**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**WASHINGTON, D.C. 20549**

# FORM 10-Q

(Mark One)

☑ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the quarterly period ended June 30, 2016**

**or**

o **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: 1-8923**

# WELLTOWER INC.

(Exact name of registrant as specified in its charter)

| **Delaware** | **34-1096634** |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| **4500 Dorr Street, Toledo, Ohio** | **43615** |
| (Address of principal executive offices) | (Zip Code) |

**(419) 247-2800**
(Registrant's telephone number, including area code)

**Not Applicable**
(Former name, former address and former fiscal year, if changed since last report)

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 o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

| Large accelerated filer ☑ | Accelerated filer o | Non-accelerated filer o<br>(Do not check if a smaller reporting company) | Smaller reporting company o |
|---|---|---|---|

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

As of July 31, 2016, the registrant had 357,915,158 shares of common stock outstanding.

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**Item 1.** ***Financial Statements***

**CONSOLIDATED BALANCE SHEETS**
**WELLTOWER INC. AND SUBSIDIARIES**
(In thousands)

| | June 30, 2016 (Unaudited) | December 31, 2015 (Note) |
|---|---|---|
| Assets: | | |
| Real estate investments: | | |
| Real property owned: | | |
| Land and land improvements | $ 2,537,508 | $ 2,563,445 |
| Buildings and improvements | 25,293,007 | 25,522,542 |
| Acquired lease intangibles | 1,345,424 | 1,350,585 |
| Real property held for sale, net of accumulated depreciation | 501,192 | 169,950 |
| Construction in progress | 475,203 | 258,968 |
| Gross real property owned | 30,152,334 | 29,865,490 |
| Less accumulated depreciation and amortization | (4,109,585) | (3,796,297) |
| Net real property owned | 26,042,749 | 26,069,193 |
| Real estate loans receivable | 647,677 | 819,492 |
| Net real estate investments | 26,690,426 | 26,888,685 |
| Other assets: | | |
| Investments in unconsolidated entities | 543,068 | 542,281 |
| Goodwill | 68,321 | 68,321 |
| Cash and cash equivalents | 466,585 | 360,908 |
| Restricted cash | 58,440 | 61,782 |
| Straight-line rent receivable | 449,617 | 395,562 |
| Receivables and other assets | 688,044 | 706,306 |
| Total other assets | 2,274,075 | 2,135,160 |
| Total assets | $ 28,964,501 | $ 29,023,845 |
| | | |
| Liabilities and equity | | |
| Liabilities: | | |
| Borrowings under primary unsecured credit facility | $ 745,000 | $ 835,000 |
| Senior unsecured notes | 8,711,790 | 8,548,055 |
| Secured debt | 3,442,178 | 3,509,142 |
| Capital lease obligations | 74,759 | 75,489 |
| Accrued expenses and other liabilities | 728,080 | 697,191 |
| Total liabilities | 13,701,807 | 13,664,877 |
| Redeemable noncontrolling interests | 394,126 | 183,083 |
| Equity: | | |
| Preferred stock | 1,006,250 | 1,006,250 |
| Common stock | 357,950 | 354,811 |
| Capital in excess of par value | 16,625,186 | 16,478,300 |
| Treasury stock | (51,288) | (44,372) |
| Cumulative net income | 4,102,919 | 3,725,772 |
| Cumulative dividends | (7,491,922) | (6,846,056) |
| Accumulated other comprehensive income (loss) | (159,638) | (88,243) |
| Other equity | 3,917 | 4,098 |
| Total Welltower Inc. stockholders’ equity | 14,393,374 | 14,590,560 |
| Noncontrolling interests | 475,194 | 585,325 |
| Total equity | 14,868,568 | 15,175,885 |
| Total liabilities and equity | $ 28,964,501 | $ 29,023,845 |

NOTE: The consolidated balance sheet at December 31, 2015 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements.

See notes to unaudited consolidated financial statements

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**
**WELLTOWER INC. AND SUBSIDIARIES**
(In thousands, except per share data)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues: | | | | |
| Rental income | $ 422,628 | $ 396,626 | $ 838,290 | $ 776,213 |
| Resident fees and services | 615,220 | 535,553 | 1,217,369 | 1,028,063 |
| Interest income | 24,007 | 20,576 | 49,195 | 37,570 |
| Other income | 14,802 | 4,414 | 18,851 | 9,500 |
| Total revenues | 1,076,657 | 957,169 | 2,123,705 | 1,851,346 |
| Expenses: | | | | |
| Interest expense | 132,326 | 118,861 | 265,285 | 239,942 |
| Property operating expenses | 458,832 | 398,354 | 908,468 | 774,815 |
| Depreciation and amortization | 226,569 | 208,802 | 455,265 | 397,631 |
| General and administrative | 39,914 | 38,474 | 85,606 | 73,612 |
| Transaction costs | 5,157 | 12,491 | 13,365 | 61,045 |
| Loss (gain) on derivatives, net | - | - | - | (58,427) |
| Loss (gain) on extinguishment of debt, net | 33 | 18,887 | 9 | 34,288 |
| Impairment of assets | - | - | 14,314 | 2,220 |
| Other expenses | 3,161 | 10,583 | 3,161 | 10,583 |
| Total expenses | 865,992 | 806,452 | 1,745,473 | 1,535,709 |
| Income (loss) from continuing operations before income taxes and income from unconsolidated entities | 210,665 | 150,717 | 378,232 | 315,637 |
| Income tax (expense) benefit | 513 | (7,417) | 2,239 | (7,113) |
| Income (loss) from unconsolidated entities | (1,959) | (2,952) | (5,778) | (15,600) |
| Income (loss) from continuing operations | 209,219 | 140,348 | 374,693 | 292,924 |
| Gain (loss) on real estate dispositions, net | 1,530 | 190,111 | 1,530 | 246,956 |
| Net income | 210,749 | 330,459 | 376,223 | 539,880 |
| Less: Preferred stock dividends | 16,352 | 16,352 | 32,703 | 32,703 |
| Less: Net income (loss) attributable to noncontrolling interests[1] | (1,077) | 1,534 | (924) | 3,804 |
| Net income (loss) attributable to common stockholders | $ 195,474 | $ 312,573 | $ 344,444 | $ 503,373 |
| Average number of common shares outstanding: | | | | |
| Basic | 356,646 | 350,399 | 355,879 | 343,624 |
| Diluted | 358,891 | 351,366 | 357,489 | 344,623 |
| Earnings per share: | | | | |
| Basic: | | | | |
| Income (loss) from continuing operations attributable to common stockholders, including real estate dispositions | $ 0.55 | $ 0.89 | $ 0.97 | $ 1.46 |
| Net income (loss) attributable to common stockholders* | $ 0.55 | $ 0.89 | $ 0.97 | $ 1.46 |
| Diluted: | | | | |
| Income (loss) from continuing operations attributable to common stockholders, including real estate dispositions | $ 0.54 | $ 0.89 | $ 0.96 | $ 1.46 |
| Net income (loss) attributable to common stockholders* | $ 0.54 | $ 0.89 | $ 0.96 | $ 1.46 |
| Dividends declared and paid per common share | $ 0.86 | $ 0.825 | $ 1.72 | $ 1.65 |

* Amounts may not sum due to rounding
(1) Includes amounts attributable to redeemable noncontrolling interests.

See notes to unaudited consolidated financial statements

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**
**WELLTOWER INC. AND SUBSIDIARIES**
(In thousands)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Net income | $ 210,749 | $ 330,459 | $ 376,223 | $ 539,880 |
| Other comprehensive income (loss): | | | | |
| Unrecognized gain (loss) on equity investments | (3,611) | (3,413) | (11,160) | (15,100) |
| Change in net unrealized gains (losses) on cash flow hedges: | | | | |
| Unrealized gains (losses) on cash flow hedges | 487 | 462 | 970 | (1,697) |
| Unrecognized actuarial gain (loss) | - | - | 2 | - |
| Foreign currency translation gain (loss) | (50,384) | 32,384 | (49,012) | 3,187 |
| Total other comprehensive income (loss) | (53,508) | 29,433 | (59,200) | (13,610) |
| Total comprehensive income (loss) | 157,241 | 359,892 | 317,023 | 526,270 |
| Less: Total comprehensive income (loss) attributable to noncontrolling interests[(1)] | (4,000) | 5,140 | 11,271 | (5,145) |
| Total comprehensive income (loss) attributable to common stockholders | $ 161,241 | $ 354,752 | $ 305,752 | $ 531,415 |

(1) Includes amounts attributable to redeemable noncontrolling interests.

See notes to unaudited consolidated financial statements

# CONSOLIDATED STATEMENTS OF EQUITY (UNAUDITED)
# WELLTOWER INC. AND SUBSIDIARIES

(In thousands)

| | Six Months Ended June 30, 2016 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Preferred Stock | Common Stock | Capital in Excess of Par Value | Treasury Stock | Cumulative Net Income | Cumulative Dividends | Accumulated Other Comprehensive Income (Loss) | Other Equity | Noncontrolling Interests | Total |
| Balances at beginning of period | $ 1,006,250 | $ 354,811 | $ 16,478,300 | $ (44,372) | $ 3,725,772 | $ (6,846,056) | $ (88,243) | $ 4,098 | $ 585,325 | $ 15,175,885 |
| Comprehensive income: | | | | | | | | | | |
| Net income (loss) | | | | | 377,147 | | | | 3,089 | 380,236 |
| Other comprehensive income | | | | | | | (71,395) | | 12,195 | (59,200) |
| Total comprehensive income | | | | | | | | | | 321,036 |
| Net change in noncontrolling interests | | | (41,658) | | | | | | (125,415) | (167,073) |
| Amounts related to stock incentive plans, net of forfeitures | | 688 | 32,284 | (6,916) | | | | (329) | | 25,727 |
| Proceeds from issuance of common stock | | 2,451 | 156,260 | | | | | | | 158,711 |
| Option compensation expense | | | | | | | | 148 | | 148 |
| Cash dividends paid: | | | | | | | | | | |
| Common stock cash dividends | | | | | | (613,163) | | | | (613,163) |
| Preferred stock cash dividends | | | | | | (32,703) | | | | (32,703) |
| Balances at end of period | $ 1,006,250 | $ 357,950 | $ 16,625,186 | $ (51,288) | $ 4,102,919 | $ (7,491,922) | $ (159,638) | $ 3,917 | $ 475,194 | $ 14,868,568 |

| | Six Months Ended June 30, 2015 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Preferred Stock | Common Stock | Capital in Excess of Par Value | Treasury Stock | Cumulative Net Income | Cumulative Dividends | Accumulated Other Comprehensive Income (Loss) | Other Equity | Noncontrolling Interests | Total |
| Balances at beginning of period | $ 1,006,250 | $ 328,835 | $ 14,740,712 | $ (35,241) | $ 2,842,022 | $ (5,635,923) | $ (77,009) | $ 5,507 | $ 297,896 | $ 13,473,049 |
| Comprehensive income: | | | | | | | | | | |
| Net income (loss) | | | | | 536,074 | | | | 3,975 | 540,049 |
| Other comprehensive income | | | | | | | (4,661) | | (8,949) | (13,610) |
| Total comprehensive income | | | | | | | | | | 526,439 |
| Net change in noncontrolling interests | | | (2,786) | | | | | | 65,184 | 62,398 |
| Amounts related to stock incentive plans, net of forfeitures | | 211 | 16,304 | (6,452) | | | | (1,721) | | 8,342 |
| Proceeds from issuance of common stock | | 21,528 | 1,541,873 | | | | | | | 1,563,401 |
| Equity component of convertible debt | | 1,077 | 4,738 | | | | | | | 5,815 |
| Option compensation expense | | | | | | | | 452 | | 452 |
| Cash dividends paid: | | | | | | | | | | |
| Common stock cash dividends | | | | | | (561,914) | | | | (561,914) |
| Preferred stock cash dividends | | | | | | (32,703) | | | | (32,703) |
| Balances at end of period | $ 1,006,250 | $ 351,651 | $ 16,300,841 | $ (41,693) | $ 3,378,096 | $ (6,230,540) | $ (81,670) | $ 4,238 | $ 358,106 | $ 15,045,279 |

See notes to unaudited consolidated financial statements

**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**
**WELLTOWER INC. AND SUBSIDIARIES**
(In thousands)

| | Six Months Ended June 30, | |
|---|---|---|
| | 2016 | 2015 |
| Operating activities: | | |
| Net income | $ 376,223 | $ 539,880 |
| Adjustments to reconcile net income to | | |
| net cash provided from (used in) operating activities: | | |
| Depreciation and amortization | 455,265 | 397,631 |
| Other amortization expenses | 3,141 | 2,458 |
| Impairment of assets | 14,314 | 2,220 |
| Stock-based compensation expense | 15,217 | 20,178 |
| Loss (gain) on derivatives, net | - | (58,427) |
| Loss (gain) on extinguishment of debt, net | 9 | 34,288 |
| Loss (income) from unconsolidated entities | 5,778 | 15,600 |
| Rental income in excess of cash received | (54,055) | (57,047) |
| Amortization related to above (below) market leases, net | 332 | 870 |
| Loss (gain) on sales of properties, net | (1,530) | (246,956) |
| Distributions by unconsolidated entities | 351 | 282 |
| Increase (decrease) in accrued expenses and other liabilities | 36,705 | 10,417 |
| Decrease (increase) in receivables and other assets | (3,009) | (42,048) |
| Net cash provided from (used in) operating activities | 848,741 | 619,346 |
| | | |
| Investing activities: | | |
| Cash disbursed for acquisitions | (287,455) | (2,153,970) |
| Cash disbursed for capital improvements to existing properties | (87,529) | (67,086) |
| Cash disbursed for construction in progress | (249,867) | (114,478) |
| Capitalized interest | (7,343) | (4,446) |
| Investment in real estate loans receivable | (51,059) | (416,588) |
| Other investments, net of payments | (16,664) | (110,531) |
| Principal collected on real estate loans receivable | 168,343 | 37,342 |
| Contributions to unconsolidated entities | (39,644) | (117,047) |
| Distributions by unconsolidated entities | 19,301 | 116,288 |
| Proceeds from (payments on) derivatives | 56,842 | 72,477 |
| Decrease in restricted cash | 3,342 | 12,422 |
| Proceeds from sales of real property | 130,298 | 523,175 |
| Net cash provided from (used in) investing activities | (361,435) | (2,222,442) |
| | | |
| Financing activities: | | |
| Net increase (decrease) under unsecured credit facilities | (90,000) | 350,000 |
| Proceeds from issuance of senior unsecured notes | 693,560 | 743,407 |
| Payments to extinguish senior unsecured notes | (400,000) | (477,550) |
| Net proceeds from the issuance of secured debt | 161,992 | 136,801 |
| Payments on secured debt | (281,051) | (323,950) |
| Net proceeds from the issuance of common stock | 159,032 | 1,562,350 |
| Decrease (increase) in deferred loan costs | (17,439) | (5,285) |
| Contributions by noncontrolling interests[1] | 138,458 | 4,926 |
| Distributions to noncontrolling interests[1] | (91,133) | (19,371) |
| Acquisitions of noncontrolling interests | - | (4,741) |
| Cash distributions to stockholders | (645,866) | (594,617) |
| Other financing activities | (730) | (27,253) |
| Net cash provided from (used in) financing activities | (373,177) | 1,344,717 |
| Effect of foreign currency translation on cash and cash equivalents | (8,452) | 2,595 |
| Increase (decrease) in cash and cash equivalents | 105,677 | (255,784) |
| Cash and cash equivalents at beginning of period | 360,908 | 473,726 |
| Cash and cash equivalents at end of period | $ 466,585 | $ 217,942 |
| | | |
| Supplemental cash flow information: | | |
| Interest paid | $ 236,861 | $ 208,885 |
| Income taxes paid | 3,889 | 10,140 |

(1) Includes amounts attributable to redeemable noncontrolling interests.

See notes to unaudited consolidated financial statements

## 1. Business

Welltower Inc., an S&P 500 company headquartered in Toledo, Ohio, is driving the transformation of health care infrastructure. The company invests with leading seniors housing operators, post-acute providers and health systems to fund the real estate and infrastructure needed to scale innovative care delivery models and improve people's wellness and overall health care experience. Welltower™, a real estate investment trust (REIT), owns 1,486 properties in major, high-growth markets in the United States, Canada and the United Kingdom, consisting of seniors housing and post-acute communities and outpatient medical properties. Founded in 1970, we were the first real estate investment trust to invest exclusively in health care facilities.

## 2. Accounting Policies and Related Matters

*Basis of Presentation*

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") for interim financial information and with instructions to Quarterly Report on Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. During the three months ended March 31, 2016, we determined that an immaterial portion of our noncontrolling interests related to a 2015 transaction was misclassified in permanent equity rather than temporary equity based on a redemption feature of the partnership agreement and we have corrected the $114,714,000 misclassification by recording the change in the consolidated statement of equity for the six months ended June 30, 2016. Operating results for the six months ended June 30, 2016 are not necessarily an indication of the results that may be expected for the year ending December 31, 2016. For further information, refer to the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2015.

*New Accounting Standards*

In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers (Topic 606)". The standard is a comprehensive new revenue recognition model that requires revenue to be recognized in a manner to depict the transfer of goods or services to a customer at an amount that reflects the consideration expected to be received in exchange for those goods or services. ASU 2014-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017, and early adoption is permitted beginning after December 15, 2016. We are currently evaluating the impact that the standard will have on our consolidated financial statements and have not yet determined the method by which we will adopt the standard.

In February 2015, the FASB issued ASU No. 2015-02, "Consolidation (Topic 810): Amendments to the Consolidation Analysis", which makes certain changes to both the variable interest model and the voting model, including changes to (1) the identification of variable interests (fees paid to a decision maker or service provider), (2) the variable interest entity characteristics for a limited partnership or similar entity and (3) the primary beneficiary determination. We adopted ASU 2015-02 on January 1, 2016. This guidance did not have a significant impact on our consolidated financial statements.

In September 2015, the FASB issued ASU No. 2015-16, "Simplifying the Accounting for Measurement-Period Adjustments" to simplify the accounting for business combinations, specifically as it relates to measurement-period adjustments. Acquiring entities in a business combination must recognize measurement-period adjustments in the reporting period in which the adjustment amounts are determined. Also, ASU 2015-16 requires entities to present separately on the face of the income statement (or disclose in the notes to the financial statements) the portion of the amount recorded in the current period earnings, by line item, that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. We adopted ASU 2015-16 on January 1, 2016. This guidance did not have a significant impact on our consolidated financial statements.

In January 2016, the FASB issued ASU No. 2016-01, "Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities," which will require entities to measure their investments at fair value and recognize any changes in fair value in net income unless the investments qualify for the new practicability exception. The practicability exception will be available for equity investments that do not have readily determinable fair values. ASU 2016-01 is effective for fiscal years and interim periods within those years, beginning after December 15, 2017. We are currently evaluating the impact that the standard will have on our consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which requires lessees to recognize assets and liabilities on their balance sheet related to the rights and obligations created by most leases, while continuing to recognize expenses on their income statements over the lease term. It will also require disclosures designed to give financial statement users information

regarding the amount, timing, and uncertainty of cash flows arising from leases. ASU 2016-02 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2018, and early adoption is permitted. Entities are required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period in the financial statements. We are currently evaluating the impact that the standard will have on our consolidated financial statements.

In March 2016, the FASB issued ASU No. 2016-09, “Improvements to Employee Share-Based Payment Accounting”. This standard simplifies the accounting treatment for excess tax benefits and deficiencies, forfeitures, and cash flow considerations related to share-based compensation. ASU 2016-09 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016, and early adoption is permitted. We are currently evaluating the impact of the standard; however, we do not expect its adoption to have a significant impact on our consolidated financial statements.

