698	6,642	596	14,544	15,140	(6,241)	2003
0562 Hermitage	TN	—	317	6,528	3,199	317	8,860	9,177	(4,403)	2003
0154 Knoxville	TN	—	700	4,559	5,016	700	9,119	9,819	(4,890)	1994
0625 Nashville	TN	—	955	14,289	4,470	955	16,768	17,723	(5,977)	2000
0626 Nashville	TN	—	2,050	5,211	4,631	2,055	8,738	10,793	(3,646)	2000
0627 Nashville	TN	—	1,007	181	752	1,060	813	1,873	(495)	2000
0628 Nashville	TN	—	2,980	7,164	3,993	2,980	11,202	14,182	(5,152)	2000
0630 Nashville	TN	—	515	848	437	528	1,085	1,613	(383)	2000
0631 Nashville	TN	—	266	1,305	1,644	266	2,461	2,727	(1,033)	2000
0632 Nashville	TN	—	827	7,642	4,532	827	10,111	10,938	(3,855)	2000
0633 Nashville	TN	—	5,425	12,577	6,397	5,425	18,049	23,474	(8,895)	2000
0634 Nashville	TN	—	3,818	15,185	11,118	3,818	24,285	28,103	(10,002)	2000
0636 Nashville	TN	—	583	450	360	583	717	1,300	(233)	2000
2611 Allen	TX	—	1,330	5,960	426	1,330	6,386	7,716	(439)	2016

City	State	Encumbrances at December 31, 2018	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition	Gross Amount at Which Carried As of December 31, 2018			Accumulated Depreciation[2]	Year Acquired/ Constructed
			Land	Buildings and Improvements		Land	Buildings and Improvements	Total[1]		
2612 Allen	TX	—	1,310	4,165	596	1,310	4,761	6,071	(378)	2016
0573 Arlington	TX	—	769	12,355	4,678	769	15,695	16,464	(6,049)	2003
2621 Cedar Park	TX	—	1,617	11,640	—	1,617	11,640	13,257	(427)	2017
0576 Conroe	TX	—	324	4,842	3,068	324	6,491	6,815	(2,253)	2000
0577 Conroe	TX	—	397	7,966	2,469	397	9,764	10,161	(3,966)	2000
0578 Conroe	TX	—	388	7,975	4,540	388	10,986	11,374	(3,941)	2006
0579 Conroe	TX	—	188	3,618	1,343	188	4,805	4,993	(1,943)	2000
0581 Corpus Christi	TX	—	717	8,181	5,953	717	11,728	12,445	(4,542)	2000
0600 Corpus Christi	TX	—	328	3,210	4,468	328	5,801	6,129	(2,168)	2000
0601 Corpus Christi	TX	—	313	1,771	2,047	325	3,098	3,423	(1,197)	2000
2839 Cypress	TX	—	—	—	34,265	11	34,254	34,265	(3,795)	2015
0582 Dallas	TX	—	1,664	6,785	4,588	1,746	9,642	11,388	(3,775)	2000
1314 Dallas	TX	—	15,230	162,971	42,680	23,992	193,414	217,406	(60,706)	2006
0583 Fort Worth	TX	—	898	4,866	3,626	898	7,643	8,541	(2,557)	2000
0805 Fort Worth	TX	—	—	2,481	1,315	2	3,329	3,331	(1,755)	2005
0806 Fort Worth	TX	—	—	6,070	1,155	5	6,928	6,933	(2,221)	2005
2231 Fort Worth	TX	—	902	—	44	946	—	946	(17)	2014
2619 Fort Worth	TX	—	1,180	13,432	6	1,180	13,438	14,618	(458)	2017
2620 Fort Worth	TX	—	1,961	14,155	138	1,961	14,293	16,254	(503)	2017
1061 Granbury	TX	—	—	6,863	1,125	—	7,848	7,848	(2,309)	2006
0430 Houston	TX	—	1,927	33,140	17,718	2,200	48,704	50,904	(21,111)	1999
0446 Houston	TX	—	2,200	19,585	21,378	2,936	33,668	36,604	(19,818)	1999
0589 Houston	TX	—	1,676	12,602	6,758	1,706	16,361	18,067	(6,139)	2000
0670 Houston	TX	—	257	2,884	1,606	318	3,689	4,007	(1,406)	2000
0702 Houston	TX	—	—	7,414	2,906	7	9,239	9,246	(3,219)	2004
1044 Houston	TX	—	—	4,838	3,498	—	6,634	6,634	(2,112)	2006
2542 Houston	TX	—	304	17,764	—	304	17,764	18,068	(1,909)	2015
2543 Houston	TX	—	116	6,555	—	116	6,555	6,671	(832)	2015
2544 Houston	TX	—	312	12,094	—	312	12,094	12,406	(1,548)	2015
2545 Houston	TX	—	316	13,931	—	316	13,931	14,247	(1,357)	2015
2546 Houston	TX	—	408	18,332	—	408	18,332	18,740	(2,804)	2015
2547 Houston	TX	—	470	18,197	—	470	18,197	18,667	(2,358)	2015
2548 Houston	TX	—	313	7,036	—	313	7,036	7,349	(1,167)	2015
2549 Houston	TX	—	530	22,711	—	530	22,711	23,241	(1,952)	2015
0590 Irving	TX	—	828	6,160	3,153	828	8,743	9,571	(3,658)	2000
0700 Irving	TX	—	—	8,550	3,980	8	11,513	11,521	(5,226)	2006
1202 Irving	TX	—	1,604	16,107	1,203	1,633	16,971	18,604	(6,550)	2006
1207 Irving	TX	—	1,955	12,793	2,219	1,986	14,902	16,888	(5,058)	2006
2840 Kingwood	TX	—	3,035	28,373	958	3,035	29,331	32,366	(2,223)	2016
1062 Lancaster	TX	—	172	2,692	1,134	185	3,520	3,705	(1,500)	2006
2195 Lancaster	TX	—	—	1,138	700	131	1,707	1,838	(492)	2006
0591 Lewisville	TX	—	561	8,043	2,347	561	9,796	10,357	(3,681)	2000
0144 Longview	TX	—	102	7,998	824	102	8,379	8,481	(4,469)	1992
0143 Lufkin	TX	—	338	2,383	321	338	2,664	3,002	(1,313)	1992
0568 Mckinney	TX	—	541	6,217	3,396	541	8,659	9,200	(3,061)	2003
0569 Mckinney	TX	—	—	636	8,655	—	8,406	8,406	(2,960)	2003
1079 Nassau Bay	TX	—	—	8,942	1,748	—	10,271	10,271	(3,488)	2006
0596 N Richland Hills	TX	—	812	8,883	3,395	812	11,648	12,460	(4,394)	2000
2048 North Richland Hills	TX	—	1,385	10,213	2,135	1,400	12,048	13,448	(3,080)	2012
2835 Pearland	TX	—	—	4,014	4,693	—	7,276	7,276	(2,217)	2006
2838 Pearland	TX	—	—	—	17,622	—	17,622	17,622	(1,521)	2014
0447 Plano	TX	—	1,700	7,810	6,454	1,792	13,388	15,180	(7,113)	1999
0597 Plano	TX	—	1,210	9,588	4,924	1,224	13,357	14,581	(5,188)	2000
0672 Plano	TX	—	1,389	12,768	3,332	1,389	14,616	16,005	(5,119)	2002
1284 Plano	TX	—	2,049	18,793	2,445	2,101	18,657	20,758	(8,188)	2006
1286 Plano	TX	—	3,300	—	—	3,300	—	3,300	—	2006
2653 Rockwall	TX	—	788	9,020	—	788	9,020	9,808	(315)	2017

City	State	Encumbrances at December 31, 2018	Initial Cost to Company		Costs Capitalized Subsequent to Acquisition	Gross Amount at Which Carried As of December 31, 2018			Accumulated Depreciation[2]	Year Acquired/ Constructed
			Land	Buildings and Improvements		Land	Buildings and Improvements	Total[1]		
0815 San Antonio	TX	—	—	9,193	2,917	87	11,083	11,170	(3,984)	2006
0816 San Antonio	TX	3,115	—	8,699	3,218	175	10,930	11,105	(4,170)	2006
1591 San Antonio	TX	—	—	7,309	730	43	7,957	8,000	(2,434)	2010
2837 San Antonio	TX	—	—	26,191	1,847	—	27,775	27,775	(7,742)	2011
2852 Shenandoah	TX	—	—	—	28,557	—	28,557	28,557	(1,396)	2016
0598 Sugarland	TX	—	1,078	5,158	3,397	1,170	7,350	8,520	(2,808)	2000
0599 Texas City	TX	—	—	9,519	582	—	9,944	9,944	(3,138)	2000
0152 Victoria	TX	—	125	8,977	394	125	9,371	9,496	(5,112)	1994
2550 The Woodlands	TX	—	115	5,141	—	115	5,141	5,256	(565)	2015
2551 The Woodlands	TX	—	296	18,282	—	296	18,282	18,578	(1,729)	2015
2552 The Woodlands	TX	—	374	25,125	—	374	25,125	25,499	(2,118)	2015
1592 Bountiful	UT	—	999	7,426	913	1,019	8,265	9,284	(2,304)	2010
0169 Bountiful	UT	—	276	5,237	1,665	396	6,327	6,723	(3,208)	1995
0346 Castle Dale	UT	—	50	1,818	163	50	1,918	1,968	(1,036)	1998
0347 Centerville	UT	—	300	1,288	234	300	1,352	1,652	(753)	1999
2035 Draper	UT	4,928	—	10,803	516	—	11,212	11,212	(1,764)	2012
0469 Kaysville	UT	—	530	4,493	226	530	4,719	5,249	(1,920)	2001
0456 Layton	UT	—	371	7,073	1,303	389	8,009	8,398	(3,978)	2001
2042 Layton	UT	—	—	10,975	537	27	11,485	11,512	(1,837)	2012
0359 Ogden	UT	—	180	1,695	240	180	1,730	1,910	(977)	1999
0357 Orem	UT	—	337	8,744	2,834	306	9,026	9,332	(4,675)	1999
0353 Salt Lake City	UT	—	190	779	196	234	869	1,103	(499)	1999
0354 Salt Lake City	UT	—	220	10,732	2,955	220	12,819	13,039	(6,815)	1999
0355 Salt Lake City	UT	—	180	14,792	2,826	180	16,844	17,024	(9,358)	1999
0467 Salt Lake City	UT	—	3,000	7,541	2,592	3,145	9,629	12,774	(4,188)	2001
0566 Salt Lake City	UT	—	509	4,044	2,733	509	6,248	6,757	(2,651)	2003
2041 Salt Lake City	UT	—	—	12,326	635	—	12,940	12,940	(2,024)	2012
2033 Sandy	UT	—	867	3,513	1,694	1,153	4,794	5,947	(1,395)	2012
0482 Stansbury	UT	—	450	3,201	1,204	529	3,966	4,495	(1,392)	2001
0351 Washington Terrace	UT	—	—	4,573	2,511	17	6,176	6,193	(3,722)	1999
0352 Washington Terrace	UT	—	—	2,692	1,364	15	3,348	3,363	(1,819)	1999
2034 West Jordan	UT	—	—	12,021	323	—	12,344	12,344	(1,960)	2012
2036 West Jordan	UT	330	—	1,383	1,544	—	2,798	2,798	(709)	2012
0495 West Valley City	UT	—	410	8,266	1,002	410	9,268	9,678	(4,897)	2002
0349 West Valley City	UT	—	1,070	17,463	142	1,036	17,595	18,631	(10,002)	1999
1208 Fairfax	VA	—	8,396	16,710	13,723	8,828	28,900	37,728	(9,984)	2006
2230 Fredericksburg	VA	—	1,101	8,570	—	1,101	8,570	9,671	(1,081)	2014
0572 Reston	VA	—	—	11,902	967	—	12,027	12,027	(4,890)	2003
0448 Renton	WA	—	—	18,724	4,560	—	22,145	22,145	(11,288)	1999
0781 Seattle	WA	—	—	52,703	16,748	—	65,633	65,633	(26,312)	2004
0782 Seattle	WA	—	—	24,382	13,599	126	35,209	35,335	(15,444)	2004
0783 Seattle	WA	—	—	5,625	1,635	183	6,929	7,112	(6,432)	2004
0785 Seattle	WA	—	—	7,293	6,215	—	12,112	12,112	(5,983)	2004
1385 Seattle	WA	—	—	45,027	8,973	—	53,757	53,757	(17,481)	2007
2038 Evanston	WY	—	—	4,601	1,009	—	5,542	5,542	(799)	2012
		$8,373	$279,768	$3,025,955	$ 977,128	$308,003	$3,783,938	$4,091,941	$(1,037,768)	