In June 2016, the FASB issued ASU No. 2016-13, “Measurement of Credit Losses on Financial Instruments”. This standard requires a new forward-looking “expected loss” model to be used for receivables, held-to-maturity debt, loans, and other instruments. ASU 2016-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019, and early adoption is permitted for fiscal years beginning after December 15, 2018. We are currently evaluating the impact that the standard will have on our consolidated financial statements.

## 3. Real Property Acquisitions and Development

The total purchase price for all properties acquired has been allocated to the tangible and identifiable intangible assets, liabilities and noncontrolling interests based upon their respective fair values in accordance with our accounting policies. The results of operations for these acquisitions have been included in our consolidated results of operations since the date of acquisition and are a component of the appropriate segments. Transaction costs primarily represent costs incurred with property acquisitions, including due diligence costs, fees for legal and valuation services and termination of pre-existing relationships computed based on the fair value of the assets acquired, lease termination fees and other acquisition-related costs. Certain of our subsidiaries' functional currencies are the local currencies of their respective countries. See Note 2 to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 for information regarding our foreign currency policies.

*Triple-net Activity*

| | Six Months Ended | |
|---|---|---|
| (In thousands) | June 30, 2016[1] | June 30, 2015 |
| Land and land improvements | $ 18,901 | $ 45,268 |
| Buildings and improvements | 160,209 | 447,229 |
| Acquired lease intangibles | 2,876 | 2,817 |
| Restricted cash | - | 6 |
| Receivables and other assets | - | 60 |
| Total assets acquired | 181,986 | 495,380 |
| Accrued expenses and other liabilities | (1,459) | (1,845) |
| Total liabilities assumed | (1,459) | (1,845) |
| Non-cash acquisition related activity[2] | (37,703) | (936) |
| Cash disbursed for acquisitions | 142,824 | 492,599 |
| Construction in progress additions | 85,687 | 74,694 |
| Less: Capitalized interest | (3,771) | (3,303) |
| Foreign currency translation | (2,712) | 240 |
| Cash disbursed for construction in progress | 79,204 | 71,631 |
| Capital improvements to existing properties | 14,877 | 19,029 |
| Total cash invested in real property, net of cash acquired | $ 236,905 | $ 583,259 |

(1) Includes acquisitions with an aggregate purchase price of $166,343,000 for which the allocation of the purchase price consideration is preliminary and subject to change.
(2) For the six months ended June 30, 2016, $31,014,000 relates to the acquisition of assets previously financed as real estate loans receivable and $6,630,000 previously financed as equity investments.

*Seniors Housing Operating Activity*

| (In thousands) | Six Months Ended June 30, 2016[1] | Six Months Ended June 30, 2015 |
|---|---|---|
| Land and land improvements | $ 5,617 | $ 94,294 |
| Building and improvements | 128,200 | 1,174,465 |
| Acquired lease intangibles | 6,334 | 71,089 |
| Restricted cash | - | 5,425 |
| Receivables and other assets | 894 | 23,645 |
| Total assets acquired[2] | 141,045 | 1,368,918 |
| Secured debt | - | (208,960) |
| Accrued expenses and other liabilities | (4,853) | (19,011) |
| Total liabilities assumed | (4,853) | (227,971) |
| Noncontrolling interests | (549) | (86,842) |
| Non-cash acquisition related activity[3] | (7,659) | - |
| Cash disbursed for acquisitions | 127,984 | 1,054,105 |
| Construction in progress additions | 134,019 | 19,926 |
| Less: Capitalized interest | (2,011) | (715) |
| Foreign currency translation | (5,344) | (40) |
| Cash disbursed for construction in progress | 126,664 | 19,171 |
| Capital improvements to existing properties | 47,553 | 32,766 |
| Total cash invested in real property, net of cash acquired | $ 302,201 | $ 1,106,042 |

(1) Includes acquisitions with an aggregate purchase price of $117,545,000 for which the allocation of the purchase price consideration is preliminary and subject to change.
(2) Excludes $134,000 and $3,390,000 of cash acquired during the six months ended June 30, 2016 and 2015, respectively.
(3) Relates to the acquisition of assets previously financed as equity investments.

*Outpatient Medical Activity*

| (In thousands) | Six Months Ended June 30, 2016 [1] | Six Months Ended June 30, 2015 |
|---|---|---|
| Land and land improvements | $ - | $ 737 |
| Buildings and improvements | 32,650 | 426,130 |
| Acquired lease intangibles | - | 19,372 |
| Total assets acquired[2] | 32,650 | 446,239 |
| Secured debt | - | (112,000) |
| Accrued expenses and other liabilities | (990) | (2,743) |
| Total liabilities assumed | (990) | (114,743) |
| Noncontrolling interests | - | (68,535) |
| Non-cash acquisition activity[3] | (15,013) | - |
| Cash disbursed for acquisitions | 16,647 | 262,961 |
| Construction in progress additions | 50,896 | 26,025 |
| Less: Capitalized interest | (1,561) | (428) |
| Accruals[4] | (5,336) | (1,921) |
| Cash disbursed for construction in progress | 43,999 | 23,676 |
| Capital improvements to existing properties | 25,099 | 15,291 |
| Total cash invested in real property | $ 85,745 | $ 301,928 |

(1) Includes acquisitions with an aggregate purchase price of $32,650,000 for which the allocation of the purchase price consideration is preliminary and subject to change.
(2) Excludes $0 and $4,372,000 of cash acquired during the six months ended June 30, 2016 and 2015, respectively.
(3) Relates to an acquisition of assets previously financed as a real estate loan. Refer to Note 6 for additional information.
(4) Represents non-cash consideration accruals for amounts to be paid in future periods relating to properties that converted in the periods noted above.

*Construction Activity*

The following is a summary of the construction projects that were placed into service and began generating revenues during the periods presented (in thousands):

| | Six Months Ended | |
|---|---|---|
| | June 30, 2016 | June 30, 2015 |
| Development projects: | | |
| Triple-net | $ - | $ 72,775 |
| Seniors housing operating | - | 19,869 |
| Outpatient medical | 35,363 | 16,592 |
| Total development projects | 35,363 | 109,236 |
| Expansion projects | 2,879 | 38,808 |
| Total construction in progress conversions | $ 38,242 | $ 148,044 |

## 4. Real Estate Intangibles

The following is a summary of our real estate intangibles, excluding those classified as held for sale, as of the dates indicated (dollars in thousands):

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Assets: | | |
| In place lease intangibles | $ 1,194,925 | $ 1,179,537 |
| Above market tenant leases | 62,544 | 67,529 |
| Below market ground leases | 62,447 | 80,224 |
| Lease commissions | 25,508 | 23,295 |
| Gross historical cost | 1,345,424 | 1,350,585 |
| Accumulated amortization | (949,727) | (881,096) |
| Net book value | $ 395,697 | $ 469,489 |
| Weighted-average amortization period in years | 15.8 | 13.4 |
| Liabilities: | | |
| Below market tenant leases | $ 93,054 | $ 93,089 |
| Above market ground leases | 7,908 | 7,907 |
| Gross historical cost | 100,962 | 100,996 |
| Accumulated amortization | (49,874) | (46,048) |
| Net book value | $ 51,088 | $ 54,948 |
| Weighted-average amortization period in years | 15.0 | 14.5 |

The following is a summary of real estate intangible amortization for the periods presented (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Rental income related to above/below market tenant leases, net | $ 210 | $ (424) | $ 290 | $ (217) |
| Property operating expenses related to above/below market ground leases, net | (311) | (334) | (622) | (653) |
| Depreciation and amortization related to in place lease intangibles and lease commissions | (31,019) | (31,973) | (65,473) | (56,297) |

The future estimated aggregate amortization of intangible assets and liabilities is as follows for the periods presented (in

thousands):

| | Assets | Liabilities |
|---|---|---|
| 2016 | $ 63,361 | $ 3,809 |
| 2017 | 81,279 | 6,807 |
| 2018 | 44,816 | 6,181 |
| 2019 | 25,471 | 5,771 |
| 2020 | 22,563 | 5,290 |
| Thereafter | 158,207 | 23,230 |
| Total | $ 395,697 | $ 51,088 |

## 5. Dispositions, Assets Held for Sale and Discontinued Operations

We periodically sell properties for various reasons, including favorable market conditions or the exercise of tenant purchase options. During the six months ended June 30, 2016 and 2015, we recorded impairment charges on certain held-for-sale triple-net properties as the fair values less estimated costs to sell exceeded our carrying values. The following is a summary of our real property disposition activity for the periods presented (in thousands):

| | Six Months Ended | |
|---|---|---|
| | June 30, 2016 | June 30, 2015 |
| Real estate dispositions: | | |
| Triple-net | $ 128,768 | $ 105,274 |
| Outpatient medical | - | 165,221 (1) |
| Land parcels | - | 5,724 |
| Total dispositions | 128,768 | 276,219 |
| Gain (loss) on real estate dispositions, net | 1,530 | 246,956 |
| Proceeds from real estate dispositions | $ 130,298 | $ 523,175 |

(1) Primarily related to the disposition of an unconsolidated equity investment with Forest City Enterprises.

*Dispositions and Assets Held for Sale*

Pursuant to our adoption of ASU No. 2014-08, “Presentation of Financial Statements (Topic 205) and Property, Plant and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity”, operating results attributable to properties sold subsequent to or classified as held for sale after January 1, 2014 and which do not meet the definition of discontinued operations are no longer reclassified on our Consolidated Statements of Comprehensive Income. The following represents the activity related to these properties for the periods presented (in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Revenues: | | | | |
| Rental income | $ 19,990 | $ 24,789 | $ 38,552 | $ 50,146 |
| Expenses: | | | | |
| Interest expense | 2,506 | 4,948 | 5,032 | 8,847 |
| Property operating expenses | 1,338 | 1,482 | 2,700 | 3,009 |
| Provision for depreciation | 3,071 | 7,042 | 7,022 | 13,473 |
| Total expenses | 6,915 | 13,472 | 14,754 | 25,329 |
| Income (loss) from real estate dispositions, net | $ 13,075 | $ 11,317 | $ 23,798 | $ 24,817 |

## 6. Real Estate Loans Receivable

The following is a summary of our real estate loan activity for the periods presented (in thousands):

| | Six Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | June 30, 2016 | | | June 30, 2015 | | |
| | Triple-net | Outpatient Medical | Totals | Triple-net | Outpatient Medical | Totals |
| Advances on real estate loans receivable: | | | | | | |
| Investments in new loans | $ 8,223 | $ - | $ 8,223 | $ 379,604 | $ - | $ 379,604 |
| Draws on existing loans | 42,803 | 33 | 42,836 | 34,699 | 2,285 | 36,984 |
| Net cash advances on real estate loans | 51,026 | 33 | 51,059 | 414,303 | 2,285 | 416,588 |
| Receipts on real estate loans receivable: | | | | | | |
| Loan payoffs | 182,613 | 27,303 | 209,916 | 25,656 | - | 25,656 |
| Principal payments on loans | 4,454 | - | 4,454 | 11,686 | - | 11,686 |
| Sub-total | 187,067 | 27,303 | 214,370 | 37,342 | - | 37,342 |
| Less: Non-cash activity | (31,014) | (15,013) | (46,027) | - | - | - |
| Net cash receipts on real estate loans | 156,053 | 12,290 | 168,343 | 37,342 | - | 37,342 |
| Net cash advances (receipts) on real estate loans | (105,027) | (12,257) | (117,284) | 376,961 | 2,285 | 379,246 |
| Change in balance due to foreign currency translation | (8,504) | - | (8,504) | 1,127 | - | 1,127 |
| Net change in real estate loans receivable | $ (144,545) | $ (27,270) | $ (171,815) | $ 378,088 | $ 2,285 | $ 380,373 |

We recorded no provision for loan losses during the six months ended June 30, 2016. At June 30, 2016, we had no real estate loans with outstanding balances on non-accrual status and no allowances for loan losses were recorded.

## 7. Investments in Unconsolidated Entities

We participate in a number of joint ventures, which generally invest in seniors housing and health care real estate. The results of operations for these properties have been included in our consolidated results of operations from the date of acquisition by the joint ventures and are reflected in our Consolidated Statements of Comprehensive Income as income or loss from unconsolidated entities. The following is a summary of our investments in unconsolidated entities (dollars in thousands):

| | Percentage Ownership(1) | June 30, 2016 | December 31, 2015 |
|---|---|---|---|
| Triple-net | 10% to 49% | $ 28,794 | $ 36,351 |
| Seniors housing operating | 10% to 50% | 507,540 | 499,537 |
| Outpatient medical | 43% | 6,734 | 6,393 |
| Total | | $ 543,068 | $ 542,281 |

(1) Excludes ownership of in-substance real estate.

At June 30, 2016, the aggregate unamortized basis difference of our joint venture investments of $153,126,000 is primarily attributable to the difference between the amount for which we purchase our interest in the entity, including transaction costs, and the historical carrying value of the net assets of the entity. This difference will be amortized over the remaining useful life of the related properties and included in the reported amount of income from unconsolidated entities.

## 8. Credit Concentration

We use net operating income from continuing operations ("NOI") as our credit concentration metric. See Note 17 for additional information and reconciliation. The following table summarizes certain information about our credit concentration for the six month period ended June 30, 2016, excluding our share of NOI in unconsolidated entities (dollars in thousands):

| Concentration by relationship:[1] | Number of Properties | Total NOI | Percent of NOI[2] |
|---|---|---|---|
| Genesis Healthcare | 187 | $ 195,171 | 16% |
| Sunrise Senior Living[3] | 143 | 160,057 | 13% |
| Brookdale Senior Living | 148 | 84,526 | 7% |
| Revera[3] | 97 | 73,992 | 6% |
| Benchmark Senior Living | 49 | 48,880 | 4% |
| Remaining portfolio | 796 | 652,611 | 54% |
| Totals | 1,420 | $ 1,215,237 | 100% |

(1) Genesis Healthcare is in our triple-net segment. Sunrise Senior Living and Revera are in our seniors housing operating segment. Benchmark Senior Living and Brookdale Senior Living are both in our triple-net and seniors housing operating segments.

(2) NOI with our top five relationships comprised 46% of total NOI for the year ending December 31, 2015.

(3) Revera owns a controlling interest in Sunrise Senior Living.

## 9. Borrowings Under Credit Facilities and Related Items

At June 30, 2016, we had a primary unsecured credit facility with a consortium of 29 banks that includes a $3,000,000,000 unsecured revolving credit facility, a $500,000,000 unsecured term credit facility and a $250,000,000 Canadian-denominated unsecured term credit facility. We have an option, through an accordion feature, to upsize the unsecured revolving credit facility and the $500,000,000 unsecured term credit facility by up to an additional $1,000,000,000, in the aggregate, and the $250,000,000 Canadian-denominated unsecured term credit facility by up to an additional $250,000,000. The primary unsecured credit facility also allows us to borrow up to $1,000,000,000 in alternate currencies (none outstanding at June 30, 2016). Borrowings under the unsecured revolving credit facility are subject to interest payable at the applicable margin over LIBOR interest rate (1.35% at June 30, 2016). The applicable margin is based on certain of our debt ratings and was 0.90% at June 30, 2016. In addition, we pay a facility fee quarterly to each bank based on the bank's commitment amount. The facility fee depends on certain of our debt ratings and was 0.15% at June 30, 2016. The term credit facilities mature on May 13, 2021. The revolving credit facility is scheduled to mature on May 13, 2020 and can be extended for two successive terms of six months each at our option.

The following information relates to aggregate borrowings under the primary unsecured revolving credit facility for the periods presented (dollars in thousands):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Balance outstanding at quarter end[1] | $ 745,000 | $ 350,000 | $ 745,000 | $ 350,000 |
| Maximum amount outstanding at any month end | $ 745,000 | $ 535,000 | $ 945,000 | $ 535,000 |
| Average amount outstanding (total of daily principal balances divided by days in period) | $ 623,077 | $ 501,758 | $ 647,060 | $ 455,608 |
| Weighted average interest rate (actual interest expense divided by average borrowings outstanding) | 1.26% | 1.13% | 1.28% | 1.17% |

(1) As of June 30, 2016, letters of credit in the aggregate amount of $48,930,000 have been issued, which reduces the borrowing capacity on the unsecured revolving credit facility.

## 10. Senior Unsecured Notes and Secured Debt

We may repurchase, redeem or refinance senior unsecured notes from time to time, taking advantage of favorable market conditions when available. We may purchase senior notes for cash through open market purchases, privately negotiated transactions, a tender offer or, in some cases, through the early redemption of such securities pursuant to their terms. The senior unsecured notes are redeemable at our option, at any time in whole or from time to time in part, at a redemption price equal to the sum of (1) the principal amount of the notes (or portion of such notes) being redeemed plus accrued and unpaid interest thereon up to the redemption date and (2) any "make-whole" amount due under the terms of the notes in connection with early redemptions. Redemptions and repurchases of debt, if any, will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. At June 30, 2016, the annual principal payments due on these debt obligations were as follows (in thousands):

| | Senior Unsecured Notes[1,2] | Secured Debt [1,3] | Totals |
|---|---|---|---|
| 2016 | $ - | $ 304,577 | $ 304,577 |
| 2017 | 450,000 | 556,382 | 1,006,382 |
| 2018 | 450,000 | 631,424 | 1,081,424 |
| 2019 | 605,000 | 385,735 | 990,735 |
| 2020[4] | 680,645 | 176,284 | 856,929 |
| Thereafter[5,6,7,8,9,10] | 6,631,879 | 1,366,864 | 7,998,743 |
| Totals | $ 8,817,524 | $ 3,421,266 | $ 12,238,790 |

(1) Amounts represent principal amounts due and do not include unamortized premiums/discounts, debt issuance costs, or other fair value adjustments as reflected on the balance sheet.

(2) Annual interest rates range from 1.15% to 6.5%.

(3) Annual interest rates range from 0.91% to 7.98%. Carrying value of the properties securing the debt totaled $5,972,202,000 at June 30, 2016.

(4) In November 2015, one of our wholly-owned subsidiaries issued and we guaranteed $300,000,000 of Canadian-denominated 3.35% senior unsecured notes due 2020 (approximately $230,645,000 based on the Canadian/U.S. Dollar exchange rate on June 30, 2016).

(5) On May 13, 2016, we refinanced the funding on a $250,000,000 Canadian-denominated unsecured term credit facility (approximately $192,204,000 based on the Canadian/U.S. Dollar exchange rate on June 30, 2016). The loan matures on May 13, 2021 and bears interest at the Canadian Dealer Offered Rate plus 95 basis points (1.84% at June 30, 2016).

(6) On May 13, 2016, we refinanced the funding on a $500,000,000 unsecured term credit facility. The loan matures on May 13, 2021 and bears interest at LIBOR plus 95 basis points (1.40% at June 30, 2016).

(7) On November 20, 2013, we completed the sale of £550,000,000 (approximately $727,925,000 based on the Sterling/U.S. Dollar exchange rate in effect on June 30, 2016) of 4.8% senior unsecured notes due 2028.

(8) On November 25, 2014, we completed the sale of £500,000,000 (approximately $661,750,000 based on the Sterling/U.S. Dollar exchange rate in effect on June 30, 2016) of 4.5% senior unsecured notes due 2034.

(9) In May 2015, we issued $750,000,000 of 4.0% senior unsecured notes due 2025. In October 2015, we issued an additional $500,000,000 of these notes under a re-opening of the offer.