City	State	Encumbrances at December 31, 2018	Initial Cost to Company Land	Initial Cost to Company Buildings and Improvements	Costs Capitalized Subsequent to Acquisition	Gross Amount at Which Carried As of December 31, 2018 Land	Gross Amount at Which Carried As of December 31, 2018 Buildings and Improvements	Gross Amount at Which Carried As of December 31, 2018 Total[1]	Accumulated Depreciation[2]	Year Acquired/ Constructed
Other non-reportable segments										
Other-Hospitals										
0126 Sherwood	AR	$ —	$ 709	$ 9,604	$ —	$ 709	$ 9,599	$ 10,308	$ (5,914)	1989
0113 Glendale	AZ	—	1,565	7,050	20	1,565	7,067	8,632	(4,290)	1988
1038 Fresno	CA	—	3,652	29,113	21,935	3,652	51,048	54,700	(17,545)	2006
0423 Irvine	CA	—	18,000	70,800	—	18,000	70,800	88,800	(38,777)	1999
0127 Colorado Springs	CO	—	690	8,338	—	690	8,346	9,036	(5,072)	1989
0887 Atlanta	GA	—	4,300	13,690	—	4,300	11,890	16,190	(7,035)	2007
0112 Overland Park	KS	—	2,316	10,681	24	2,316	10,693	13,009	(6,837)	1988
1383 Baton Rouge	LA	—	690	8,545	87	690	8,496	9,186	(4,656)	2007
0886 Dallas	TX	—	1,820	8,508	26	1,820	7,454	9,274	(2,205)	2007
1319 Dallas	TX	—	18,840	155,659	2,950	18,840	158,606	177,446	(53,011)	2007
1384 Plano	TX	—	6,290	22,686	5,707	6,290	28,203	34,493	(15,193)	2007
2198 Webster	TX	—	2,220	9,602	—	2,220	9,282	11,502	(1,949)	2013
Other-Post-acute/skilled nursing										
2469 Rural Retreat	VA	—	1,876	14,720	—	1,876	14,904	16,780	(1,719)	2013
		$ —	$ 62,968	$ 368,996	$ 30,749	$ 62,968	$ 396,388	$ 459,356	$ (164,203)	
Total		$138,470	$1,606,862	$9,027,478	$2,809,912	$1,637,506	$11,414,891	$13,052,397	$(2,842,947)	

(1) At December 31, 2018, the tax basis of the Company's net real estate assets is less than the reported amounts by $1.0 billion (unaudited).

(2) Buildings and improvements are depreciated over useful lives ranging up to 60 years.

A summary of activity for real estate and accumulated depreciation follows (in thousands):

	Year ended December 31, 2018	2017	2016
Real estate:			
Balances at beginning of year	$13,473,573	$13,974,760	$14,330,257
Acquisition of real estate and development and improvements	1,093,903	995,443	987,135
Sales and/or transfers to assets held for sale and discontinued operations	(1,052,145)	(589,391)	(1,227,614)
Deconsolidation of real estate	(325,580)	(825,074)	(10,306)
Impairments	(49,729)	(37,274)	—
Other[1]	(87,625)	(44,891)	(104,712)
Balances at end of year	$13,052,397	$13,473,573	$13,974,760
Accumulated depreciation:			
Balances at beginning of year	$ 2,741,695	$ 2,648,930	$ 2,476,015
Depreciation expense	461,664	436,085	465,945
Sales and/or transfers to assets held for sale and discontinued operations	(239,231)	(115,195)	(239,112)
Deconsolidation of real estate	(43,525)	(152,572)	(5,868)
Other[1]	(77,656)	(75,553)	(48,050)
Balances at end of year	$ 2,842,947	$ 2,741,695	$ 2,648,930

(1) Represents real estate and accumulated depreciation related to fully depreciated assets, foreign exchange translation, or changes in lease classification.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures. We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Principal Executive Officer and Principal Financial Officer, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rules 13a-15(b) and 15d-15(b) of the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2018. Based upon that evaluation, our Principal Executive Officer and Principal Financial Officer concluded that our disclosure controls and procedures were effective, as of December 31, 2018, at the reasonable assurance level.

Management's Annual Report on Internal Control over Financial Reporting. Management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f). Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control—Integrated Framework (2013)*, our management concluded that our internal control over financial reporting was effective as of December 31, 2018.

The effectiveness of our internal control over financial reporting as of December 31, 2018 has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report, which is included herein.

Changes in Internal Control Over Financial Reporting. There were no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter of 2018 to which this report relates that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the stockholders and the Board of Directors of HCP, Inc.

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of HCP, Inc. and subsidiaries (the "Company") as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control — Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2018, of the Company and our report dated February 14, 2019, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's adoption of Accounting Standards Update ("ASU") No. 2017-05 and ASU No. 2017-01.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Deloitte & Touche LLP

Los Angeles, California
February 14, 2019

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

We have adopted a Code of Business Conduct and Ethics that applies to all of our directors and employees, including our Chief Executive Officer and all senior financial officers, including our principal financial officer, principal accounting officer and controller. We have also adopted a Vendor Code of Business Conduct and Ethics applicable to our vendors and business partners. Current copies of our Code of Business Conduct and Ethics and Vendor Code of Business Conduct and Ethics are posted on our website at www.hcpi.com/codeofconduct. In addition, waivers from, and amendments to, our Code of Business Conduct and Ethics that apply to our directors and executive officers, including our principal executive officer, principal financial officer, principal accounting officer or persons performing similar functions, will be timely posted in the Investor Relations section of our website at www.hcpi.com.

We hereby incorporate by reference the information appearing under the captions "Proposal No. 1 Election of Directors," "Our Executive Officers," "Board of Directors and Corporate Governance" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the our definitive proxy statement relating to our 2019 Annual Meeting of Stockholders to be held on April 25, 2019.

ITEM 11. EXECUTIVE COMPENSATION

We hereby incorporate by reference the information under the caption "Executive Compensation" in our definitive proxy statement relating to our 2019 Annual Meeting of Stockholders to be held on April 25, 2019.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

We hereby incorporate by reference the information under the captions "Security Ownership of Principal Stockholders, Directors and Management" and "Equity Compensation Plan Information" in our definitive proxy statement relating to our 2019 Annual Meeting of Stockholders to be held on April 25, 2019.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

We hereby incorporate by reference the information under the caption "Board of Directors and Corporate Governance" in our definitive proxy statement relating to our 2019 Annual Meeting of Stockholders to be held on April 25, 2019.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

We hereby incorporate by reference under the caption "Audit and Non-Audit Fees" in our definitive proxy statement relating to our 2019 Annual Meeting of Stockholders to be held on April 25, 2019.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statement Schedules

The following Consolidated Financial Statements are included in Part II, Item 8-Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets - December 31, 2018 and 2017

Consolidated Statements of Operations - for the years ended December 31, 2018, 2017 and 2016

Consolidated Statements of Comprehensive Income (Loss) - for the years ended December 31, 2018, 2017 and 2016

Consolidated Statements of Equity - for the years ended December 31, 2018, 2017 and 2016

Consolidated Statements of Cash Flows - for the years ended December 31, 2018, 2017 and 2016

Notes to Consolidated Financial Statements

(a) 2. Financial Statement Schedules

The following Consolidated Financial Statements are included in Part II, Item 8-Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

Schedule II: Valuation and Qualifying Accounts

Schedule III: Real Estate and Accumulated Depreciation

(a) 3. Exhibits

Exhibit		Incorporated by reference herein	
Number	Description	Form	Date Filed
3.1	Articles of Restatement of HCP, dated June 1, 2012, as supplemented by the Articles Supplementary, dated July 31, 2017.	Quarterly Report on Form 10-Q (File No. 001-08895)	November 2, 2017
3.2	Fifth Amended and Restated Bylaws of HCP, as amended through July 27, 2017.	Quarterly Report on Form 10-Q (File No. 001-08895)	November 2, 2017
4.1	Indenture, dated as of September 1, 1993, between HCP and The Bank of New York, as Trustee.	Registration Statement on Form S-3/A (Registration No. 333-86654)	May 21, 2002
4.1.1	First Supplemental Indenture dated as of January 24, 2011, to the Indenture, dated as of September 1, 1993, by and between HCP and The Bank of New York Mellon Trust Company, N.A., as Trustee.	Current Report on Form 8-K (File No. 001-08895)	January 24, 2011
4.2	Indenture, dated November 19, 2012, between HCP and The Bank of New York Mellon Trust Company, N.A., as trustee.	Current Report on Form 8-K (File No. 001-08895)	November 19, 2012
4.2.1	First Supplemental Indenture, dated November 19, 2012, between HCP and The Bank of New York Mellon Trust Company, N.A., as trustee.	Current Report on Form 8-K (File No. 001-08895)	November 19, 2012
4.2.2	Second Supplemental Indenture, dated November 12, 2013, between HCP and The Bank of New York Mellon Trust Company, N.A., as trustee.	Current Report on Form 8-K (File No. 001-08895)	November 13, 2013
4.2.3	Third Supplemental Indenture dated February 21, 2014, between the Company and The Bank of New York Mellon Trust Company, N.A., as trustee.	Current Report on Form 8-K (File No. 001-08895)	February 24, 2014