(10) In March 2016, we issued $700,000,000 of 4.25% senior unsecured notes due 2026.

The following is a summary of our senior unsecured notes principal activity during the periods presented (dollars in thousands):

| | Six Months Ended | | | |
|---|---|---|---|---|
| | June 30, 2016 | | June 30, 2015 | |
| | Amount | Weighted Avg. Interest Rate | Amount | Weighted Avg. Interest Rate |
| Beginning balance | $ 8,645,758 | 4.237% | $ 7,817,154 | 4.385% |
| Debt issued | 705,000 | 4.228% | 750,000 | 4.000% |
| Debt extinguished | (400,000) | 3.625% | (300,000) | 6.200% |
| Debt redeemed | - | 0.000% | (158,990) | 3.000% |
| Foreign currency | (133,234) | 4.417% | 1,298 | 3.601% |
| Ending balance | $ 8,817,524 | 4.263% | $ 8,109,462 | 4.252% |

The following is a summary of our secured debt principal activity for the periods presented (dollars in thousands):

| | Six Months Ended | | | |
|---|---|---|---|---|
| | June 30, 2016 | | June 30, 2015 | |
| | Amount | Weighted Avg. Interest Rate | Amount | Weighted Avg. Interest Rate |
| Beginning balance | $ 3,478,207 | 4.440% | $ 2,941,765 | 4.940% |
| Debt issued | 161,992 | 3.051% | 136,801 | 2.845% |
| Debt assumed | - | 0.000% | 317,897 | 3.223% |
| Debt extinguished | (243,314) | 4.874% | (290,984) | 4.208% |
| Foreign currency | 62,118 | 3.652% | (38,642) | 3.994% |
| Principal payments | (37,737) | 4.579% | (32,966) | 4.775% |
| Ending balance | $ 3,421,266 | 4.328% | $ 3,033,871 | 4.750% |

Our debt agreements contain various covenants, restrictions and events of default. Certain agreements require us to maintain certain financial ratios and minimum net worth and impose certain limits on our ability to incur indebtedness, create liens and make investments or acquisitions. As of June 30, 2016, we were in compliance with all of the covenants under our debt agreements.

## 11. Derivative Instruments

We are exposed to various market risks, including the potential loss arising from adverse changes in interest rates. We may elect to use financial derivative instruments to hedge interest rate exposure. These decisions are principally based on our policy to manage the general trend in interest rates at the applicable dates and our perception of the future volatility of interest rates. In addition, non-U.S. investments expose us to the potential losses associated with adverse changes in foreign currency to U.S. Dollar exchange rates. We may elect to manage this risk through the use of forward contracts and issuing debt in foreign currencies.

*Interest Rate Swap Contracts and Foreign Currency Forward Contracts Designated as Cash Flow Hedges*

For instruments that are designated and qualify as a cash flow hedge, the effective portion of the gain or loss on the derivative is reported as a component of other comprehensive income (“OCI”), and reclassified into earnings in the same period or periods, during which the hedged transaction affects earnings. Gains and losses on the derivative representing either hedge ineffectiveness or hedge components excluded from the assessment of effectiveness are recognized in earnings. Approximately $4,911,000 of gains, which are included in accumulated other comprehensive income (“AOCI”), are expected to be reclassified into earnings in the next 12 months.

*Foreign Currency Hedges*

For instruments that are designated and qualify as net investment hedges, the variability in the foreign currency to U.S. Dollar of the instrument is recorded as a cumulative translation adjustment component of OCI. During the six months ended June 30, 2016 and 2015, we settled certain net investment hedges generating cash proceeds of $56,842,000 and $72,477,000, respectively. The balance of the cumulative translation adjustment will be reclassified to earnings when the hedged investment is sold or substantially liquidated.

The following presents the notional amount of derivatives and other financial instruments as of the dates indicated (in thousands):

| | | June 30, 2016 | | December 31, 2015 |
|---|---|---|---|---|
| Derivatives designated as net investment hedges: | | | | |
| Denominated in Canadian Dollars | $ | 1,175,000 | $ | 1,175,000 |
| Denominated in Pounds Sterling | £ | 550,000 | £ | 550,000 |
| Financial instruments designated as net investment hedges: | | | | |
| Denominated in Canadian Dollars | $ | 250,000 | $ | 250,000 |
| Denominated in Pounds Sterling | £ | 1,050,000 | £ | 1,050,000 |
| Derivatives designated as cash flow hedges: | | | | |
| Denominated in U.S. Dollars | $ | 57,000 | $ | 57,000 |
| Denominated in Canadian Dollars | $ | 90,000 | $ | 72,000 |
| Denominated in Pounds Sterling | £ | 75,000 | £ | 60,000 |
| Derivative instruments not designated: | | | | |
| Denominated in Canadian Dollars | $ | 43,329 | $ | 47,000 |

The following presents the impact of derivative instruments on the Consolidated Statements of Comprehensive Income for the periods presented (in thousands):

| | | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|---|
| | Location | 2016 | 2015 | 2016 | 2015 |
| Gain (loss) on interest rate swaps reclassified from AOCI into income (effective portion) | Interest expense | (477) | (462) | (960) | (928) |
| Gain (loss) on forward exchange contracts recognized in income | Interest expense | 2,697 | 1,191 | 1,369 | 3,938 |
| Loss (gain) on option exercise[(1)] | Loss (gain) on derivatives, net | - | - | - | (58,427) |
| Gain (loss) on foreign exchange contracts and term loans designated as net investment hedge recognized in OCI | OCI | 178,575 | (149,436) | 175,836 | 34,615 |

(1) In April 2011, we completed the acquisition of substantially all of the real estate assets of privately-owned Genesis Healthcare Corporation. In conjunction with this transaction, we received the option to acquire an ownership interest in Genesis Healthcare. In February 2015, Genesis Healthcare closed on a transaction to merge with Skilled Healthcare Group to become a publicly traded company which required us to record the value of the derivative asset due to the net settlement feature.

## 12. Commitments and Contingencies

At June 30, 2016, we had ten outstanding letter of credit obligations totaling $91,783,000 and expiring between 2016 and 2018. At June 30, 2016, we had outstanding construction in progress of $475,203,000 and were committed to providing additional funds of approximately $627,775,000 to complete construction. Purchase obligations at June 30, 2016 include $1,150,000,000 representing acquisitions expected to be completed before year-end. Purchase obligations also include contingent purchase obligations totaling $22,475,000 which relate to unfunded capital improvement obligations and contingent obligations on acquisitions. Rents due from the tenant are increased to reflect the additional investment in the property.

We evaluate our leases for operating versus capital lease treatment in accordance with Accounting Standards Codification ("ASC") Topic 840 "Leases." A lease is classified as a capital lease if it provides for transfer of ownership of the leased asset at the end of the lease term, contains a bargain purchase option, has a lease term greater than 75% of the economic life of the leased asset, or if the net present value of the future minimum lease payments are in excess of 90% of the fair value of the leased asset. Certain leases contain bargain purchase options and have been classified as capital leases. At June 30, 2016, we had operating lease obligations of $1,088,213,000 relating to certain ground leases and company office space and capital lease obligations of $96,201,000 relating primarily to certain investment properties. Regarding ground leases, we have sublease agreements with certain of our operators that require the operators to reimburse us for our monthly operating lease obligations. At June 30, 2016, aggregate future minimum rentals to be received under these noncancelable subleases totaled $76,954,000.

## 13. Stockholders' Equity

The following is a summary of our stockholders' equity capital accounts as of the dates indicated:

| | June 30, 2016 | December 31, 2015 |
|---|---|---|
| Preferred Stock: | | |
| Authorized shares | 50,000,000 | 50,000,000 |
| Issued shares | 25,875,000 | 25,875,000 |
| Outstanding shares | 25,875,000 | 25,875,000 |
| | | |
| Common Stock, $1.00 par value: | | |
| Authorized shares | 700,000,000 | 700,000,000 |
| Issued shares | 358,624,595 | 355,594,373 |
| Outstanding shares | 357,689,980 | 354,777,670 |

*Common Stock.* The following is a summary of our common stock issuances during the six months ended June 30, 2016 and 2015 (dollars in thousands, except per share amounts):

| | Shares Issued | Average Price | Gross Proceeds | Net Proceeds |
|---|---|---|---|---|
| February 2015 public issuance | 19,550,000 | $ 75.50 | $ 1,476,025 | $ 1,423,935 |
| 2015 Dividend reinvestment plan issuances | 1,766,585 | 72.83 | 128,653 | 128,653 |
| 2015 Option exercises | 211,041 | 46.26 | 9,762 | 9,762 |
| 2015 Stock incentive plans, net of forfeitures | 179,037 | | - | - |
| 2015 Senior note conversions | 1,076,971 | | - | - |
| 2015 Totals | 22,783,634 | | $ 1,614,440 | $ 1,562,350 |
| | | | | |
| 2016 Dividend reinvestment plan issuances | 1,971,758 | 64.65 | $ 127,470 | $ 127,470 |
| 2016 Option exercises | 37,409 | 48.73 | 1,823 | 1,823 |
| 2016 Equity shelf program issuances | 443,096 | 67.12 | 30,192 | 29,739 |
| 2016 Stock incentive plans, net of forfeitures | 460,047 | | - | - |
| 2016 Totals | 2,912,310 | | $ 159,485 | $ 159,032 |

*Dividends*. The increase in dividends is primarily attributable to increases in our common shares outstanding as described above and an increase in common dividends per share. The following is a summary of our dividend payments (in thousands, except per share amounts):

| | Six Months Ended | | | |
|---|---|---|---|---|
| | June 30, 2016 | | June 30, 2015 | |
| | Per Share | Amount | Per Share | Amount |
| Common Stock | $ 1.7200 | $ 613,163 | $ 1.6500 | $ 561,914 |
| Series I Preferred Stock | 1.6250 | 23,359 | 1.6250 | 23,359 |
| Series J Preferred Stock | 0.8126 | 9,344 | 0.8126 | 9,344 |
| Totals | | $ 645,866 | | $ 594,617 |

*Accumulated Other Comprehensive Income*. The following is a summary of accumulated other comprehensive income (loss) for the periods presented (in thousands):

| | Unrecognized gains (losses) related to: | | | | |
|---|---|---|---|---|---|
| | Foreign Currency Translation | Available for Sale Securities | Actuarial Losses | Cash Flow Hedges | Total |
| Balance at December 31, 2015 | $ (85,484) | $ - | $ (1,343) | $ (1,416) | $ (88,243) |
| Other comprehensive income before reclassification adjustments | (61,207) | (11,160) | 2 | 10 | (72,355) |
| Reclassification amount to net income | - | - | - | 960 (1) | 960 |
| Net current-period other comprehensive income | (61,207) | (11,160) | 2 | 970 | (71,395) |
| Balance at June 30, 2016 | $ (146,691) | $ (11,160) | $ (1,341) | $ (446) | $ (159,638) |
| | | | | | |
| Balance at December 31, 2014 | $ (74,770) | $ - | $ (1,589) | $ (650) | $ (77,009) |
| Other comprehensive income before reclassification adjustments | 12,136 | (15,100) | - | (2,625) | (5,589) |
| Reclassification amount to net income | - | - | - | 928 (1) | 928 |
| Net current-period other comprehensive income | 12,136 | (15,100) | - | (1,697) | (4,661) |
| Balance at June 30, 2015 | $ (62,634) | $ (15,100) | $ (1,589) | $ (2,347) | $ (81,670) |

(1) Please see note 11 for additional information.

## 14. Stock Incentive Plans

Our 2016 Long-Term Incentive Plan (“2016 Plan”) authorizes up to 10,000,000 shares of common stock to be issued at the discretion of the Compensation Committee of the Board of Directors. Our non-employee directors, officers and key employees are eligible to participate in the 2016 Plan. The 2016 Plan allows for the issuance of, among other things, stock options, stock appreciation rights, restricted stock, deferred stock units and dividend equivalent rights. Vesting periods for options, deferred stock units and restricted shares generally range from three to five years. Options expire ten years from the date of grant. Stock-based compensation expense totaled $7,031,000 and $15,217,000 for the three and six months ended June 30, 2016, respectively, and $11,124,000 and $20,178,000 for the same periods in 2015.

## 15. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share (in thousands, except per share data):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2016 | 2015 | 2016 | 2015 |
| Numerator for basic and diluted earnings per share - net income (loss) attributable to common stockholders | $ 195,474 | $ 312,573 | $ 344,444 | $ 503,373 |
| Denominator for basic earnings per share - weighted average shares | 356,646 | 350,399 | 355,879 | 343,624 |
| Effect of dilutive securities: | | | | |
| Employee stock options | 129 | 153 | 115 | 176 |
| Non-vested restricted shares | 465 | 471 | 359 | 444 |
| Redeemable shares | 1,651 | - | 1,136 | - |
| Convertible senior unsecured notes | - | 343 | - | 379 |
| Dilutive potential common shares | 2,245 | 967 | 1,610 | 999 |
| Denominator for diluted earnings per share - adjusted weighted average shares | 358,891 | 351,366 | 357,489 | 344,623 |
| Basic earnings per share | $ 0.55 | $ 0.89 | $ 0.97 | $ 1.46 |
| Diluted earnings per share | $ 0.54 | $ 0.89 | $ 0.96 | $ 1.46 |

The Series I Cumulative Convertible Perpetual Preferred Stock was not included in the calculations as the effect of conversions into common stock was anti-dilutive.

**16. Disclosure about Fair Value of Financial Instruments**

U.S. GAAP provides authoritative guidance for measuring and disclosing fair value measurements of assets and liabilities. The guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. The guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The guidance describes three levels of inputs that may be used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Please see Note 2 to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 for additional information.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value.

*Mortgage Loans and Other Real Estate Loans Receivable* — The fair value of mortgage loans and other real estate loans receivable is generally estimated by using Level 2 and Level 3 inputs such as discounting the estimated future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

*Cash and Cash Equivalents* — The carrying amount approximates fair value.

*Available-for-sale Equity Investments* — Available-for-sale equity investments are recorded at their fair value based on Level 1 publicly available trading prices.

*Borrowings Under Primary Unsecured Credit Facility* — The carrying amount of the primary unsecured credit facility approximates fair value because the borrowings are interest rate adjustable.

*Senior Unsecured Notes* — The fair value of the fixed rate senior unsecured notes was estimated based on Level 1 publicly available trading prices. The carrying amount of variable rate senior unsecured notes approximates fair value because they are interest rate adjustable.

*Secured Debt* — The fair value of fixed rate secured debt is estimated using Level 2 inputs by discounting the estimated future cash flows using the current rates at which similar loans would be made with similar credit ratings and for the same remaining maturities. The carrying amount of variable rate secured debt approximates fair value because the borrowings are interest rate adjustable.

*Foreign Currency Forward Contracts* — Foreign currency forward contracts are recorded in other assets or other liabilities on the balance sheet at fair market value. Fair market value is determined using Level 2 inputs by estimating the future value of the currency pair based on existing exchange rates, comprised of current spot and traded forward points, and calculating a present value of the net amount using a discount factor based on observable traded interest rates.

*Redeemable OP Unitholder Interests* — The fair value of our redeemable unitholder interests are recorded on the balance sheet at fair value using Level 2 inputs. The fair value is measured using the closing price of our common stock, as units may be redeemed at the election of the holder for cash or, at our option, one share of our common stock per unit, subject to adjustment in certain circumstances.

The carrying amounts and estimated fair values of our financial instruments are as follows (in thousands):

| | June 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial assets: | | | | |
| Mortgage loans receivable | $ 479,062 | $ 506,072 | $ 635,492 | $ 663,501 |
| Other real estate loans receivable | 168,615 | 172,425 | 184,000 | 185,693 |
| Available-for-sale equity investments | 11,619 | 11,619 | 22,779 | 22,779 |
| Cash and cash equivalents | 466,585 | 466,585 | 360,908 | 360,908 |
| Foreign currency forward contracts | 102,231 | 102,231 | 129,520 | 129,520 |
| Financial liabilities: | | | | |
| Borrowings under unsecured credit facilities | $ 745,000 | $ 745,000 | $ 835,000 | $ 835,000 |
| Senior unsecured notes | 8,711,790 | 9,683,007 | 8,548,055 | 9,020,529 |
| Secured debt | 3,442,178 | 3,674,116 | 3,509,142 | 3,678,564 |
| Foreign currency forward contracts | 3,047 | 3,047 | - | - |
| Redeemable OP unitholder interests | $ 125,758 | $ 125,758 | $ 112,029 | $ 112,029 |

*Items Measured at Fair Value on a Recurring Basis*

The market approach is utilized to measure fair value for our financial assets and liabilities reported at fair value on a recurring basis. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. The following summarizes items measured at fair value on a recurring basis (in thousands):

| | Fair Value Measurements as of June 30, 2016 | | | |
|---|---|---|---|---|
| | Total | Level 1 | Level 2 | Level 3 |
| Available-for-sale equity investments(1) | $ 11,619 | $ 11,619 | $ - | $ - |
| Foreign currency forward contracts, net(2) | 99,184 | - | 99,184 | - |
| Redeemable OP unitholder interests | 125,758 | - | 125,758 | - |
| Totals | $ 236,561 | $ 11,619 | $ 224,942 | $ - |

(1) Unrealized gains or losses on equity investments are recorded in accumulated other comprehensive income (loss) at each measurement date. During the year ended December 31, 2015, we recognized an other than temporary impairment charge of $35,648,000 on the Genesis Healthcare stock investment. Also, see Note 11 for details related to the gain on the derivative asset originally recognized.

(2) Please see Note 11 for additional information.

*Items Measured at Fair Value on a Nonrecurring Basis*

In addition to items that are measured at fair value on a recurring basis, we also have assets and liabilities in our balance sheet that are measured at fair value on a nonrecurring basis. As these assets and liabilities are not measured at fair value on a recurring basis, they are not included in the tables above. Assets, liabilities and noncontrolling interests that are measured at fair value on a nonrecurring basis include those acquired/assumed in business combinations (see Note 3) and asset impairments (if applicable, see Note 5 for impairments of real property and Note 6 for impairments of loans receivable). We have determined that the fair value measurements included in each of these assets and liabilities rely primarily on company-specific inputs and our assumptions about the use of the assets and settlement of liabilities, as observable inputs are not available. As such, we have determined that each of these fair value measurements generally reside within Level 3 of the fair value hierarchy. We estimate the fair value of real estate and related intangibles using the income approach and unobservable data such as net operating income and estimated capitalization and discount rates. We also consider local and national industry market data including comparable sales, and commonly engage an external real estate appraiser to assist us in our estimation of fair value. We estimate the fair value of assets held for sale based on current sales price expectations or, in the absence of such price expectations, Level 3 inputs described above. We estimate the fair value of secured debt assumed in business combinations using current interest rates at which similar borrowings could be obtained on the transaction date.

## 17. Segment Reporting

We invest in seniors housing and health care real estate. We evaluate our business and make resource allocations on our three operating segments: triple-net, seniors housing operating and outpatient medical. During the three months ended March 31, 2016, we reclassified four properties previously classified in the triple-net segment to the outpatient medical segment. Accordingly, the segment information provided in this note has been reclassified to conform to the current presentation for all periods presented.

Our triple-net properties include long-term/post-acute care facilities, assisted living facilities, independent living/continuing care retirement communities, care homes (United Kingdom), independent support living facilities (Canada), care homes with nursing (United Kingdom) and combinations thereof. Under the triple-net segment, we invest in seniors housing and health care real estate through acquisition and financing of primarily single tenant properties. Properties acquired are primarily leased under triple-net leases and we are not involved in the management of the property. Our seniors housing operating properties include the seniors housing communities referenced above that are owned and/or operated through RIDEA structures (see Notes 3 and 18).