Exhibit Number	Description	Incorporated by reference herein Form	Date Filed
4.2.4	Fourth Supplemental Indenture, dated August 14, 2014, between HCP and The Bank of New York Mellon Trust Company, N.A., as trustee.	Current Report on Form 8-K (File No. 001-08895)	August 14, 2014
4.2.5	Fifth Supplemental Indenture, dated January 21, 2015, between HCP and The Bank of New York Mellon Trust Company, N.A., as trustee.	Current Report on Form 8-K (File No. 001-08895)	January 21, 2015
4.2.6	Sixth Supplemental Indenture, dated May 20, 2015, between HCP and The Bank of New York Mellon Trust Company, N.A., as trustee.	Current Report on Form 8-K (File No. 001-08895)	May 20, 2015
4.2.7	Seventh Supplemental Indenture dated December 1, 2015, between HCP and The Bank of New York Mellon Trust Company, N.A., as trustee.	Current Report on Form 8-K (File No. 001-08895)	December 1, 2015
4.3	Form of 6.750% Senior Notes due 2041.	Current Report on Form 8-K (File No. 001-08895)	January 24, 2011
4.4	Form of 3.15% Senior Notes due 2022.	Current Report on Form 8-K (File No. 001-08895)	July 23, 2012
4.5	Form of 2.625% Senior Notes due 2020.	Current Report on Form 8-K (File No. 001-08895)	November 19, 2012
4.6	Form of 4.250% Senior Notes due 2023.	Current Report on Form 8-K (File No. 001-08895)	November 13, 2013
4.7	Form of 4.20% Senior Notes due 2024.	Current Report on Form 8-K (File No. 001-08895)	February 24, 2014
4.8	Form of 3.875% Senior Notes due 2024.	Current Report on Form 8-K (File No. 001-08895)	August 14, 2014
4.9	Form of 3.400% Senior Notes due 2025.	Current Report on Form 8-K (File No. 001-08895)	January 21, 2015
4.10	Form of 4.000% Senior Notes due 2025.	Current Report on Form 8-K (File No. 001-08895)	May 20, 2015
4.11	Form of 4.000% Senior Notes due 2022.	Current Report on Form 8-K (File No. 001-08895)	December 1, 2015
10.1	Second Amended and Restated Director Deferred Compensation Plan.*	Quarterly Report on Form 10-Q (File No. 001-08895)	November 3, 2009
10.2	Non-Employee Directors Stock-for-Fees Program.*	Quarterly Report on Form 10-Q (File No. 001-08895)	August 5, 2014
10.3	Executive Severance Plan.*	Quarterly Report on Form 10-Q (File No. 001-08895)	November 1, 2016
10.4	Executive Change in Control Severance Plan (as Amended and Restated as of May 6, 2016).*	Quarterly Report on Form 10-Q (File No. 001-08895)	November 1, 2016
10.5	2006 Performance Incentive Plan, as amended and restated.*	Annex 2 to HCP's Proxy Statement (File No. 001-08895)	March 10, 2009
10.5.1	Form of Employee 2006 Performance Incentive Plan Nonqualified Stock Option Agreement.*	Quarterly Report on Form 10-Q (File No. 001-08895)	May 1, 2012
10.6	HCP, Inc. 2014 Performance Incentive Plan.*	Current Report on Form 8-K (File No. 001-08895)	May 6, 2014
10.6.1	Amendment No. 1 to HCP, Inc. 2014 Performance Incentive Plan.*	Quarterly Report on Form 10-Q (File No. 001-08895)	May 3, 2018
10.6.2	Form of 2014 Performance Incentive Plan Non-NEO Restricted Stock Unit Award Agreement (adopted 2014).*	Quarterly Report on Form 10-Q (File No. 001-08895)	August 5, 2014
10.6.3	Form of 2014 Performance Incentive Plan Non-NEO Option Agreement (adopted 2014).*	Quarterly Report on Form 10-Q (File No. 001-08895)	August 5, 2014

Exhibit Number	Description	Incorporated by reference herein Form	Date Filed
10.6.4	Form of 2014 Performance Incentive Plan CEO 3-Year LTIP RSU Agreement (adopted 2015).*	Quarterly Report on Form 10-Q (File No. 001-08895)	May 5, 2015
10.6.5	Form of 2014 Performance Incentive Plan CEO 1-Year LTIP RSU Agreement (adopted 2015).*	Quarterly Report on Form 10-Q (File No. 001-08895)	May 5, 2015
10.6.6	Form of 2014 Performance Incentive Plan CEO Retentive LTIP RSU Agreement (adopted 2015).*	Quarterly Report on Form 10-Q (File No. 001-08895)	May 5, 2015
10.6.7	Form of 2014 Performance Incentive Plan NEO 3-Year LTIP RSU Agreement (adopted 2015).*	Quarterly Report on Form 10-Q (File No. 001-08895)	May 5, 2015
10.6.8	Form of 2014 Performance Incentive Plan NEO 3-Year LTIP RSU Agreement (adopted 2018).*	Quarterly Report on Form 10-Q (File No. 001-08895)	May 3, 2018
10.6.9	Form of 2014 Performance Incentive Plan NEO 1-Year LTIP RSU Agreement (adopted 2015).*	Quarterly Report on Form 10-Q (File No. 001-08895)	May 5, 2015
10.6.10	Form of 2014 Performance Incentive Plan NEO Retentive LTIP RSU Agreement (adopted 2015).*	Quarterly Report on Form 10-Q (File No. 001-08895)	May 5, 2015
10.6.11	Form of 2014 Performance Incentive Plan NEO Retentive LTIP RSU Agreement (adopted 2018).*	Quarterly Report on Form 10-Q (File No. 001-08895)	May 3, 2018
10.6.12	Form of 2014 Performance Incentive Plan Non-Employee Director RSU Agreement.*	Quarterly Report on Form 10-Q (File No. 001-08895)	May 5, 2015
10.7	Form of Directors and Officers Indemnification Agreement.*	Annual Report on Form 10-K, as amended (File No. 001-08895)	February 12, 2008
10.8	Amended and Restated Dividend Reinvestment and Stock Purchase Plan.	Registration Statement on Form S-3 (Registration No. 333-49746)	November 13, 2000
10.9	Amended and Restated Limited Liability Company Agreement of HCPI/Utah, LLC, dated as of January 20, 1999.	Annual Report on Form 10-K (File No. 001-08895)	March 29, 1999
10.9.1	Amendments No. 1-9 to Amended and Restated Limited Liability Company Agreement of HCPI/Utah, LLC, dated as of January 20, 1999.	Annual Report on Form 10-K (File No. 001-08895)	February 13, 2018
10.9.2	Tax Matters Amendment to Amended and Restated Limited Liability Company Agreement of HCPI/Utah, LLC, effective as of December 31, 2018.†		
10.10	Amended and Restated Limited Liability Company Agreement of HCPI/Utah II, LLC, dated as of August 17, 2001, as amended.	Current Report on Form 8-K (File No. 001-08895)	November 9, 2012
10.10.1	Tax Matters Amendment to Amended and Restated Limited Liability Company Agreement of HCPI/Utah II, LLC, effective as of December 31, 2018.†		
10.11	Amended and Restated Limited Liability Company Agreement of HCPI/Tennessee, LLC, dated as of October 2, 2003.	Quarterly Report on Form 10-Q (File No. 001-08895)	November 12, 2003
10.11.1	Amendment No. 1 to Amended and Restated Limited Liability Company Agreement of HCPI/Tennessee, LLC, dated as of September 29, 2004.	Quarterly Report on Form 10-Q (File No. 001-08895)	November 8, 2004
10.11.2	Amendment No. 2 to Amended and Restated Limited Liability Company Agreement of HCPI/Tennessee, LLC, dated as of October 27, 2004.	Annual Report on Form 10-K (File No. 001-08895)	March 15, 2005

Exhibit Number	Description	Incorporated by reference herein Form	Date Filed
10.11.3	Amendment No. 3 to Amended and Restated Limited Liability Company Agreement of HCPI/ Tennessee, LLC and New Member Joinder Agreement, dated as of October 19, 2005, by and among HCP, HCPI/Tennessee, LLC and A. Daniel Weyland.	Quarterly Report on Form 10-Q (File No. 001-08895)	November 1, 2005
10.11.4	Amendment No. 4 to Amended and Restated Limited Liability Company Agreement of HCPI/ Tennessee, LLC, effective as of January 1, 2007.	Annual Report on Form 10-K, as amended (File No. 001-08895)	February 12, 2008
10.11.5	Tax Matters Amendment to Amended and Restated Limited Liability Company Agreement of HCPI/Tennessee, LLC, effective as of December 31, 2018.†		
10.12	Amended and Restated Limited Liability Company Agreement of HCP DR MCD, LLC, dated as of February 9, 2007.	Current Report on Form 8-K (File No. 001-08895)	April 20, 2012
10.12.1	Tax Matters Amendment to Amended and Restated Limited Liability Company Agreement of HCP DR MCD, LLC, effective as of December 31, 2018.†		
10.13	Amended and Restated Limited Liability Company Agreement of HCP DR California II, LLC, dated as of June 1, 2014.	Quarterly Report on Form 10-Q (File No. 001-08895)	August 5, 2014
10.13.1	Tax Matters Amendment to Amended and Restated Limited Liability Company Agreement of HCP DR California II, LLC, effective as of December 31, 2018.†		
10.14	Credit Agreement, dated October 19, 2017, by and among HCP, as borrower, the lenders referred to therein, and Bank of America, N.A., as administrative agent.	Current Report on Form 8-K (File No. 001-08895)	October 20, 2017
10.15	At-the-Market Equity Offering Sales Agreement, dated May 31, 2018, among HCP, J.P. Morgan Securities LLC, BNY Mellon Capital Markets, LLC, Citigroup Global Markets Inc., Credit Agricole Securities (USA) Inc., Credit Suisse Securities (USA) LLC, Goldman Sachs & Co. LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, RBC Capital Markets, LLC and UBS Securities LLC.	Current Report on Form 8-K (File No. 001-08895)	May 31, 2018
10.16	Amended and Restated Master Lease and Security Agreement, dated as of November 1, 2017, by and between subsidiaries and affiliates of HCP, as lessor, and subsidiaries and affiliates of Brookdale, as lessee.**	Annual Report on Form 10-K (File No. 001-08895)	February 13, 2018
10.16.1	First Amendment to Amended and Restated Master Lease and Security Agreement, dated as of January 10, 2018, by and between subsidiaries and affiliates of HCP, as lessor, and subsidiaries and affiliates of Brookdale, as lessee.	Annual Report on Form 10-K (File No. 001-08895)	February 13, 2018
21.1	Subsidiaries of the Company.†		
23.1	Consent of Independent Registered Public Accounting Firm—Deloitte & Touche LLP.†		