Our outpatient medical properties include outpatient medical buildings and, during past years, life science buildings which are aggregated into our outpatient medical reportable segment. Our outpatient medical buildings are typically leased to multiple tenants and generally require a certain level of property management. During the three months ended June 30, 2015, we disposed of our life science investments.

We evaluate performance based upon NOI by segment. We define NOI as total revenues, including tenant reimbursements, less property level operating expenses. We believe NOI provides investors relevant and useful information because it measures the operating performance of our properties at the property level on an unleveraged basis. We use NOI to make decisions about resource allocations and to assess the property level performance of our properties.

Non-segment revenue consists mainly of interest income on non-real estate investments and other income. Non-segment assets consist of corporate assets including cash, deferred loan expenses and corporate offices and equipment among others. Non-property specific revenues and expenses are not allocated to individual segments in determining NOI.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies (see Note 2 to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015). The results of operations for all acquisitions described in Note 3 are included in our consolidated results of operations from the acquisition dates and are components of the appropriate segments. There are no intersegment sales or transfers.

Summary information for the reportable segments is as follows for the periods presented (in thousands):

| Three Months Ended June 30, 2016: | Triple-net | Seniors Housing Operating | Outpatient Medical | Non-segment / Corporate | Total |
|---|---|---|---|---|---|
| Rental income | $ 287,134 | $ - | $ 135,494 | $ - | $ 422,628 |
| Resident fees and services | - | 615,220 | - | - | 615,220 |
| Interest income | 21,971 | 1,042 | 994 | - | 24,007 |
| Other income | 1,206 | 8,989 | 4,153 | 454 | 14,802 |
| Total revenues | 310,311 | 625,251 | 140,641 | 454 | 1,076,657 |
| Property operating expenses | - | 417,996 | 40,836 | - | 458,832 |
| Net operating income from continuing operations | 310,311 | 207,255 | 99,805 | 454 | 617,825 |
| Interest expense | 2,019 | 42,689 | 5,402 | 82,216 | 132,326 |
| Depreciation and amortization | 75,809 | 102,312 | 48,448 | - | 226,569 |
| General and administrative | - | - | - | 39,914 | 39,914 |
| Transaction costs | 1,291 | 3,247 | 619 | - | 5,157 |
| Loss (gain) on extinguishment of debt, net | 121 | (88) | - | - | 33 |
| Other expenses | - | - | - | 3,161 | 3,161 |
| Income (loss) from continuing operations before income taxes and income from unconsolidated entities | 231,071 | 59,095 | 45,336 | (124,837) | 210,665 |
| Income tax expense | (213) | 2,023 | (248) | (1,049) | 513 |
| (Loss) income from unconsolidated entities | 3,018 | (4,887) | (90) | - | (1,959) |
| Income (loss) from continuing operations | 233,876 | 56,231 | 44,998 | (125,886) | 209,219 |
| Gain (loss) on real estate dispositions, net | 1,530 | - | - | - | 1,530 |
| Net income (loss) | $ 235,406 | $ 56,231 | $ 44,998 | $ (125,886) | $ 210,749 |
| Total assets | $ 12,201,470 | $ 11,626,090 | $ 5,020,102 | $ 116,839 | $ 28,964,501 |

| Three Months Ended June 30, 2015: | Triple-net | Seniors Housing Operating | Outpatient Medical | Non-segment / Corporate | Total |
|---|---|---|---|---|---|
| Rental income | $ 272,573 | $ - | $ 124,053 | $ - | $ 396,626 |
| Resident fees and services | - | 535,553 | - | - | 535,553 |
| Interest income | 18,189 | 1,042 | 1,345 | - | 20,576 |
| Other income | 970 | 3,210 | 195 | 39 | 4,414 |
| Total revenues | 291,732 | 539,805 | 125,593 | 39 | 957,169 |
| Property operating expenses | - | 360,569 | 37,785 | - | 398,354 |
| Net operating income from continuing operations | 291,732 | 179,236 | 87,808 | 39 | 558,815 |
| Interest expense | 1,313 | 38,834 | 6,993 | 71,721 | 118,861 |
| Depreciation and amortization | 70,525 | 88,844 | 49,433 | - | 208,802 |
| General and administrative | - | - | - | 38,474 | 38,474 |
| Transaction costs | 7,579 | 3,937 | 975 | - | 12,491 |
| Loss (gain) on extinguishment of debt, net | (102) | - | - | 18,989 | 18,887 |
| Other expenses | - | - | - | 10,583 | 10,583 |
| Income (loss) from continuing operations before income taxes and income from unconsolidated entities | 212,417 | 47,621 | 30,407 | (139,728) | 150,717 |
| Income tax expense | (3,121) | (3,449) | (161) | (686) | (7,417) |
| (Loss) income from unconsolidated entities | 1,453 | (6,083) | 1,678 | - | (2,952) |
| Income (loss) from continuing operations | 210,749 | 38,089 | 31,924 | (140,414) | 140,348 |
| Gain (loss) on real estate dispositions, net | - | - | 190,111 | - | 190,111 |
| Net income (loss) | $ 210,749 | $ 38,089 | $ 222,035 | $ (140,414) | $ 330,459 |

| Six Months Ended June 30, 2016: | Triple-net | Seniors Housing Operating | Outpatient Medical | Non-segment / Corporate | Total |
|---|---|---|---|---|---|
| Rental income | $ 570,958 | $ - | $ 267,332 | $ - | $ 838,290 |
| Resident fees and services | - | 1,217,369 | - | - | 1,217,369 |
| Interest income | 44,824 | 2,073 | 2,298 | - | 49,195 |
| Other income | 2,695 | 11,178 | 4,466 | 512 | 18,851 |
| Total revenues | 618,477 | 1,230,620 | 274,096 | 512 | 2,123,705 |
| Property operating expenses | - | 826,890 | 81,578 | - | 908,468 |
| Net operating income from continuing operations | 618,477 | 403,730 | 192,518 | 512 | 1,215,237 |
| Interest expense | 7,623 | 83,518 | 11,146 | 162,998 | 265,285 |
| Loss (gain) on derivatives, net | - | - | - | - | - |
| Depreciation and amortization | 155,609 | 204,144 | 95,512 | - | 455,265 |
| General and administrative | - | - | - | 85,606 | 85,606 |
| Transaction costs | 4,143 | 7,180 | 2,042 | - | 13,365 |
| Loss (gain) on extinguishment of debt, net | 97 | (88) | - | - | 9 |
| Impairment of assets | 14,314 | - | - | - | 14,314 |
| Other expenses | - | - | - | 3,161 | 3,161 |
| Income (loss) from continuing operations before income taxes and income from unconsolidated entities | 436,691 | 108,976 | 83,818 | (251,253) | 378,232 |
| Income tax expense | (528) | 4,789 | (476) | (1,546) | 2,239 |
| (Loss) income from unconsolidated entities | 6,100 | (11,822) | (56) | - | (5,778) |
| Income (loss) from continuing operations | 442,263 | 101,943 | 83,286 | (252,799) | 374,693 |
| Gain (loss) on real estate dispositions, net | 1,530 | - | - | - | 1,530 |
| Net income (loss) | $ 443,793 | $ 101,943 | $ 83,286 | $ (252,799) | $ 376,223 |

| Six Months Ended June 30, 2015: | Triple-net | Seniors Housing Operating | Outpatient Medical | Non-segment / Corporate | Total |
|---|---|---|---|---|---|
| Rental income | $ 534,565 | $ - | $ 241,648 | $ - | $ 776,213 |
| Resident fees and services | - | 1,028,063 | - | - | 1,028,063 |
| Interest income | 32,888 | 2,073 | 2,609 | - | 37,570 |
| Other income | 4,853 | 4,229 | 356 | 62 | 9,500 |
| Total revenues | 572,306 | 1,034,365 | 244,613 | 62 | 1,851,346 |
| Property operating expenses | - | 699,076 | 75,739 | - | 774,815 |
| Net operating income from continuing operations | 572,306 | 335,289 | 168,874 | 62 | 1,076,531 |
| Interest expense | 9,736 | 73,293 | 14,382 | 142,531 | 239,942 |
| Loss (gain) on derivatives, net | (58,427) | - | - | - | (58,427) |
| Depreciation and amortization | 139,946 | 165,479 | 92,206 | - | 397,631 |
| General and administrative | - | - | - | 73,612 | 73,612 |
| Transaction costs | 43,750 | 15,979 | 1,316 | - | 61,045 |
| Loss (gain) on extinguishment of debt, net | 10,235 | - | - | 24,053 | 34,288 |
| Impairment of assets | 2,220 | - | - | - | 2,220 |
| Other expenses | - | - | - | 10,583 | 10,583 |
| Income (loss) from continuing operations before income taxes and income from unconsolidated entities | 424,846 | 80,538 | 60,970 | (250,717) | 315,637 |
| Income tax expense | (2,703) | (3,982) | 305 | (733) | (7,113) |
| (Loss) income from unconsolidated entities | 2,846 | (21,156) | 2,710 | - | (15,600) |
| Income (loss) from continuing operations | 424,989 | 55,400 | 63,985 | (251,450) | 292,924 |
| Gain (loss) on real estate dispositions, net | 54,097 | - | 192,859 | - | 246,956 |
| Net income (loss) | $ 479,086 | $ 55,400 | $ 256,844 | $ (251,450) | $ 539,880 |

Our portfolio of properties and other investments are located in the United States, the United Kingdom and Canada. Revenues and assets are attributed to the country in which the property is physically located. The following is a summary of geographic information for our operations for the periods presented (dollars in thousands):

| | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2016 | | June 30, 2015 | | June 30, 2016 | | June 30, 2015 | |
| Revenues: | Amount | % | Amount | % | Amount | % | Amount | % |
| United States | $ 862,115 | 80.1% | $ 771,031 | 80.6% | $ 1,704,470 | 80.3% | $ 1,516,168 | 81.9% |
| United Kingdom | 102,593 | 9.5% | 103,531 | 10.8% | 203,148 | 9.5% | 195,345 | 10.6% |
| Canada | 111,949 | 10.4% | 82,607 | 8.6% | 216,087 | 10.2% | 139,833 | 7.6% |
| Total | $ 1,076,657 | 100.0% | $ 957,169 | 100.0% | $ 2,123,705 | 100.0% | $ 1,851,346 | 100.0% |

| | As of | | | |
|---|---|---|---|---|
| | June 30, 2016 | | December 31, 2015 | |
| Assets: | Amount | % | Amount | % |
| United States | $ 23,546,510 | 81.3% | $ 25,995,793 | 89.6% |
| United Kingdom | 2,789,104 | 9.6% | 1,741,973 | 6.0% |
| Canada | 2,628,887 | 9.1% | 1,286,079 | 4.4% |
| Total | $ 28,964,501 | 100.0% | $ 29,023,845 | 100.0% |

## 18. Income Taxes and Distributions

We elected to be taxed as a REIT commencing with our first taxable year. To qualify as a REIT for federal income tax purposes, at least 90% of taxable income (excluding 100% of net capital gains) must be distributed to stockholders. REITs that do not distribute a certain amount of current year taxable income in the current year are also subject to a 4% federal excise tax. The main differences between undistributed net income for federal income tax purposes and financial statement purposes are the recognition of straight-line rent for reporting purposes, basis differences in acquisitions, recording of impairments, differing useful lives and depreciation and amortization methods for real property and the provision for loan losses for reporting purposes versus bad debt expense for tax purposes.

Under the provisions of the REIT Investment Diversification and Empowerment Act of 2007 (“RIDEA”), for taxable years beginning after July 30, 2008, a REIT may lease “qualified health care properties” on an arm’s-length basis to a taxable REIT subsidiary (“TRS”) if the property is operated on behalf of such TRS by a person who qualifies as an “eligible independent contractor.” Generally, the rent received from the TRS will meet the related party rent exception and will be treated as “rents from real property.” A “qualified health care property” includes real property and any personal property that is, or is necessary or incidental to the use of, a hospital, nursing facility, assisted living facility, congregate care facility, qualified continuing care facility, or other licensed facility which extends medical or nursing or ancillary services to patients. We have entered into various joint ventures that were structured under RIDEA. Resident level rents and related operating expenses for these facilities are reported in the unaudited consolidated financial statements and are subject to federal and state income taxes as the operations of such facilities are included in TRS entities. Certain net operating loss carryforwards could be utilized to offset taxable income in future years.

Income taxes reflected in the financial statements primarily represents U.S. federal and state and local income taxes as well as non-U.S. income based or withholding taxes on certain investments located in jurisdictions outside the U.S. The provision for income taxes for the three and six months ended June 30, 2016 and 2015, was primarily due to operating income or losses, offset by certain discrete items at our TRS entities. In 2014, we established certain wholly-owned direct and indirect subsidiaries in Luxembourg and Jersey and transferred interests in certain foreign investments into this holding company structure. The structure includes a property holding company that is tax resident in the United Kingdom. No material adverse current tax consequences in Luxembourg, Jersey or the United Kingdom resulted from the creation of this holding company structure and all of the subsidiary entities in the structure are treated as disregarded entities of the company for U.S. federal income tax purposes. The company reflects current and deferred tax liabilities for any such withholding taxes incurred as a result of this holding company structure in its consolidated financial statements. Generally, given current statutes of limitations, we are subject to audit by the Internal Revenue Service (“IRS”) for the year ended December 31, 2012 and subsequent years and by state taxing authorities for the year ended December 31, 2011 and subsequent years. The company and its subsidiaries are also subject to audit by the Canada Revenue Agency and provincial authorities generally for periods subsequent to our initial investments in Canada in May 2012, by HM Revenue & Customs for periods subsequent to our

initial investments in the United Kingdom in August 2012 and by Luxembourg taxing authorities generally for periods subsequent to our establishment of certain Luxembourg-based subsidiaries during 2014.

## 19. Variable Interest Entities

We have entered into joint ventures to own certain seniors housing and outpatient medical assets which are deemed to be variable interest entities ("VIE"). We have concluded that we are the primary beneficiary of these VIE's based on a combination of operational control of the joint venture and the rights to receive residual returns or the obligation to absorb losses arising from the joint ventures. Except for capital contributions associated with the initial joint venture formations, the joint ventures have been and are expected to be funded from the ongoing operations of the underlying properties. Accordingly, such joint ventures have been consolidated, and the table below summarizes the balance sheets of consolidated VIE's in the aggregate (in thousands):

| | June 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| Assets | | | | |
| Net real property owned | $ | 1,006,674 | $ | 453,889 |
| Cash and cash equivalents | | 10,946 | | 8,759 |
| Receivables and other assets | | 11,828 | | 8,082 |
| Total assets[1] | $ | 1,029,448 | $ | 470,730 |
| Liabilities and equity | | | | |
| Secured debt | $ | 451,450 | $ | 147,021 |
| Accrued expenses and other liabilities | | 12,807 | | 7,732 |
| Redeemable noncontrolling interests | | 78,477 | | 70,090 |
| Total equity | | 486,714 | | 245,887 |
| Total liabilities and equity | $ | 1,029,448 | $ | 470,730 |

(1) Note that assets of the consolidated variable interest entities can only be used to settle obligations relating to such variable interest entities. Liabilities of the consolidated variable interest entities represent claims against the specific assets of the variable interest entities.

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**Item 2.** ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion and analysis is based primarily on the unaudited consolidated financial statements of Welltower Inc. for the periods presented and should be read together with the notes thereto contained in this Quarterly Report on Form 10-Q. Other important factors are identified in our Annual Report on Form 10-K for the year ended December 31, 2015, including factors identified under the headings "Business," "Risk Factors," and "Management's Discussion and Analysis of Financial Condition and Results of Operations." References herein to "we," "us," "our," or the "company" refer to Welltower Inc. and its subsidiaries unless specifically noted otherwise.

## Executive Summary

***Company Overview***

Welltower Inc. (NYSE:HCN), an S&P 500 company headquartered in Toledo, Ohio, is driving the transformation of health care infrastructure. The company invests with leading seniors housing operators, post-acute providers and health systems to fund the real estate and infrastructure needed to scale innovative care delivery models and improve people's wellness and overall health care experience. Welltower™, a real estate investment trust ("REIT"), owns properties in major, high-growth markets in the United States, Canada and the United Kingdom, consisting of seniors housing and post-acute communities and outpatient medical properties. Our capital programs, when combined with comprehensive planning, development and property management services, make us a single-source solution for acquiring, planning, developing, managing, repositioning and monetizing real estate assets.

The following table summarizes our consolidated portfolio for the three months ended June 30, 2016 (dollars in thousands):

| Type of Property | NOI[1] | Percentage of NOI | Number of Properties |
|---|---|---|---|
| Triple-net | $ 310,311 | 50.2% | 770 |
| Seniors housing operating | 207,255 | 33.6% | 384 |
| Outpatient medical | 99,805 | 16.2% | 266 |
| Totals | $ 617,371 | 100.0% | 1,420 |

(1) Excludes our share of investments in unconsolidated entities. Entities in which we have a joint venture with a minority partner are shown at 100% of the joint venture amount.

***Business Strategy***

Our primary objectives are to protect stockholder capital and enhance stockholder value. We seek to pay consistent cash dividends to stockholders and create opportunities to increase dividend payments to stockholders as a result of annual increases in net operating income and portfolio growth. To meet these objectives, we invest across the full spectrum of seniors housing and health care real estate and diversify our investment portfolio by property type, relationship and geographic location.

Substantially all of our revenues are derived from operating lease rentals, resident fees and services, and interest earned on outstanding loans receivable. These items represent our primary sources of liquidity to fund distributions and depend upon the continued ability of our obligors to make contractual rent and interest payments to us and the profitability of our operating properties. To the extent that our customers/partners experience operating difficulties and become unable to generate sufficient cash to make payments to us, there could be a material adverse impact on our consolidated results of operations, liquidity and/or financial condition. To mitigate this risk, we monitor our investments through a variety of methods determined by the type of property. Our proactive and comprehensive asset management process for seniors housing properties generally includes review of monthly financial statements and other operating data for each property, review of obligor/partner creditworthiness, property inspections, and review of covenant compliance relating to licensure, real estate taxes, letters of credit and other collateral. Our internal property management division actively manages and monitors the outpatient medical portfolio with a comprehensive process including tenant relations, lease expirations, the mix of health service providers, hospital/health system relationships, property performance, capital improvement needs, and market conditions among other things. In monitoring our portfolio, our personnel use a proprietary database to collect and analyze property-specific data. Additionally, we conduct extensive research to ascertain industry trends. We evaluate the operating environment in each property's market to determine the likely trend in operating performance of the facility. When we identify unacceptable trends, we seek to mitigate, eliminate or transfer the risk. Through these efforts, we are generally able to intervene at an early stage to address any negative trends, and in so doing, support both the collectability of revenue and the value of our investment.

In addition to our asset management and research efforts, we also structure our investments to help mitigate payment risk. Operating leases and loans are normally credit enhanced by guaranties and/or letters of credit. In addition, operating leases are typically structured as master leases and loans are generally cross-defaulted and cross-collateralized with other real estate loans, operating leases or agreements between us and the obligor and its affiliates.

For the six months ended June 30, 2016, rental income and resident fees and services represented 39% and 57%, respectively, of total revenues. Substantially all of our operating leases are designed with escalating rent structures. Leases with fixed annual rental escalators are generally recognized on a straight-line basis over the initial lease period, subject to a collectability assessment. Rental income related to leases with contingent rental escalators is generally recorded based on the contractual cash rental payments due for the period. Our yield on loans receivable depends upon a number of factors, including the stated interest rate, the average principal amount outstanding during the term of the loan and any interest rate adjustments.

Our primary sources of cash include rent and interest receipts, resident fees and services, borrowings under our primary unsecured credit facility, public issuances of debt and equity securities, proceeds from investment dispositions and principal payments on loans receivable. Our primary uses of cash include dividend distributions, debt service payments (including principal and interest), real property investments (including acquisitions, capital expenditures, construction advances and transaction costs), loan advances, property operating expenses and general and administrative expenses. Depending upon the availability and cost of external capital, we believe our liquidity is sufficient to fund these uses of cash.

We also continuously evaluate opportunities to finance future investments. New investments are generally funded from temporary borrowings under our primary unsecured credit facility, internally generated cash and the proceeds from investment dispositions. Our investments generate cash from net operating income and principal payments on loans receivable. Permanent financing for future investments, which replaces funds drawn under our primary unsecured credit facility, has historically been provided through a combination of the issuance of public debt and equity securities and the incurrence or assumption of secured debt.

Depending upon market conditions, we believe that new investments will be available in the future with spreads over our cost of capital that will generate appropriate returns to our stockholders. It is also possible that investment dispositions may occur in the future. To the extent that investment dispositions exceed new investments, our revenues and cash flows from operations could be adversely affected. We expect to reinvest the proceeds from any investment dispositions in new investments. To the extent that new investment requirements exceed our available cash on-hand, we expect to borrow under our primary unsecured credit facility. At June 30, 2016, we had $466,585,000 of cash and cash equivalents, $58,440,000 of restricted cash and $2,206,070,000 of available borrowing capacity under our primary unsecured credit facility.

### *Capital Market Outlook*

We believe the capital markets remain supportive of our investment strategy. For the 18 months ended June 30, 2016, we raised $4,134,944,000 in aggregate gross proceeds through the issuance of common stock and unsecured debt. The capital raised, in combination with available cash and borrowing capacity under our primary unsecured credit facility, supported pro rata gross new investments of $4,819,684,000 during 2015 and $703,780,000 during the six months ended June 30, 2016. We expect attractive investment opportunities to remain available in the future as we continue to leverage the benefits of our relationship investment strategy.

### *Key Transactions in 2016*

*Capital*. In March 2016, we issued $700,000,000 of 4.25% senior unsecured notes due 2026, generating approximately $688,560,000 of net proceeds. In May 2016, we closed on a new primary unsecured credit facility that includes a $3,000,000,000 unsecured revolving credit facility, a $500,000,000 unsecured term credit facility and a $250,000,000 Canadian-denominated unsecured term credit facility plus an option to upsize the unsecured revolving credit facility and the $500,000,000 unsecured term credit facility by up to an additional $1,000,000,000, in the aggregate, and the $250,000,000 Canadian-denominated unsecured term credit facility by up to an additional $250,000,000. The facility also allows us to borrow up to $1,000,000,000 in alternate currencies. Based on our current credit ratings, the unsecured revolving credit facility is priced at 0.90% over LIBOR with a 0.15% annual facility fee and the unsecured term credit facilities are priced at 0.95% over LIBOR for the U.S. tranche and CDOR for the Canadian tranche. The unsecured term credit facilities mature on May 13, 2021 and the unsecured revolving credit facility matures on May 13, 2020. The unsecured revolving credit facility can be extended for two successive terms of six months each at our option. During the six months ended June 30, 2016, we raised $157,209,000 through our dividend reinvestment program and our Equity Shelf Program (as defined below).

*Investments*. The following summarizes our acquisitions and joint venture investments completed during the six months ended June 30, 2016 (dollars in thousands):

| | Properties | | Investment Amount[1] | Capitalization Rates[2] | | Book Amount[3] |
|---|---|---|---|---|---|---|
| Triple-net | 7 | $ | 184,041 | 7.3% | $ | 181,986 |
| Seniors housing operating | 3 | | 124,654 | 6.9% | | 141,045 |
| Outpatient medical | 2 | | 32,650 | 6.3% | | 32,650 |
| Totals | 12 | $ | 341,345 | 7.0% | $ | 355,681 |

(1) Represents stated pro rata purchase price including cash and any assumed debt but excludes fair value adjustments pursuant to U.S. GAAP.

(2) Represents annualized contractual or projected income to be received in cash divided by investment amounts.

(3) Represents amounts recorded on our books including fair value adjustments pursuant to U.S. GAAP. See Notes 3 and 7 to our unaudited consolidated financial statements for additional information.

*Dispositions*. The following summarizes property dispositions made during the six months ended June 30, 2016 (dollars in thousands):

| | Properties | | Proceeds[1] | Capitalization Rates[2] | | Book Amount[3] |
|---|---|---|---|---|---|---|
| Triple-net | 9 | $ | 133,113 | 5.9% | $ | 128,768 |

(1) Represents pro rata proceeds received upon disposition including any seller financing.

(2) Represents annualized contractual income that was being received in cash at date of disposition divided by disposition proceeds.

(3) Represents carrying value of assets at time of disposition. See Note 5 to our unaudited consolidated financial statements for additional information.

*Dividends*. Our Board of Directors increased the annual cash dividend to $3.44 per common share ($0.86 per share quarterly), as compared to $3.30 per common share for 2015, beginning in February 2016. The dividend declared for the quarter ended June 30, 2016 represents the 181st consecutive quarterly dividend payment.

***Key Performance Indicators, Trends and Uncertainties***

We utilize several key performance indicators to evaluate the various aspects of our business. These indicators are discussed below and relate to operating performance, concentration risk and credit strength. Management uses these key performance indicators to facilitate internal and external comparisons to our historical operating results, in making operating decisions and for budget planning purposes.

*Operating Performance*. We believe that net income attributable to common stockholders ("NICS") is the most appropriate earnings measure. Other useful supplemental measures of our operating performance include funds from operations attributable to common stockholders ("FFO"), net operating income from continuing operations ("NOI") and same store NOI ("SSNOI"); however, these supplemental measures are not defined by U.S. generally accepted accounting principles ("U.S. GAAP"). Please refer to the section entitled "Non-GAAP Financial Measures" for further discussion and reconciliations of FFO, NOI and SSNOI. These earnings measures and their relative per share amounts are widely used by investors and analysts in the valuation, comparison and investment recommendations of companies. The following table reflects the recent historical trends of our operating performance measures for the periods presented (in thousands, except per share amounts):

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2015 | June 30, 2015 | September 30, 2015 | December 31, 2015 | March 31, 2016 | June 30, 2016 |
| Net income (loss) attributable to common stockholders | $ 190,799 | $ 312,573 | $ 182,043 | $ 132,931 | $ 148,969 | $ 195,474 |
| Funds from operations attributable to common stockholders | 344,250 | 340,588 | 392,295 | 332,509 | 391,264 | 416,974 |
| Net operating income from continuing operations | 517,716 | 558,815 | 570,294 | 590,746 | 597,414 | 617,825 |
| Same store net operating income | 442,424 | 456,332 | 454,977 | 451,434 | 455,448 | 468,435 |
| Per share data (fully diluted): | | | | | | |
| Net income (loss) attributable to common stockholders | $ 0.56 | $ 0.89 | $ 0.52 | $ 0.37 | $ 0.42 | $ 0.54 |
| Funds from operations attributable to common stockholders | 1.02 | 0.97 | 1.11 | 0.94 | 1.10 | 1.16 |

*Credit Strength.* We measure our credit strength both in terms of leverage ratios and coverage ratios. The leverage ratios indicate how much of our balance sheet capitalization is related to long-term debt. The coverage ratios indicate our ability to service interest and fixed charges (interest, secured debt principal amortization and preferred dividends). We expect to maintain capitalization ratios and coverage ratios sufficient to maintain a capital structure consistent with our current profile. The coverage ratios are based on earnings before interest, taxes, depreciation and amortization ("EBITDA") which is discussed in further detail, and reconciled to net income, below in "Non-GAAP Financial Measures." Leverage ratios and coverage ratios are widely used by investors, analysts and rating agencies in the valuation, comparison, investment recommendations and rating of companies. The following table reflects the recent historical trends for our credit strength measures for the periods presented:

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | March, 31 2015 | June 30, 2015 | September 30, 2015 | December 31, 2015 | March 31, 2016 | June 30, 2016 |
| Debt to book capitalization ratio | 42% | 43% | 43% | 46% | 46% | 46% |
| Debt to undepreciated book capitalization ratio | 38% | 39% | 38% | 41% | 40% | 41% |
| Debt to market capitalization ratio | 28% | 32% | 31% | 33% | 33% | 31% |
| Interest coverage ratio | 4.21x | 5.32x | 4.39x | 3.88x | 3.85x | 4.21x |
| Fixed charge coverage ratio | 3.34x | 4.19x | 3.45x | 3.06x | 3.06x | 3.34x |

*Concentration Risk*. We evaluate our concentration risk in terms of NOI by property mix, relationship mix and geographic mix. Concentration risk is a valuable measure in understanding what portion of our NOI could be at risk if certain sectors were to experience downturns. Property mix measures the portion of our NOI that relates to our various property types. Relationship mix measures the portion of our NOI that relates to our top five relationships. Geographic mix measures the portion of our NOI that relates to our top five states (or international equivalents). The following table reflects our recent historical trends of concentration risk by NOI for the periods indicated below:

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| | March 31, 2015 | June 30, 2015 | September 30, 2015 | December 31, 2015 | March 31, 2016 | June 30, 2016 |
| Property mix:[1] | | | | | | |
| Triple-net | 55% | 54% | 54% | 52% | 52% | 50% |
| Seniors housing operating | 30% | 32% | 31% | 32% | 32% | 34% |
| Outpatient medical | 15% | 14% | 15% | 16% | 16% | 16% |
| | | | | | | |
| Relationship mix:[1] | | | | | | |
| Genesis Healthcare | 17% | 17% | 17% | 16% | 17% | 16% |
| Sunrise Senior Living[2] | 14% | 14% | 14% | 13% | 13% | 14% |
| Brookdale Senior Living | 8% | 7% | 7% | 7% | 7% | 7% |
| Revera[2] | 4% | 5% | 5% | 6% | 6% | 6% |
| Benchmark Senior Living | 4% | 5% | 5% | 4% | 4% | 4% |
| Remaining relationships | 53% | 52% | 52% | 54% | 53% | 53% |
| | | | | | | |
| Geographic mix:[1] | | | | | | |
| California | 10% | 9% | 10% | 9% | 10% | 10% |
| United Kingdom | 8% | 10% | 10% | 9% | 9% | 8% |
| New Jersey | 8% | 8% | 8% | 8% | 8% | 8% |
| Canada | 5% | 6% | 6% | 7% | 7% | 7% |
| Pennsylvania | 6% | 6% | 7% | 7% | 7% | 7% |
| Remaining geographic areas | 63% | 61% | 59% | 60% | 59% | 60% |

(1) Excludes our share of investments in unconsolidated entities. Entities in which the company has a joint venture with a minority partner are shown at 100% of the joint venture amount.

(2) Revera owns a controlling interest in Sunrise Senior Living.

*Lease Expirations.* The following table sets forth information regarding lease expirations for certain portions of our portfolio as of June 30, 2016 (dollars in thousands):

| | Expiration Year | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 | Thereafter |
| **Triple-net:** | | | | | | | | | | | |
| Properties | - | 30 | 56 | 1 | 12 | 13 | 5 | 1 | 5 | 57 | 499 |
| Base rent[1] | $ 0 | $ 12,846 | $ 42,371 | $ 1,267 | $ 14,603 | $ 25,484 | $ 4,905 | $ 706 | $ 10,938 | $ 66,865 | $ 914,702 |
| % of base rent | 0.0% | 1.2% | 3.9% | 0.1% | 1.3% | 2.3% | 0.4% | 0.1% | 1.0% | 6.1% | 83.6% |
| Units/beds | - | 1,165 | 3,655 | 123 | 1,074 | 2,349 | 531 | 60 | 762 | 4,189 | 55,235 |
| % of Units/beds | 0.0% | 1.7% | 5.3% | 0.2% | 1.6% | 3.4% | 0.8% | 0.1% | 1.1% | 6.1% | 79.9% |
| | | | | | | | | | | | |
| **Outpatient medical:** | | | | | | | | | | | |
| Square feet | 397,676 | 1,081,130 | 949,618 | 1,134,417 | 1,269,153 | 1,373,263 | 2,193,341 | 1,138,277 | 1,447,444 | 611,684 | 4,225,600 |
| Base rent[1] | $ 11,430 | $ 27,231 | $ 24,878 | $ 29,384 | $ 32,979 | $ 35,632 | $ 46,271 | $ 27,942 | $ 38,593 | $ 17,417 | $ 100,429 |
| % of base rent | 2.9% | 6.9% | 6.3% | 7.5% | 8.4% | 9.1% | 11.8% | 7.1% | 9.8% | 4.4% | 25.7% |
| Leases | 179 | 287 | 266 | 278 | 254 | 232 | 191 | 162 | 105 | 77 | 188 |
| % of Leases | 8.1% | 12.9% | 12.0% | 12.5% | 11.4% | 10.5% | 8.6% | 7.3% | 4.7% | 3.5% | 8.5% |

(1) The most recent monthly base rent including straight line for leases with fixed escalators or annual cash rents for leases with contingent escalators. Base rent does not include tenant recoveries or amortization of above and below market lease intangibles.

We evaluate our key performance indicators in conjunction with current expectations to determine if historical trends are indicative of future results. Our expected results may not be achieved and actual results may differ materially from our expectations. Factors that may cause actual results to differ from expected results are described in more detail in "Cautionary Statement Regarding Forward-Looking Statements" and other sections of this Quarterly Report on Form 10-Q. Management regularly monitors economic and other factors to develop strategic and tactical plans designed to improve performance and maximize our competitive position. Our ability to achieve our financial objectives is dependent upon our ability to effectively execute these plans and to appropriately respond to emerging economic and company-specific trends. Please refer to our Annual Report on Form 10-K for the year ended December 31, 2015, under the headings "Business," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion of these risk factors.

***Corporate Governance***

Maintaining investor confidence and trust is important in today's business environment. Our Board of Directors and management are strongly committed to policies and procedures that reflect the highest level of ethical business practices. Our corporate governance guidelines provide the framework for our business operations and emphasize our commitment to increase stockholder value while meeting all applicable legal requirements. These guidelines meet the listing standards adopted by the New York Stock Exchange and are available on the Internet at www.welltower.com/investors/governance. The information on our website is not incorporated by reference in this Quarterly Report on Form 10-Q, and our web address is included as an inactive textual reference only.

## Liquidity and Capital Resources

### *Sources and Uses of Cash*

Our primary sources of cash include rent and interest receipts, resident fees and services, borrowings under our primary unsecured credit facility, public issuances of debt and equity securities, proceeds from investment dispositions and principal payments on loans receivable. Our primary uses of cash include dividend distributions, debt service payments (including principal and interest), real property investments (including acquisitions, capital expenditures, construction advances and transaction costs), loan advances, property operating expenses, and general and administrative expenses. These sources and uses of cash are reflected in our Consolidated Statements of Cash Flows and are discussed in further detail below. The following is a summary of our sources and uses of cash flows (dollars in thousands):

| | Six Months Ended | | Change | |
|---|---|---|---|---|
| | June 30, 2016 | June 30, 2015 | $ | % |
| Cash and cash equivalents at beginning of period | $ 360,908 | $ 473,726 | $ (112,818) | -24% |
| Cash provided from (used in) operating activities | 848,741 | 619,346 | 229,395 | 37% |
| Cash provided from (used in) investing activities | (361,435) | (2,222,442) | 1,861,007 | -84% |
| Cash provided from (used in) financing activities | (373,177) | 1,344,717 | (1,717,894) | n/a |
| Effect of foreign currency translation | (8,452) | 2,595 | (11,047) | n/a |
| Cash and cash equivalents at end of period | $ 466,585 | $ 217,942 | $ 248,643 | 114% |

*Operating Activities*. The change in net cash provided from operating activities is primarily attributable to increases in NOI, which is primarily due to acquisitions. Please see "Results of Operations" for further discussion. For the six months ended June 30, 2016 and 2015, cash flow provided from operations exceeded cash distributions to stockholders.

*Investing Activities*. The changes in net cash used in investing activities are primarily attributable to net changes in real property investments, real estate loans receivable and investments in unconsolidated entities, which are summarized above in "Key Transactions in 2016" and Notes 3 and 6 of our unaudited consolidated financial statements. The following is a summary of cash used in non-acquisition capital improvement activities (dollars in thousands):

| | Six Months Ended | | Change | |
|---|---|---|---|---|
| | June 30, 2016 | June 30, 2015 | $ | % |
| New development | $ 249,867 | $ 114,478 | $ 135,389 | 118% |
| Recurring capital expenditures, tenant improvements and lease commissions | 28,354 | 25,599 | 2,755 | 11% |
| Renovations, redevelopments and other capital improvements | 59,175 | 41,487 | 17,688 | 43% |
| Total | $ 337,396 | $ 181,564 | $ 155,832 | 86% |

The change in new development is primarily due to the number and size of construction projects on-going during the relevant periods. Renovations, redevelopments and other capital improvements include expenditures to maximize property value, increase net operating income, maintain a market-competitive position and/or achieve property stabilization. Generally, these expenditures have increased as a result of acquisitions, primarily in our seniors housing operating segment.

*Financing Activities*. The changes in net cash provided from financing activities are primarily attributable to changes related to our long-term debt arrangements, the issuance/conversion of common and preferred stock and dividend payments. Please refer to Notes 9, 10 and 13 of our unaudited consolidated financial statements for additional information.

### *Off-Balance Sheet Arrangements*

At June 30, 2016, we had investments in unconsolidated entities with our ownership generally ranging from 10% to 50%. Please see Note 7 to our unaudited consolidated financial statements for additional information. We use financial derivative instruments to hedge interest rate and foreign currency exchange rate exposure. Please see Note 11 to our unaudited consolidated financial statements for additional information. At June 30, 2016, we had ten outstanding letter of credit obligations. Please see Note 12 to our unaudited consolidated financial statements for additional information.

***Contractual Obligations***

The following table summarizes our payment requirements under contractual obligations as of June 30, 2016 (in thousands):

| | Payments Due by Period | | | | |
|---|---|---|---|---|---|
| Contractual Obligations | Total | 2016 | 2017-2018 | 2019-2020 | Thereafter |
| Unsecured revolving credit facility[1] | $ 745,000 | $ - | $ - | $ - | $ 745,000 |
| Senior unsecured notes and term credit facilities: [2] | | | | | |
| U.S. Dollar senior unsecured notes | 6,500,000 | - | 900,000 | 1,050,000 | 4,550,000 |
| Pounds Sterling senior unsecured notes[3] | 1,389,675 | - | - | - | 1,389,675 |
| Canadian Dollar senior unsecured notes[3] | 230,645 | - | - | 230,645 | - |
| U.S. Dollar term credit facility | 505,000 | - | - | 5,000 | 500,000 |
| Canadian Dollar term credit facility[3] | 192,204 | - | - | - | 192,204 |
| Secured debt:[2,3] | | | | | |
| Consolidated | 3,421,266 | 304,577 | 1,187,806 | 562,019 | 1,366,864 |
| Unconsolidated | 483,005 | 19,498 | 37,164 | 28,468 | 397,875 |
| Contractual interest obligations:[4] | | | | | |
| Unsecured revolving credit facility | 55,200 | 5,018 | 20,073 | 20,073 | 10,036 |
| Senior unsecured notes and term loans[3] | 3,674,777 | 222,789 | 727,079 | 643,991 | 2,080,918 |
| Consolidated secured debt[3] | 619,272 | 73,945 | 212,557 | 129,677 | 203,093 |
| Unconsolidated secured debt[3] | 130,576 | 8,581 | 32,056 | 29,711 | 60,228 |
| Capital lease obligations[5] | 96,201 | 2,366 | 9,409 | 8,506 | 75,920 |
| Operating lease obligations[5] | 1,088,213 | 8,450 | 33,886 | 33,442 | 1,012,435 |
| Purchase obligations[5] | 1,800,250 | 1,275,523 | 523,167 | 675 | 885 |
| Other long-term liabilities[6] | 4,917 | 738 | 2,950 | 1,229 | - |
| Total contractual obligations | $ 20,936,201 | $ 1,921,485 | $ 3,686,147 | $ 2,743,436 | $ 12,585,133 |

(1) Relates to unsecured revolving credit facility with an aggregate commitment of $3,000,000,000. See Note 9 to our unaudited consolidated financial statements for additional information.