Exhibit Number	Description	Incorporated by reference herein Form	Date Filed
31.1	Certification by Thomas M. Herzog, HCP's Principal Executive Officer, Pursuant to Securities Exchange Act Rule 13a-14(a).†		
31.2	Certification by Peter A. Scott, HCP's Principal Financial Officer, Pursuant to Securities Exchange Act Rule 13a-14(a).†		
32.1	Certification by Thomas M. Herzog, HCP's Principal Executive Officer, Pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350.†		
32.2	Certification by Peter A. Scott, HCP's Principal Financial Officer, Pursuant to Securities Exchange Act Rule 13a-14(b) and 18 U.S.C. Section 1350.†		
101.INS	XBRL Instance Document.†		
101.SCH	XBRL Taxonomy Extension Schema Document.†		
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.†		
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.†		
101.LAB	XBRL Taxonomy Extension Labels Linkbase Document.†		
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.†		

* Management Contract or Compensatory Plan or Arrangement.

** Portions of this exhibit have been omitted pursuant to a request for confidential treatment with the SEC.

† Filed herewith.

ITEM 16. FORM 10-K SUMMARY

None.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: February 14, 2019

HCP, Inc. (Registrant)

/s/ THOMAS M. HERZOG
Thomas M. Herzog,
President and Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ THOMAS M. HERZOG Thomas M. Herzog	President and Chief Executive Officer (Principal Executive Officer), Director	February 14, 2019
/s/ PETER A. SCOTT Peter A. Scott	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 14, 2019
/s/ SHAWN G. JOHNSTON Shawn G. Johnston	Executive Vice President and Chief Accounting Officer (Principal Accounting Officer)	February 14, 2019
/s/ BRIAN G. CARTWRIGHT Brian G. Cartwright	Chairman of the Board	February 14, 2019
/s/ CHRISTINE N. GARVEY Christine N. Garvey	Director	February 14, 2019
/s/ R. KENT GRIFFIN, JR. R. Kent Griffin, Jr.	Director	February 14, 2019
/s/ DAVID B. HENRY David B. Henry	Director	February 14, 2019
/s/ LYDIA H. KENNARD Lydia H. Kennard	Director	February 14, 2019
/s/ PETER L. RHEIN Peter L. Rhein	Director	February 14, 2019
/s/ KATHERINE M. SANDSTROM Katherine M. Sandstrom	Director	February 14, 2019
/s/ JOSEPH P. SULLIVAN Joseph P. Sullivan	Director	February 14, 2019

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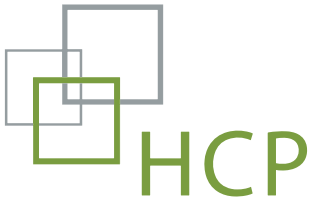
Prepared by www.argyleteam.com



CORPORATE HEADQUARTERS
1920 MAIN STREET, SUITE 1200
IRVINE, CA 92614

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3000 MERIDIAN BOULEVARD, SUITE 200
FRANKLIN, TN 37067

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FOSTER CITY, CA 94404

The papers utilized in the production of this proxy statement are all certified for Forest Stewardship Council (FSC®) standards, which promote environmentally appropriate, socially beneficial and economically viable management of the world's forests. This proxy statement was printed in a facility that uses exclusively vegetable based inks, 100% renewable wind energy and releases zero VOCs into the environment.

EXHIBIT M

SUMMARY OF FINANCIAL INFORMATION
THE FAIRFAX
AS OF DECEMBER 31, 2018 AND 2017
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017
(In thousands)

	Current Year	Prior Year
Total Assets	$ 11,963	$ 12,267
Total Liabilities	39,191	40,126
Total Net Assets	(27,228)	(27,859)
Total Revenues	34,970	34,416
Total Expenses	31,363	30,922
Operating Income	3,607	3,494
Net Income	$ 3,595	$ 3,463

Narrative on financial condition:
The Fairfax increased Net Income from Prior Year by 3.8%. Total Revenue increased by 1.6% based mainly on scheduled fee increases while census fell slightly from the prior year by 1.6% with the largest decline in Skilled Nursing. Revenue was up overall by $554 thousand. Total expenses increased by 1.4% with additional lease payments producing the largest favorable variance of over $700 thousand due to sale of Entrance Fee agreements.

Occupancy Information:	Capacity of Units	Average Occupancy	Percentage Occupancy
Independent Living	382	322	84.3%
Assisted Living	82	73	89.0%
Nursing	56	48	85.7%

THE FAIRFAX
STATEMENT OF OPERATIONS
2018 Actual vs 2018 Budget from 2018 Disclosure
(In thousands)

	2018-Actual	2018-Budget	Variance	%	Explanation
OPERATING REVENUES:					
Resident fees	$ 28,214	$ 28,416	$ (202)	-1%	
Health care revenue	6,756	6,813	(57)	-1%	
Total operating revenues	34,970	35,229	(259)	-1%	
OPERATING EXPENSE:					
Labor	11,507	11,729	(222)	-2%	
Rent	8,883	9,465	(582)	-6%	Additional rent expense budgeted at $1.125mm realized only $445k due to less partially refundable agreements sold than expected.
Ancillary expenses	2,023	1,932	91	5%	
General and administrative	1,498	1,478	20	1%	
Repairs and maintenance	1,540	1,688	(148)	-9%	Repair & Maintenance was lower on specifically planned repair and renovation projects being lower than budgeted by $229k.
Food	1,396	1,451	(55)	-4%	
Depreciation	1,534	1,964	(430)	-22%	Capital projects were less than expected in 2018 based on estimated project costs in the 2018 budget.
Utilities	1,238	1,185	53	4%	
Taxes and license fees	899	938	(39)	-4%	
Insurance	513	486	27	6%	
Advertising and marketing	304	310	(6)	-2%	
Bad debt	28	53	(25)	-47%	
Total operating expenses	31,363	32,679	(1,316)		
INCOME FROM OPERATIONS	3,607	2,550	1,057		
OTHER (EXPENSE) INCOME:					
Other expenses	0	(4)	4	-100%	
Interest expense	(12)	0	(12)	100%	
Interest income	0	7	(7)	-100%	
Total other (expense) income	(12)	3	(15)		
Income before discontinued operations	3,595	2,553	1,042		
Income (Loss) from discontinued operations (Note 6)		0			
NET INCOME	$ 3,595	$ 2,553	$ 1,042		

SUNRISE CONTINUING CARE, LLC
THE FAIRFAX
BUDGETED STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 2019
(In thousands)

		2019	Assumptions
OPERATING REVENUES:			
Resident fees	$	29,337	Budget assumes stable occupancy with moderate growth and resident fee increases of 3% and a 2.0% increase in Independent Living Occupancy and a 1% overall increase in Occupancy.
Health care revenue		7,370	Healthcare censns and payer mix based on prior year trends private pay resident fees projected to go np 3%; Medicare A portion of room rent projected at private pay rates;
Total operating revenues		36,707	
OPERATING EXPENSES:			
Labor		12,092	Staffing set at peer group standards which closely resemble prior year approved budgeted staffing; wage increases assumed at 3.0% on average - effective 4/1 for salaried positions and 1/12 per month for hourly positions; OT assumes at 1.8% of salaries for hourly positions; non-prodnctive labor based on prior year forecast.
Rent		12,494	Land Leases increased $3 million based on a new progressive lease agreement signed that flipped straight-line rent from ($1.4M) in 2018 to 1.4M in 2019. Budgeted cash rent payments increased $350k.
Ancillary expenses		2,086	Ancillary expenses budgeted at prior year forecasted levels as a percentage of ancillary/therapy revenue with an overall increase of 2.8%
General and administrative		1,492	G&A costs are comprised of multiple office, supply, vehicle, and program costs - of which some are locally controlled and some are centrally administered from Corporate Support Office - most of the line items in this area are budgeted by peer group standards for rental full-service communities - these standard were developed by the company over several years of analyses to determine average costs and needs of similar communities. These standard costs are re-evaluated each year. Generally 3% or less.
Food		1,458	Food is budgeted on a per resident day stat amount (PSD) - budget assumes a 5.2% increase in PRD over forecast. Food Cost increases based on expected increases in Occupancy and purchase price.
Utilities		1,337	Utility Expense is budgeted utilizing the rolling 12 month actuals increased by community specific growth rates provided by Sunrise's energy management services partner; Increases to Electric and Natural Gas are applied to monthly experience to maintain expected seasonality and a state-by-state assessment of regulatory authnrity changes and usage trends (normalized for weather); Water, Sewer and Other Utilities are projected 4.0% above the 2018 Forecast
Depreciation		1,717	Depreciation budget based on 2018 Fixed Assets information plus planned 2019 capital additions.
Taxes and license fees		957	Taxes and license fees are budgeted at prior year levels with inflation unless proper notice has been given by taxing authority of any changes for upcoming year
Repairs and maintenance		1,564	Maintenance Contracts currently in place are budgeted using rolling 12 month Actuals from 2017 and 2018; Suite Turnover is budgeted as a cost of Estimated Turnovers by Department during 2018 applied to either a Full or Partial Room Turnover Cost, based on the age of the community; also included are estimated costs for painting, paper, and resealing associated with capital projects but are not considered capital under the company's capitalization policy. Overall expense is expected to increase 2.3% compared to 2018 Actual.

Insurauce	512	In general, the Insurance Program includes the use of the Sunrise Captive that insures the liability and workers compensation insurance policies' deductible/retention exposures above the community deductible; Program insures Community, Owners, Tenants, Lenders, and Sunrise against risks of ongoing operation and ownership at levels and coverage customary for the senior living industry. Workers Compensation and Liability Premiums and Deductibles are expected to increase 13% based on current year experience.
Advertising and marketing	262	Sales and Marketing resources are distributed among marketing services, tools and training. The three resources in 2019 include; 1. Centrally Administrated or Direct Bill Programs on behalf of Community- • Programs are managed by the HQ Marketing team and Sunrise partners; 2. Marketing Campaigns - • Programs are managed by the HQ Marketing team for Strategic Campaign activity; 3. Community Marketing Expense - • Communities typically order prodncts and services through pre-defined vendors, such as creative services, print services, media and direct mail. Local expenses are expected to increase to promote more local campaigns.
Bad debt expense	57	Bad Debt is budgeted at ranges from 0.2% to 0.05%of Total Revenue based on YTD 2018 experience by Community. Communities are still expected to budget and manage to target if actual trailing experience has been higher.
Total operating expenses	36,028	
INCOME FROM OPERATIONS	679	
OTHER (EXPENSE) INCOME:		
Interest expense	0	
Other Income/Expense	(8)	
Interest income	6	
Total other (expense) income	(2)	
NET INCOME	$ 677	