(2) Amounts represent principal amounts due and do not reflect unamortized premiums/discounts or other fair value adjustments as reflected on the balance sheet.

(3) Based on foreign currency exchange rates in effect as of balance sheet date.

(4) Based on variable interest rates in effect as of balance sheet date.

(5) See Note 12 to our unaudited consolidated financial statements for additional information.

(6) Primarily relates to payments to be made under our Supplemental Executive Retirement Plan.

***Capital Structure***

Our debt agreements contain various covenants, restrictions and events of default. Certain agreements require us to maintain certain financial ratios and minimum net worth and impose certain limits on our ability to incur indebtedness, create liens and make investments or acquisitions. As of June 30, 2016, we were in compliance with all of the covenants under our debt agreements. None of our debt agreements contain provisions for acceleration which could be triggered by our debt ratings. However, under our primary unsecured credit facility, the ratings on our senior unsecured notes are used to determine the fees and interest charged. We plan to manage the company to maintain compliance with our debt covenants and with a capital structure consistent with our current profile. Any downgrades in terms of ratings or outlook by any or all of the rating agencies could have a material adverse impact on our cost and availability of capital, which could in turn have a material adverse impact on our consolidated results of operations, liquidity and/or financial condition.

On May 1, 2015, we filed with the Securities and Exchange Commission (the "SEC") (1) an open-ended automatic or "universal" shelf registration statement covering an indeterminate amount of future offerings of debt securities, common stock, preferred stock, depositary shares, warrants and units and (2) a registration statement in connection with our enhanced dividend reinvestment plan under which we may issue up to 15,000,000 shares of common stock. As of July 31, 2016, 9,717,384 shares of common stock

remained available for issuance under this registration statement. We have entered into separate Equity Distribution Agreements with each of UBS Securities LLC, KeyBanc Capital Markets Inc. and Credit Agricole Securities (USA) Inc. relating to the offer and sale from time to time of up to $630,015,000 aggregate amount of our common stock ("Equity Shelf Program"). As of July 31, 2016, we had $378,734,000 of remaining capacity under the Equity Shelf Program. Depending upon market conditions, we anticipate issuing securities under our registration statements to invest in additional properties and to repay borrowings under our primary unsecured credit facility.

**Results of Operations**

*Summary*

Our primary sources of revenue include rent and resident fees and services. Our primary expenses include interest expense, depreciation and amortization, property operating expenses, transaction costs and general and administrative expenses. We evaluate our business and make resource allocations on our three business segments: triple-net, seniors housing operating and outpatient medical. The primary performance measures for our properties are NOI and SSNOI, which are discussed below. Please see Note 17 to our unaudited consolidated financial statements for additional information. The following is a summary of our results of operations (dollars in thousands, except per share amounts):

| | Three Months Ended | | Change | | Six Months Ended | | Change | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2016 | June 30, 2015 | Amount | % | June 30, 2016 | June 30, 2015 | Amount | % |
| Net income (loss) attributable to common stockholders | $ 195,474 | $ 312,573 | $ (117,099) | -37% | $ 344,444 | $ 503,373 | $ (158,929) | -32% |
| Funds from operations attributable to common stockholders | 416,974 | 340,588 | 76,386 | 22% | 808,241 | 684,839 | 123,402 | 18% |
| EBITDA | 569,131 | 665,539 | (96,408) | -14% | 1,094,534 | 1,184,566 | (90,032) | -8% |
| Net operating income from continuing operations (NOI) | 617,825 | 558,815 | 59,010 | 11% | 1,215,237 | 1,076,531 | 138,706 | 13% |
| Same store NOI | 468,435 | 456,332 | 12,103 | 3% | 923,884 | 898,756 | 25,128 | 3% |
| | | | | | | | | |
| Per share data (fully diluted): | | | | | | | | |
| Net income (loss) attributable to common stockholders | $ 0.54 | $ 0.89 | $ (0.35) | -39% | $ 0.96 | $ 1.46 | $ (0.50) | -34% |
| Funds from operations attributable to common stockholders | $ 1.16 | $ 0.97 | $ 0.19 | 20% | $ 2.26 | $ 1.99 | $ 0.27 | 14% |
| | | | | | | | | |
| Interest coverage ratio | 4.21x | 5.32x | -1.11x | -21% | 4.03x | 4.77x | -0.74x | -16% |
| Fixed charge coverage ratio | 3.34x | 4.19x | -0.85x | -20% | 3.20x | 3.77x | -0.57x | -15% |

*Triple-net*

The following is a summary of our NOI for the triple-net segment (dollars in thousands):

| | Three Months Ended | | Change | | Six Months Ended | | Change | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2016 | June 30, 2015 | $ | % | June 30, 2016 | June 30, 2015 | $ | % |
| SSNOI[(1)] | $ 225,508 | $ 219,891 | $ 5,617 | 3% | $ 447,817 | $ 436,519 | $ 11,298 | 3% |
| Non-cash NOI attributable to same store properties[(1)] | 20,624 | 24,885 | (4,261) | -17% | 43,712 | 49,062 | (5,350) | -11% |
| NOI attributable to non same store properties[(2)] | 64,179 | 46,956 | 17,223 | 37% | 126,948 | 86,725 | 40,223 | 46% |
| NOI | $ 310,311 | $ 291,732 | $ 18,579 | 6% | $ 618,477 | $ 572,306 | $ 46,171 | 8% |

(1) Change is due to increases in cash NOI and decreases in non-cash NOI (described below) related to 606 same store properties.

(2) Change is primarily due to the acquisition of 90 properties and the conversion of 11 construction projects into revenue-generating properties subsequent to January 1, 2015.

During the six months ended June 30, 2016, we reclassified four properties previously classified in the triple-net segment to the outpatient medical segment. Accordingly, the information has been reclassified to conform to the current presentation for all periods presented. The following is a summary of our results of operations for the triple-net segment (dollars in thousands):

| | Three Months Ended | | Change | | Six Months Ended | | Change | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2016 | June 30, 2015 | $ | % | June 30, 2016 | June 30, 2015 | $ | % |
| Revenues: | | | | | | | | |
| Rental income | $ 287,134 | $ 272,573 | $ 14,561 | 5% | $ 570,958 | $ 534,565 | $ 36,393 | 7% |
| Interest income | 21,971 | 18,189 | 3,782 | 21% | 44,824 | 32,888 | 11,936 | 36% |
| Other income | 1,206 | 970 | 236 | 24% | 2,695 | 4,853 | (2,158) | -44% |
| Total revenues | 310,311 | 291,732 | 18,579 | 6% | 618,477 | 572,306 | 46,171 | 8% |
| Net operating income from continuing operations (NOI) | 310,311 | 291,732 | 18,579 | 6% | 618,477 | 572,306 | 46,171 | 8% |
| Other expenses: | | | | | | | | |
| Interest expense | 2,019 | 1,313 | 706 | 54% | 7,623 | 9,736 | (2,113) | -22% |
| Loss (gain) on derivatives, net | - | - | - | n/a | - | (58,427) | 58,427 | -100% |
| Depreciation and amortization | 75,809 | 70,525 | 5,284 | 7% | 155,609 | 139,946 | 15,663 | 11% |
| Transaction costs | 1,291 | 7,579 | (6,288) | -83% | 4,143 | 43,750 | (39,607) | -91% |
| Loss (gain) on extinguishment of debt, net | 121 | (102) | 223 | n/a | 97 | 10,235 | (10,138) | -99% |
| Impairment of assets | - | - | - | n/a | 14,314 | 2,220 | 12,094 | 545% |
| Total other expenses | 79,240 | 79,315 | (75) | 0% | 181,786 | 147,460 | 34,326 | 23% |
| Income from continuing operations before income taxes and income (loss) from unconsolidated entities | 231,071 | 212,417 | 18,654 | 9% | 436,691 | 424,846 | 11,845 | 3% |
| Income tax benefit (expense) | (213) | (3,121) | 2,908 | -93% | (528) | (2,703) | 2,175 | -80% |
| Income (loss) from unconsolidated entities | 3,018 | 1,453 | 1,565 | 108% | 6,100 | 2,846 | 3,254 | 114% |
| Income from continuing operations | 233,876 | 210,749 | 23,127 | 11% | 442,263 | 424,989 | 17,274 | 4% |
| Gain (loss) on real estate dispositions, net[(1)] | 1,530 | - | 1,530 | n/a | 1,530 | 54,097 | (52,567) | -97% |
| Net income | 235,406 | 210,749 | 24,657 | 12% | 443,793 | 479,086 | (35,293) | -7% |
| Less: Net income (loss) attributable to noncontrolling interests | 774 | 548 | 226 | 41% | 433 | 1,001 | (568) | -57% |
| Net income attributable to common stockholders | $ 234,632 | $ 210,201 | $ 24,431 | 12% | $ 443,360 | $ 478,085 | $ (34,725) | -7% |

(1) See Note 5 to our unaudited consolidated financial statements.

The increase in rental income is primarily attributable to the acquisitions of new properties and the conversion of newly constructed triple-net properties from which we receive rent. Certain of our leases contain annual rental escalators that are contingent upon changes in the Consumer Price Index and/or changes in the gross operating revenues of the tenant's properties. These escalators are not fixed, so no straight-line rent is recorded; however, rental income is recorded based on the contractual cash rental payments due for the period. If gross operating revenues at our facilities and/or the Consumer Price Index do not increase, a portion of our revenues may not continue to increase. Sales of real property would offset revenue increases and, to the extent that they exceed new acquisitions, could result in decreased revenues. Our leases could renew above or below current rent rates, resulting in an increase or decrease in rental income. For the three months ended June 30, 2016, we had no lease renewals but we had 26 leases with rental rate increasers ranging from 0.05% to 0.57% in our triple-net portfolio. The change in interest income is due to a higher loan volume in the current year, which includes two first mortgage loans to Genesis Healthcare. The decrease in other income is due to the receipt of an early prepayment fee in 2015 related to a real estate loan receivable.

During the six months ended June 30, 2016, we did not complete any construction projects but did complete an expansion project totaling $2,879,000. The following is a summary of triple-net construction projects pending as of June 30, 2016 (dollars in thousands):

| Location | Units/Beds | Commitment | Balance | Est. Completion |
|---|---|---|---|---|
| Edmond, OK | 142 | $ 24,500 | $ 17,362 | 3Q16 |
| Carrollton, TX | 104 | 18,900 | 13,436 | 3Q16 |
| London, UK | 79 | 26,470 | 16,707 | 3Q16 |
| Tulsa, OK | 145 | 25,800 | 12,576 | 4Q16 |
| Lititz, PA | 80 | 15,200 | 7,209 | 4Q16 |
| Piscataway, NJ | 124 | 40,800 | 27,566 | 1Q17 |
| Raleigh, NC | 225 | 93,000 | 64,499 | 1Q17 |
| Lancaster, PA | 80 | 15,875 | 6,759 | 1Q17 |
| Bracknell, UK | 64 | 14,623 | 8,189 | 2Q17 |
| Livingston, NJ | 120 | 51,440 | 25,977 | 2Q17 |
| Alexandria, VA | 116 | 60,156 | 13,828 | 1Q18 |
| | 1,279 | $ 386,764 | $ 214,108 | |

Interest expense for the six months ended June 30, 2016 and 2015 represents secured debt interest expense and gains and losses on forward exchange contracts. The change in interest expense is due to the net effect and timing of assumptions, segment transitions, fluctuations in foreign currency rates, extinguishments and principal amortizations. The following is a summary of our triple-net secured debt principal activity (dollars in thousands):

| | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2016 | | June 30, 2015 | | June 30, 2016 | | June 30, 2015 | |
| | Amount | Wtd. Avg. Interest Rate | Amount | Wtd. Avg. Interest Rate | Amount | Wtd. Avg. Interest Rate | Amount | Wtd. Avg. Interest Rate |
| Beginning balance | $ 522,399 | 5.467% | $ 568,108 | 5.562% | $ 554,014 | 5.488% | $ 670,769 | 5.337% |
| Debt extinguished | (59,093) | 5.260% | (21,398) | 5.739% | (93,012) | 5.492% | (112,207) | 4.404% |
| Foreign currency | (239) | 5.315% | 1,478 | 5.316% | 5,052 | 5.315% | (6,856) | 5.316% |
| Principal payments | (2,798) | 5.607% | (2,982) | 5.559% | (5,785) | 5.548% | (6,500) | 5.593% |
| Ending balance | $ 460,269 | 5.509% | $ 545,207 | 5.408% | $ 460,269 | 5.509% | $ 545,207 | 5.480% |
| | | | | | | | | |
| Monthly averages | $ 497,403 | 5.493% | $ 550,659 | 5.411% | $ 518,490 | 5.490% | $ 564,669 | 5.453% |

In April 2011, we completed the acquisition of substantially all of the real estate assets of privately-owned Genesis Healthcare Corporation. In conjunction with this transaction, we received the option to acquire an ownership interest in Genesis Healthcare. In February 2015, Genesis Healthcare closed on a transaction to merge with Skilled Healthcare Group to become a publicly traded company which required us to record the value of the derivative asset due to the net settlement feature. This event resulted in $58,427,000 gain in the first quarter of 2015.

Depreciation and amortization increased primarily as a result of new property acquisitions and the conversions of newly constructed triple-net properties. To the extent that we acquire or dispose of additional properties in the future, our provision for depreciation and amortization will change accordingly.

Transaction costs are costs incurred with property acquisitions including due diligence costs, fees for legal and valuation services, the termination of pre-existing relationships, lease termination expenses and other similar costs. The 2015 transaction costs include a charge related to the termination of pre-existing relationships, the termination of a lease obligation and overall higher transaction volume. The fluctuation in losses/gains on debt extinguishment is primarily attributable to the volume of extinguishments and the terms of the related secured debt.

Changes in the gain on sales of properties are related to property sales which totaled nine and eleven for the six months ended June 30, 2016 and 2015, respectively. During the six months ended June 30, 2016 and 2015, we recorded impairment charges on certain held-for-sale triple-net properties as the fair values less estimated costs to sell exceeded our carrying values.

*Seniors Housing Operating*

The following is a summary of our NOI for the seniors housing operating segment (dollars in thousands):

| | Three Months Ended | | Change | | Six Months Ended | | Change | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2016 | June 30, 2015 | $ | % | June 30, 2016 | June 30, 2015 | $ | % |
| SSNOI[1] | $ 167,368 | $ 162,234 | $ 5,134 | 3% | $ 326,061 | $ 314,696 | $ 11,365 | 4% |
| Non-cash NOI attributable to same store properties | (242) | (253) | 11 | -4% | (490) | (504) | 14 | -3% |
| NOI attributable to non same store properties[2] | 40,129 | 17,255 | 22,874 | 133% | 78,159 | 21,097 | 57,062 | 270% |
| NOI | $ 207,255 | $ 179,236 | $ 28,019 | 16% | $ 403,730 | $ 335,289 | $ 68,441 | 20% |

(1) Relates to 298 same store properties.

(2) Change is primarily due to the acquisition of 85 properties subsequent to January 1, 2015 and one development property.

The following is a summary of our seniors housing operating results of operations (dollars in thousands):

| | Three Months Ended | | Change | | Six Months Ended | | Change | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2016 | June 30, 2015 | $ | % | June 30, 2016 | June 30, 2015 | $ | % |
| Revenues: | | | | | | | | |
| Resident fees and services | $ 615,220 | $ 535,553 | $ 79,667 | 15% | $ 1,217,369 | $ 1,028,063 | $ 189,306 | 18% |
| Interest income | 1,042 | 1,042 | - | 0% | 2,073 | 2,073 | - | 0% |
| Other income | 8,989 | 3,210 | 5,779 | 180% | 11,178 | 4,229 | 6,949 | 164% |
| Total revenues | 625,251 | 539,805 | 85,446 | 16% | 1,230,620 | 1,034,365 | 196,255 | 19% |
| Property operating expenses | 417,996 | 360,569 | 57,427 | 16% | 826,890 | 699,076 | 127,814 | 18% |
| Net operating income from continuing operations (NOI) | 207,255 | 179,236 | 28,019 | 16% | 403,730 | 335,289 | 68,441 | 20% |
| Other expenses: | | | | | | | | |
| Interest expense | 42,689 | 38,834 | 3,855 | 10% | 83,518 | 73,293 | 10,225 | 14% |
| Depreciation and amortization | 102,312 | 88,844 | 13,468 | 15% | 204,144 | 165,479 | 38,665 | 23% |
| Transaction costs | 3,247 | 3,937 | (690) | -18% | 7,180 | 15,979 | (8,799) | -55% |
| Loss (gain) on extinguishment of debt, net | (88) | - | (88) | n/a | (88) | - | (88) | n/a |
| Total other expenses | 148,160 | 131,615 | 16,545 | 13% | 294,754 | 254,751 | 40,003 | 16% |
| Income (loss) from continuing operations before income taxes and income (loss) from unconsolidated entities | 59,095 | 47,621 | 11,474 | 24% | 108,976 | 80,538 | 28,438 | 35% |
| Income tax benefit (expense) | 2,023 | (3,449) | 5,472 | n/a | 4,789 | (3,982) | 8,771 | -220% |
| Income (loss) from unconsolidated entities | (4,887) | (6,083) | 1,196 | -20% | (11,822) | (21,156) | 9,334 | -44% |
| Net income (loss) | 56,231 | 38,089 | 18,142 | 48% | 101,943 | 55,400 | 46,543 | 84% |
| Less: Net income (loss) attributable to noncontrolling interests | (190) | 1,520 | (1,710) | n/a | 167 | 2,793 | (2,626) | -94% |
| Net income (loss) attributable to common stockholders | $ 56,421 | $ 36,569 | $ 19,852 | 54% | $ 101,776 | $ 52,607 | $ 49,169 | 93% |

Fluctuations in revenues and property operating expenses are primarily a result of acquisitions and the movement of U.S. and foreign currency exchange rates. The fluctuations in depreciation and amortization are due to acquisitions and variations in amortization of short-lived intangible assets. To the extent that we acquire or dispose of additional properties in the future, these amounts will change accordingly.

During the six month period ended June 30, 2016, we did not complete any construction projects. The following is a summary of our seniors housing operating construction projects, excluding expansions, pending as of June 30, 2016 (dollars in thousands):

| Location | Units | Commitment | Balance | Est. Completion |
|---|---|---|---|---|
| Camberley, UK | 102 | $ 25,015 | $ 20,414 | 4Q16 |
| Bushey, UK | 95 | 52,419 | 15,889 | 2Q18 |
| Chertsey, UK | 94 | 40,939 | 12,551 | 3Q18 |
| | 291 | $ 118,373 | 48,854 | |
| New York, NY | Project in planning stage | | 118,722 | |
| Total | | | $ 167,576 | |

Interest expense represents secured debt interest expense as well as interest expense related to all foreign senior unsecured debt. The increase in interest expense is attributed primarily to the $300,000,000 Canadian-denominated senior unsecured notes issued in November 2015. Please refer to Note 10 to our unaudited consolidated financial statements for additional information. The following is a summary of our seniors housing operating property secured debt principal activity (dollars in thousands):

| | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2016 | | June 30, 2015 | | June 30, 2016 | | June 30, 2015 | |
| | Amount | Weighted Avg. Interest Rate | Amount | Weighted Avg. Interest Rate | Amount | Weighted Avg. Interest Rate | Amount | Weighted Avg. Interest Rate |
| Beginning balance | $ 2,355,182 | 3.980% | $ 1,810,437 | 4.356% | $ 2,290,552 | 3.958% | $ 1,654,531 | 4.422% |
| Debt issued | 86,856 | 3.040% | 54,077 | 3.623% | 161,992 | 3.051% | 136,801 | 2.845% |
| Debt assumed | - | 0.000% | | 0.000% | - | 0.000% | 205,897 | 3.976% |
| Debt extinguished | (33,080) | 4.588% | (37,004) | 3.386% | (91,613) | 3.594% | (119,965) | 3.517% |
| Foreign currency | (3,131) | 3.503% | 9,552 | 3.590% | 57,066 | 3.504% | (31,786) | 3.709% |
| Principal payments | (12,199) | 3.907% | (9,939) | 4.101% | (24,369) | 3.933% | (18,355) | 4.204% |
| Ending balance | $ 2,393,628 | 3.923% | $ 1,827,123 | 4.353% | $ 2,393,628 | 3.923% | $ 1,827,123 | 4.353% |
| | | | | | | | | |
| Monthly averages | $ 2,400,782 | 3.940% | $ 1,828,513 | 4.351% | $ 2,353,251 | 3.955% | $ 1,725,752 | 4.391% |

Transaction costs fluctuate based on the volume of acquisitions in a year. For the current year, transaction costs are lower because of decreased acquisition volume. The majority of our seniors housing operating properties are formed through partnership interests. Net income attributable to noncontrolling interests represents our partners' share of net income (loss) related to joint ventures. The fluctuations in income (loss) from unconsolidated entities is primarily due to depreciation and amortization of short-lived intangible assets and the timing of additional investments in unconsolidated entities.

*Outpatient Medical*

The following is a summary of our NOI for the outpatient medical segment (dollars in thousands):

| | Three Months Ended | | Change | | Six Months Ended | | Change | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2016 | June 30, 2015 | $ | % | June 30, 2016 | June 30, 2015 | $ | % |
| SSNOI(1) | $ 75,559 | $ 74,207 | $ 1,352 | 2% | $ 150,006 | $ 147,541 | $ 2,465 | 2% |
| Non-cash NOI attributable to same store properties(1) | 1,485 | 2,054 | (569) | -28% | 2,978 | 4,325 | (1,347) | -31% |
| NOI attributable to non same store properties(2) | 22,761 | 11,547 | 11,214 | 97% | 39,534 | 17,008 | 22,526 | 132% |
| NOI | $ 99,805 | $ 87,808 | $ 11,997 | 14% | $ 192,518 | $ 168,874 | $ 23,644 | 14% |

(1) Relates to 221 same store properties.

(2) Change is primarily due to acquisitions of 17 properties and conversions of construction projects into two revenue-generating properties subsequent to January 1, 2015.

During the six months ended June 30, 2016, we reclassified four properties previously classified in the triple-net segment to the outpatient medical segment. Accordingly, the information has been reclassified to conform to the current presentation for all periods presented. The following is a summary of our results of operations for the outpatient medical segment (dollars in thousands):

| | Three Months Ended | | Change | | Six Months Ended | | Change | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2016 | June 30, 2015 | $ | % | June 30, 2016 | June 30, 2015 | $ | % |
| Revenues: | | | | | | | | |
| Rental income | $ 135,494 | $ 124,053 | $ 11,441 | 9% | $ 267,332 | $ 241,648 | $ 25,684 | 11% |
| Interest income | 994 | 1,345 | (351) | -26% | 2,298 | 2,609 | (311) | -12% |
| Other income | 4,153 | 195 | 3,958 | 2030% | 4,466 | 356 | 4,110 | 1154% |
| Total revenues | 140,641 | 125,593 | 15,048 | 12% | 274,096 | 244,613 | 29,483 | 12% |
| Property operating expenses | 40,836 | 37,785 | 3,051 | 8% | 81,578 | 75,739 | 5,839 | 8% |
| Net operating income from continuing operations (NOI) | 99,805 | 87,808 | 11,997 | 14% | 192,518 | 168,874 | 23,644 | 14% |
| Other expenses: | | | | | | | | |
| Interest expense | 5,402 | 6,993 | (1,591) | -23% | 11,146 | 14,382 | (3,236) | -23% |
| Depreciation and amortization | 48,448 | 49,433 | (985) | -2% | 95,512 | 92,206 | 3,306 | 4% |
| Transaction costs | 619 | 975 | (356) | -37% | 2,042 | 1,316 | 726 | 55% |
| Total other expenses | 54,469 | 57,401 | (2,932) | -5% | 108,700 | 107,904 | 796 | 1% |
| Income from continuing operations before income taxes and income from unconsolidated entities | 45,336 | 30,407 | 14,929 | 49% | 83,818 | 60,970 | 22,848 | 37% |
| Income tax (expense) benefit | (248) | (161) | (87) | 54% | (476) | 305 | (781) | n/a |
| Income from unconsolidated entities | (90) | 1,678 | (1,768) | n/a | (56) | 2,710 | (2,766) | n/a |
| Income from continuing operations | 44,998 | 31,924 | 13,074 | 41% | 83,286 | 63,985 | 19,301 | 30% |
| Gain (loss) on real estate dispositions, net(1) | - | 190,111 | (190,111) | -100% | - | 192,859 | (192,859) | -100% |
| Net income (loss) | 44,998 | 222,035 | (177,037) | -80% | 83,286 | 256,844 | (173,558) | -68% |
| Less: Net income (loss) attributable to noncontrolling interests | (1,660) | (534) | (1,126) | 211% | (1,525) | 10 | (1,535) | n/a |
| Net income (loss) attributable to common stockholders | $ 46,658 | $ 222,569 | $ (175,911) | -79% | $ 84,811 | $ 256,834 | $ (172,023) | -67% |

(1) See Note 5 to our unaudited consolidated financial statements.

The increase in rental income is primarily attributable to the acquisitions of new properties and the conversion of newly constructed outpatient medical properties from which we receive rent. Certain of our leases contain annual rental escalators that are contingent upon changes in the Consumer Price Index. These escalators are not fixed, so no straight-line rent is recorded; however, rental income is recorded based on the contractual cash rental payments due for the period. If the Consumer Price Index does not increase, a portion of our revenues may not continue to increase. Sales of real property would offset revenue increases and, to the extent that they exceed new acquisitions, could result in decreased revenues. Our leases could renew above or below current rent rates, resulting in an increase or decrease in rental income. For the three months ended June 30, 2016, our consolidated outpatient medical portfolio signed 72,307 square feet of new leases and 159,748 square feet of renewals. The weighted-average term of these leases was six years, with a rate of $41.13 per square foot and tenant improvement and lease commission costs of $17.30 per square foot. Substantially all of these leases during the referenced quarter contain an annual fixed or contingent escalation rent structure ranging from the change in CPI to 5%.

During the six months ended June 30, 2016, we completed two outpatient medical construction projects representing $35,363,000 or $267 per square foot. The following is a summary of the outpatient medical construction projects, excluding expansions, pending as of June 30, 2016 (dollars in thousands):

| Location | Square Feet | Commitment | Balance | Est. Completion |
|---|---|---|---|---|
| Missouri, TX | 23,863 | $ 9,180 | $ 6,024 | 3Q16 |
| Stamford, CT | 92,345 | 41,735 | 20,853 | 4Q16 |
| Marietta, GA | 103,156 | 24,893 | 6,546 | 4Q16 |
| Wausau, WI | 43,883 | 14,100 | 8,396 | 1Q17 |
| Castle Rock, CO | 56,822 | 13,148 | 2,316 | 1Q17 |
| Timmonium, MD | 46,000 | 20,996 | 9,371 | 2Q17 |
| Howell, MI | 56,211 | 15,509 | 2,747 | 2Q17 |
| Brooklyn, NY | 140,955 | 103,624 | 28,439 | 3Q17 |
| Total | 563,235 | $ 243,185 | $ 84,692 | |

Total interest expense represents secured debt interest expense. The change in secured debt interest expense is primarily due to the net effect and timing of assumptions, extinguishments and principal amortizations. The following is a summary of our outpatient medical secured debt principal activity (dollars in thousands):

| | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2016 | | June 30, 2015 | | June 30, 2016 | | June 30, 2015 | |
| | Amount | Weighted Avg. Interest Rate | Amount | Weighted Avg. Interest Rate | Amount | Weighted Avg. Interest Rate | Amount | Weighted Avg. Interest Rate |
| Beginning balance | $ 605,360 | 5.218% | $ 587,235 | 5.841% | $ 627,689 | 5.177% | $ 609,268 | 5.838% |
| Debt assumed | - | 0.000% | 112,000 | 1.837% | - | 0.000% | 112,000 | 1.837% |
| Debt extinguished | (38,321) | 5.878% | (40,154) | 5.176% | (57,508) | 5.993% | (58,812) | 5.341% |
| Principal payments | (3,807) | 6.281% | (4,091) | 6.098% | (6,949) | 5.924% | (7,466) | 5.870% |
| Ending balance | $ 563,232 | 5.129% | $ 654,990 | 5.193% | $ 563,232 | 5.129% | $ 654,990 | 5.193% |
| | | | | | | | | |
| Monthly averages | $ 579,824 | 5.147% | $ 592,911 | 5.671% | $ 598,764 | 5.186% | $ 596,570 | 5.677% |

The increase in property operating expenses is primarily attributable to acquisitions and construction conversions of new outpatient medical facilities for which we incur certain property operating expenses. Transaction costs represent costs incurred with property acquisitions including due diligence costs, fees for legal and valuation services, termination of pre-existing relationships, lease termination expenses and other similar costs. Income from unconsolidated entities represents our share of net income or losses related to the periods for which we held a joint venture investment with Forest City Enterprises and certain unconsolidated property investments. Changes in gains/losses on sales of properties are related to volume of property sales and the sales prices. A portion of our outpatient medical properties were formed through partnerships. Net income attributable to noncontrolling interests represents our partners' share of net income or loss relating to those partnerships where we are the controlling partner.

*Non-Segment/Corporate*

The following is a summary of our results of operations for the non-segment/corporate activities (dollars in thousands):

| | Three Months Ended | | Change | | Six Months Ended | | Change | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2016 | June 30, 2015 | $ | % | June 30, 2016 | June 30, 2015 | $ | % |
| Revenues: | | | | | | | | |
| Other income | $ 454 | $ 39 | $ 415 | 1064% | $ 512 | $ 62 | $ 450 | 726% |
| Expenses: | | | | | | | | |
| Interest expense | 82,216 | 71,721 | 10,495 | 15% | 162,998 | 142,531 | 20,467 | 14% |
| General and administrative | 39,914 | 38,474 | 1,440 | 4% | 85,606 | 73,612 | 11,994 | 16% |
| Loss on extinguishment of debt, net | - | 18,989 | (18,989) | -100% | - | 24,053 | (24,053) | -100% |
| Other expenses | 3,161 | 10,583 | (7,422) | -70% | 3,161 | 10,583 | (7,422) | -70% |
| Total expenses | 125,291 | 139,767 | (14,476) | -10% | 251,765 | 250,779 | 986 | 0% |
| Loss from continuing operations before income taxes | (124,837) | (139,728) | 14,891 | -11% | (251,253) | (250,717) | (536) | 0% |
| Income tax (expense) benefit | (1,049) | (686) | (363) | 53% | (1,546) | (733) | (813) | 111% |
| Loss from continuing operations | (125,886) | (140,414) | 14,528 | -10% | (252,799) | (251,450) | (1,349) | 1% |
| Less: Preferred stock dividends | 16,352 | 16,352 | - | 0% | 32,703 | 32,703 | - | 0% |
| Net loss attributable to common stockholders | $ (142,238) | $ (156,766) | $ 14,528 | -9% | $ (285,502) | $ (284,153) | $ (1,349) | 0% |

The following is a summary of our non-segment/corporate interest expense (dollars in thousands):

| | Three Months Ended | | Change | | Six Months Ended | | Change | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2016 | June 30, 2015 | $ | % | June 30, 2016 | June 30, 2015 | $ | % |
| Senior unsecured notes | $ 75,684 | $ 65,674 | $ 10,010 | 15% | $ 149,671 | $ 130,073 | $ 19,598 | 15% |
| Secured debt | 78 | 99 | (21) | -21% | 175 | 187 | (12) | -6% |
| Primary unsecured credit facility | 3,296 | 2,716 | 580 | 21% | 7,005 | 5,764 | 1,241 | 22% |
| Swap loss (savings) | - | (9) | 9 | -100% | - | (12) | 12 | -100% |
| Loan expense | 3,158 | 3,241 | (83) | -3% | 6,147 | 6,519 | (372) | -6% |
| Totals | $ 82,216 | $ 71,721 | $ 10,495 | 15% | $ 162,998 | $ 142,531 | $ 20,467 | 14% |

The change in interest expense on senior unsecured notes is due to the net effect of issuances and extinguishments, excluding our foreign senior unsecured debt, which is in our seniors housing operating segment. Please refer to Note 10 to our unaudited consolidated financial statements for additional information. Loan expense represents the amortization of deferred loan costs incurred in connection with the issuance and amendments of debt. Loan expense changes are due to amortization of charges for costs incurred in connection with senior unsecured note issuances. The change in interest expense on the primary unsecured credit facility is due primarily to the net effect and timing of draws, paydowns and variable interest rate changes. Please refer to Note 9 of our unaudited consolidated financial statements for additional information regarding our primary unsecured credit facility.

General and administrative expenses as a percentage of consolidated revenues for the three months ended June 30, 2016 and 2015 were 3.70% and 4.02%, respectively. The increase in general and administrative expenses for the six months ended June 30, 2016 is primarily related to professional service fees for tax and legal consulting and costs associated with our initiatives to attract and retain appropriate personnel to achieve our business objectives. Other expenses in both years included costs associated with the retirement of executive officers. Other expenses for the three months ended June 30, 2015 also included costs associated with the termination of our investment in a strategic medical office partnership.

## Other

### *Non-GAAP Financial Measures*

We believe that net income, as defined by U.S. GAAP, is the most appropriate earnings measurement. However, we consider FFO, NOI, SSNOI, EBITDA and Adjusted EBITDA to be useful supplemental measures of our operating performance. Historical cost accounting for real estate assets in accordance with U.S. GAAP implicitly assumes that the value of real estate assets diminishes predictably over time as evidenced by the provision for depreciation. However, since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient. In response, the National Association of Real Estate Investment Trusts ("NAREIT") created funds from operations attributable to common stockholders ("FFO") as a supplemental measure of operating performance for REITs that excludes historical cost depreciation from net income. FFO, as defined by NAREIT, means net income attributable to common stockholders, computed in accordance with U.S. GAAP, excluding gains (or losses) from sales of real estate and impairment of depreciable assets, plus depreciation and amortization, and after adjustments for unconsolidated entities and noncontrolling interests.

Net operating income from continuing operations ("NOI") is used to evaluate the operating performance of our properties. We define NOI as total revenues, including tenant reimbursements, less property operating expenses. Property operating expenses represent costs associated with managing, maintaining and servicing tenants for our seniors housing operating and medical facility properties. These expenses include, but are not limited to, property-related payroll and benefits, property management fees, marketing, housekeeping, food service, maintenance, utilities, property taxes and insurance. General and administrative expenses represent costs unrelated to property operations or transaction costs. These expenses include, but are not limited to, payroll and benefits, professional services, office expenses and depreciation of corporate fixed assets. Same store NOI ("SSNOI") is used to evaluate the cash-based operating performance of our properties under a consistent population which eliminates changes in the composition of our portfolio. As used herein, same store is generally defined as those revenue-generating properties in the portfolio for the reporting period subsequent to January 1, 2015. Land parcels, loans and sub-leases as well as any properties acquired, developed/redeveloped, transitioned, sold or classified as held for sale during that period are excluded from the same store amounts. We believe NOI and SSNOI provide investors relevant and useful information because they measure the operating performance of our properties at the property level on an unleveraged basis. We use NOI and SSNOI to make decisions about resource allocations and to assess the property level performance of our properties.

EBITDA stands for earnings before interest, taxes, depreciation and amortization. We believe that EBITDA, along with net income and cash flow provided from operating activities, is an important supplemental measure because it provides additional information to assess and evaluate the performance of our operations. We primarily utilize EBITDA to measure our interest coverage ratio, which represents EBITDA divided by total interest, and our fixed charge coverage ratio, which represents EBITDA divided by fixed charges. Fixed charges include total interest, secured debt principal amortization and preferred dividends.

A covenant in our primary unsecured credit facility contains a financial ratio based on a definition of EBITDA that is specific to that agreement. Failure to satisfy these covenants could result in an event of default that could have a material adverse impact on our cost and availability of capital, which could in turn have a material adverse impact on our consolidated results of operations, liquidity and/or financial condition. Due to the materiality of these debt agreements and the financial covenants, we have disclosed Adjusted EBITDA, which represents EBITDA as defined above and adjusted for items per our covenant. We use Adjusted EBITDA to measure our adjusted fixed charge coverage ratio, which represents Adjusted EBITDA divided by fixed charges on a trailing twelve months basis. Fixed charges include total interest (excluding capitalized interest and non-cash interest expenses), secured debt principal amortization and preferred dividends. Our covenant requires an adjusted fixed charge coverage ratio of at least 1.50 times.

Other than Adjusted EBITDA, our supplemental reporting measures and similarly entitled financial measures are widely used by investors, equity and debt analysts and rating agencies in the valuation, comparison, rating and investment recommendations of companies. Management uses these financial measures to facilitate internal and external comparisons to our historical operating results and in making operating decisions. Additionally, these measures are utilized by the Board of Directors to evaluate management. Adjusted EBITDA is used to demonstrate our compliance with a comparable financial covenant in our primary unsecured credit facility and is not being presented for use by investors for any other purpose. None of our supplemental measures represent net income or cash flow provided from operating activities as determined in accordance with U.S. GAAP and should not be considered as alternative measures of profitability or liquidity. Finally, the supplemental measures, as defined by us, may not be comparable to similarly entitled items reported by other real estate investment trusts or other companies.

The table below reflects the reconciliation of FFO to net income attributable to common stockholders, the most directly comparable U.S. GAAP measure, for the periods presented. Noncontrolling interest and unconsolidated entity amounts represent adjustments to reflect our share of depreciation and amortization. Amounts are in thousands except for per share data.

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| **FFO Reconciliations:** | March 31, 2015 | June 30, 2015 | September 30, 2015 | December 31, 2015 | March 31, 2016 | June 30, 2016 |
| Net income (loss) attributable to common stockholders | $ 190,799 | $ 312,573 | $ 182,043 | $ 132,931 | $ 148,969 | $ 195,474 |
| Depreciation and amortization | 188,829 | 208,802 | 205,799 | 222,809 | 228,696 | 226,569 |
| Impairment of assets | 2,220 | - | - | - | 14,314 | - |
| Loss (gain) on sales of properties, net | (56,845) | (190,111) | (2,046) | (31,385) | - | (1,530) |
| Noncontrolling interests | (7,249) | (10,467) | (11,647) | (9,908) | (17,319) | (20,616) |
| Unconsolidated entities | 26,496 | 19,791 | 18,146 | 18,062 | 16,604 | 17,077 |
| Funds from operations attributable to common stockholders | $ 344,250 | $ 340,588 | $ 392,295 | $ 332,509 | $ 391,264 | $ 416,974 |
| | | | | | | |
| Average common shares outstanding: | | | | | | |
| Basic | 336,754 | 350,399 | 351,765 | 353,604 | 355,076 | 356,646 |
| Diluted | 337,812 | 351,366 | 353,107 | 354,972 | 356,051 | 358,891 |
| | | | | | | |
| Per share data: | | | | | | |
| Net income attributable to common stockholders | | | | | | |
| Basic | $ 0.57 | $ 0.89 | $ 0.52 | $ 0.38 | $ 0.42 | $ 0.55 |
| Diluted | 0.56 | 0.89 | 0.52 | 0.37 | 0.42 | 0.54 |
| | | | | | | |
| Funds from operations attributable to common stockholders | | | | | | |
| Basic | $ 1.02 | $ 0.97 | $ 1.12 | $ 0.94 | $ 1.10 | $ 1.17 |
| Diluted | 1.02 | 0.97 | 1.11 | 0.94 | 1.10 | 1.16 |

| | Six Months Ended | |
|---|---|---|
| **FFO Reconciliations:** | June 30, 2015 | June 30, 2016 |
| Net income attributable to common stockholders | $ 503,373 | $ 344,444 |
| Depreciation and amortization | 397,631 | 455,265 |
| Impairment of assets | 2,220 | 14,314 |
| Loss (gain) on sales of properties, net | (246,956) | (1,530) |
| Noncontrolling interests | (17,716) | (37,934) |
| Unconsolidated entities | 46,287 | 33,682 |
| Funds from operations attributable to common stockholders | $ 684,839 | $ 808,241 |
| | | |
| Average common shares outstanding: | | |
| Basic | 343,624 | 355,879 |
| Diluted | 344,623 | 357,489 |
| | | |
| Per share data: | | |
| Net income attributable to common stockholders | | |
| Basic | $ 1.46 | $ 0.97 |
| Diluted | 1.46 | 0.96 |
| | | |
| Funds from operations attributable to common stockholders | | |
| Basic | $ 1.99 | $ 2.27 |
| Diluted | 1.99 | 2.26 |

The table below reflects the reconciliation of EBITDA to net income, the most directly comparable U.S. GAAP measure, for the periods presented. Interest expense includes discontinued operations. Dollars are in thousands.

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| **EBITDA Reconciliations:** | March 31, 2015 | June 30, 2015 | September 30, 2015 | December 31, 2015 | March 31, 2016 | June 30, 2016 |
| Net income | $ 209,422 | $ 330,459 | $ 199,257 | $ 149,416 | $ 165,474 | $ 210,749 |
| Interest expense | 121,080 | 118,861 | 121,130 | 131,097 | 132,960 | 132,326 |
| Income tax expense (benefit) | (304) | 7,417 | (3,344) | 2,682 | (1,725) | (513) |
| Depreciation and amortization | 188,829 | 208,802 | 205,799 | 222,809 | 228,696 | 226,569 |
| EBITDA | $ 519,027 | $ 665,539 | $ 522,842 | $ 506,004 | $ 525,405 | $ 569,131 |
| | | | | | | |
| Interest Coverage Ratio: | | | | | | |
| Interest expense | $ 121,080 | $ 118,861 | $ 121,130 | $ 131,097 | $ 132,960 | $ 132,326 |
| Non-cash interest expense | (119) | 4,202 | (3,791) | (2,878) | 599 | (1,519) |
| Capitalized interest | 2,387 | 2,060 | 1,865 | 2,358 | 3,037 | 4,306 |
| Total interest | 123,348 | 125,123 | 119,204 | 130,577 | 136,596 | 135,113 |
| EBITDA | $ 519,027 | $ 665,539 | $ 522,842 | $ 506,004 | $ 525,405 | $ 569,131 |
| Interest coverage ratio | 4.21x | 5.32x | 4.39x | 3.88x | 3.85x | 4.21x |
| | | | | | | |
| Fixed Charge Coverage Ratio: | | | | | | |
| Total interest | $ 123,348 | $ 125,123 | $ 119,204 | $ 130,577 | $ 136,596 | $ 135,113 |
| Secured debt principal payments | 15,630 | 17,336 | 15,817 | 18,281 | 18,642 | 19,096 |
| Preferred dividends | 16,352 | 16,352 | 16,352 | 16,352 | 16,352 | 16,352 |
| Total fixed charges | 155,330 | 158,811 | 151,373 | 165,210 | 171,590 | 170,561 |
| EBITDA | $ 519,027 | $ 665,539 | $ 522,842 | $ 506,004 | $ 525,405 | $ 569,131 |
| Fixed charge coverage ratio | 3.34x | 4.19x | 3.45x | 3.06x | 3.06x | 3.34x |

| | Six Months Ended | |
|---|---|---|
| **EBITDA Reconciliations:** | June 30, 2015 | June 30, 2016 |
| Net income | $ 539,880 | $ 376,223 |
| Interest expense | 239,942 | 265,285 |
| Income tax expense (benefit) | 7,113 | (2,239) |
| Depreciation and amortization | 397,631 | 455,265 |
| EBITDA | $ 1,184,566 | $ 1,094,534 |
| | | |
| Interest Coverage Ratio: | | |
| Interest expense | $ 239,942 | $ 265,285 |
| Non-cash interest expense | 4,082 | (920) |
| Capitalized interest | 4,446 | 7,343 |
| Total interest | 248,470 | 271,708 |
| EBITDA | $ 1,184,566 | $ 1,094,534 |
| Interest coverage ratio | 4.77x | 4.03x |
| | | |
| Fixed Charge Coverage Ratio: | | |
| Total interest | $ 248,470 | $ 271,708 |
| Secured debt principal payments | 32,966 | 37,737 |
| Preferred dividends | 32,703 | 32,703 |
| Total fixed charges | 314,139 | 342,148 |
| EBITDA | $ 1,184,566 | $ 1,094,534 |
| Fixed charge coverage ratio | 3.77x | 3.20x |

The table below reflects the reconciliation of Adjusted EBITDA to net income, the most directly comparable U.S. GAAP measure, for the periods presented. Interest expense includes discontinued operations. Dollars are in thousands.

| **Adjusted EBITDA Reconciliations:** | Twelve Months Ended March 31, 2015 | June 30, 2015 | September 30, 2015 | December 31, 2015 | March 31, 2016 | June 30, 2016 |
|---|---|---|---|---|---|---|
| Net income | $ 656,521 | $ 899,126 | $ 945,612 | $ 888,549 | $ 844,606 | $ 724,894 |
| Interest expense | 481,321 | 479,083 | 481,778 | 492,169 | 504,048 | 517,512 |
| Income tax expense (benefit) | (3,832) | 2,016 | 8,870 | 6,451 | 5,030 | (2,899) |
| Depreciation and amortization | 799,641 | 793,994 | 798,823 | 826,240 | 866,106 | 883,873 |
| EBITDA | 1,933,651 | 2,174,219 | 2,235,083 | 2,213,409 | 2,219,790 | 2,123,380 |
| Transaction costs | 117,140 | 122,590 | 118,369 | 110,926 | 70,579 | 63,245 |
| Stock-based compensation expense | 33,462 | 30,416 | 31,622 | 30,844 | 29,976 | 25,883 |
| Loss (gain) on extinguishment of debt, net | 25,108 | 43,464 | 41,356 | 34,677 | 19,252 | 398 |
| Losses/impairments (gains) on properties, net | (208,147) | (385,179) | (357,621) | (278,167) | (209,228) | (20,647) |
| Loss (gain) on derivatives, net | (59,922) | (60,273) | (60,322) | (58,427) | - | - |
| Other expenses | 20,727 | 15,250 | 4,988 | 40,636 | 40,636 | 37,386 |
| Additional other income | (2,144) | (2,144) | (2,144) | (2,144) | (2,144) | (13,955) |
| Adjusted EBITDA | $ 1,859,875 | $ 1,938,343 | $ 2,011,331 | $ 2,091,754 | $ 2,168,861 | $ 2,215,690 |
| | | | | | | |
| Adjusted Fixed Charge Coverage Ratio: | | | | | | |
| Interest expense | $ 481,321 | $ 479,083 | $ 481,778 | $ 492,169 | $ 504,048 | $ 517,512 |
| Capitalized interest | 7,931 | 8,292 | 8,378 | 8,670 | 9,320 | 11,566 |
| Non-cash interest expense | (2,215) | 3,636 | 392 | (2,586) | (1,868) | (7,589) |
| Total interest | 487,037 | 491,011 | 490,548 | 498,253 | 511,500 | 521,489 |
| Adjusted EBITDA | $ 1,859,875 | $ 1,938,343 | $ 2,011,331 | $ 2,091,754 | $ 2,168,861 | $ 2,215,690 |
| Adjusted interest coverage ratio | 3.82x | 3.95x | 4.10x | 4.20x | 4.24x | 4.25x |
| | | | | | | |
| Total interest | $ 487,037 | $ 491,011 | $ 490,548 | $ 498,253 | $ 511,500 | $ 521,489 |
| Secured debt principal payments | 62,455 | 63,988 | 65,256 | 67,064 | 70,076 | 71,836 |
| Preferred dividends | 65,408 | 65,408 | 65,408 | 65,406 | 65,408 | 65,408 |
| Total fixed charges | 614,900 | 620,407 | 621,212 | 630,723 | 646,984 | 658,733 |
| Adjusted EBITDA | $ 1,859,875 | $ 1,938,343 | $ 2,011,331 | $ 2,091,754 | $ 2,168,861 | $ 2,215,690 |
| Adjusted fixed charge coverage ratio | 3.02x | 3.12x | 3.24x | 3.32x | 3.35x | 3.36x |

The following tables reflect the reconciliation of NOI (which derives directly from consolidated results) and SSNOI for the periods presented. Dollars are in thousands.

| | Three Months Ended | | | | | |
|---|---|---|---|---|---|---|
| **NOI Reconciliations:** | March 31, 2015 | June 30, 2015 | September 30, 2015 | December 31, 2015 | March 31, 2016 | June 30, 2016 |
| Consolidated revenues: | | | | | | |
| Triple-net | $ 280,575 | $ 291,732 | $ 298,038 | $ 305,460 | $ 308,168 | $ 310,311 |
| Seniors housing operating | 494,561 | 539,805 | 547,081 | 586,826 | 605,369 | 625,251 |
| Outpatient medical | 119,019 | 125,593 | 133,856 | 136,190 | 133,455 | 140,641 |
| Non-segment/corporate | 22 | 39 | 22 | 1,008 | 58 | 454 |
| Total consolidated revenues | 894,177 | 957,169 | 978,997 | 1,029,484 | 1,047,050 | 1,076,657 |
| Consolidated property operating expenses: | | | | | | |
| Seniors housing operating | 338,507 | 360,569 | 368,050 | 399,882 | 408,894 | 417,996 |
| Outpatient medical | 37,954 | 37,785 | 40,653 | 38,856 | 40,742 | 40,836 |
| Total consolidated property operating expenses | 376,461 | 398,354 | 408,703 | 438,738 | 449,636 | 458,832 |
| Consolidated net operating income: | | | | | | |
| Triple-net | 280,575 | 291,732 | 298,038 | 305,460 | 308,168 | 310,311 |
| Seniors housing operating | 156,054 | 179,236 | 179,031 | 186,944 | 196,475 | 207,255 |
| Outpatient medical | 81,065 | 87,808 | 93,203 | 97,334 | 92,713 | 99,805 |
| Non-segment/corporate | 22 | 39 | 22 | 1,008 | 58 | 454 |
| Total consolidated net operating income | $ 517,716 | $ 558,815 | $ 570,294 | $ 590,746 | $ 597,414 | $ 617,825 |

| | Six Months Ended | |
|---|---|---|
| **NOI Reconciliations:** | June 30, 2015 | June 30, 2016 |
| Consolidated revenues: | | |
| Triple-net | $ 572,306 | $ 618,477 |
| Seniors housing operating | 1,034,365 | 1,230,620 |
| Outpatient medical | 244,613 | 274,096 |
| Non-segment/corporate | 62 | 512 |
| Total consolidated revenues | 1,851,346 | 2,123,705 |
| Consolidated property operating expenses: | | |
| Seniors housing operating | 699,076 | 826,890 |
| Outpatient medical | 75,739 | 81,578 |
| Total consolidated property operating expenses | 774,815 | 908,468 |
| Consolidated net operating income: | | |
| Triple-net | 572,306 | 618,477 |
| Seniors housing operating | 335,289 | 403,730 |
| Outpatient medical | 168,874 | 192,518 |
| Non-segment/corporate | 62 | 512 |
| Total consolidated net operating income | $ 1,076,531 | $ 1,215,237 |

| **Same Store NOI Reconciliations:** | | Three Months Ended March 31, 2015 | June 30, 2015 | September 30, 2015 | December 31, 2016 | March 31, 2016 | June 30, 2016 |
|---|---|---|---|---|---|---|---|
| NOI: | | | | | | | |
| Triple-net | | $ 280,575 | $ 291,732 | $ 298,038 | $ 305,460 | $ 308,168 | $ 310,311 |
| Seniors housing operating | | 156,054 | 179,236 | 179,031 | 186,944 | 196,475 | 207,255 |
| Outpatient medical | | 81,065 | 87,808 | 93,203 | 97,334 | 92,713 | 99,805 |
| Total | | 517,694 | 558,776 | 570,272 | 589,738 | 597,356 | 617,371 |
| Adjustments: | | | | | | | |
| Triple-net: | | | | | | | |
| Non-cash NOI on same store properties | | (24,178) | (24,885) | (24,888) | (22,764) | (23,092) | (20,624) |
| NOI attributable to non same store properties | | (39,769) | (46,956) | (52,222) | (60,682) | (62,768) | (64,179) |
| Subtotal | | (63,947) | (71,841) | (77,110) | (83,446) | (85,860) | (84,803) |
| Seniors housing operating: | | | | | | | |
| Non-cash NOI on same store properties | | 251 | 253 | 250 | 249 | 248 | 242 |
| NOI attributable to non same store properties | | (3,843) | (17,255) | (19,054) | (32,156) | (38,030) | (40,129) |
| Subtotal | | (3,592) | (17,002) | (18,804) | (31,907) | (37,782) | (39,887) |
| Outpatient medical: | | | | | | | |
| Non-cash NOI on same store properties | | (2,271) | (2,054) | (2,115) | (2,052) | (1,493) | (1,485) |
| NOI attributable to non same store properties | | (5,460) | (11,547) | (17,266) | (20,899) | (16,773) | (22,761) |
| Subtotal | | (7,731) | (13,601) | (19,381) | (22,951) | (18,266) | (24,246) |
| Same store NOI: | Properties | | | | | | |
| Triple-net | 606 | 216,628 | 219,891 | 220,928 | 222,014 | 222,308 | 225,508 |
| Seniors housing operating | 298 | 152,462 | 162,234 | 160,227 | 155,037 | 158,693 | 167,368 |
| Outpatient medical | 221 | 73,334 | 74,207 | 73,822 | 74,383 | 74,447 | 75,559 |
| Total | 1,125 | $ 442,424 | $ 456,332 | $ 454,977 | $ 451,434 | $ 455,448 | $ 468,435 |

| **Same Store NOI Property Reconciliation:** | |
|---|---|
| Total properties | 1,420 |
| Acquisitions | (192) |
| Developments | (22) |
| Held-for-sale | (74) |
| Other[1] | (7) |
| Same store properties | 1,125 |

(1) Includes six land parcels and one loan.

| | | Six Months Ended | |
|---|---|---|---|
| **Same Store NOI Reconciliations:** | | June 30, 2015 | June 30, 2016 |
| NOI: | | | |
| Triple-net | | $ 572,306 | $ 618,477 |
| Seniors housing operating | | 335,289 | 403,730 |
| Outpatient medical | | 168,874 | 192,518 |
| Total | | 1,076,469 | 1,214,725 |
| Adjustments: | | | |
| Triple-net: | | | |
| Non-cash NOI on same store properties | | (49,062) | (43,712) |
| NOI attributable to non same store properties | | (86,725) | (126,948) |
| Subtotal | | (135,787) | (170,660) |
| Seniors housing operating: | | | |
| Non-cash NOI on same store properties | | 504 | 490 |
| NOI attributable to non same store properties | | (21,097) | (78,159) |
| Subtotal | | (20,593) | (77,669) |
| Outpatient medical | | | |
| Non-cash NOI on same store properties | | (4,325) | (2,978) |
| NOI attributable to non same store properties | | (17,008) | (39,534) |
| Subtotal | | (21,333) | (42,512) |
| Same store NOI: | Properties | | |
| Triple-net | 606 | 436,519 | 447,817 |
| Seniors housing operating | 298 | 314,696 | 326,061 |
| Outpatient medical | 221 | 147,541 | 150,006 |
| Total | 1,125 | $ 898,756 | $ 923,884 |

## Other Disclosures

## United States of America

Policy and legislative changes that increase or decrease government reimbursement impact our operators and tenants that participate in Medicare, Medicaid or other government programs. The reimbursement methodologies applied to health care facilities continue to evolve. To the extent that policy or legislative changes, or new reimbursement methodologies decrease government reimbursement to our operators and tenants, our revenue and operations may be indirectly adversely affected.

### *Licensing and Certification*

Certain health care facilities are subject to a variety of licensure and certificate of need ("CON") laws and regulations. Where applicable, CON laws generally require, among other requirements, that a facility demonstrate the need for (1) constructing a new facility, (2) adding beds or expanding an existing facility, (3) investing in major capital equipment or adding new services, (4) changing the ownership or control of an existing licensed facility, or (5) terminating services that have been previously approved through the CON process. State and federal officials, increasingly including the Federal Trade Commission ("FTC") and the U.S. Department of Justice ("DOJ"), are challenging CON laws for reducing competition in the industry, creating barriers to entry and expansion, limiting consumer choice, and stifling innovation. We cannot predict whether current or future efforts to repeal or amend these state laws will be successful, nor can we predict the impact that such repeals or amendments would have on our operators or tenants and their ability to meet their obligations to us.

### *Reimbursement*

The Department of Health and Human Services ("HHS") pledged to tie 30% of Medicare payments to quality or alternative payment models by the end of 2016 and to tie 50% of Medicare payments to quality or alternate payment models by the end of 2018. In January 2015, the Administration announced that it achieved its goal of tying 30% of Medicare payments to quality ahead of schedule, by year end 2015 rather than the targeted deadline of year end 2016. Providers increasingly are entering into value-based purchasing arrangements, which to the extent Welltower's operators and tenants enter into such agreements, could affect their reimbursement and indirectly impact our revenues and operations. For example, the Centers for Medicare and Medicaid Services ("CMS") launched the Hospital Value-Based Purchasing ("VBP") Program in 2013, which is an initiative designed to reward acute-care hospitals with incentive payments for the quality of care they provide to Medicare beneficiaries. Similarly, other public and private payors have started considering whether to base reimbursement decisions on access, price, quality, efficiency, and alignment of incentives, rewarding higher quality healthcare providers with enhanced payments and increased market share.

On October 6, 2014, the President signed into law the Improving Medicare Post-Acute Transformation Act of 2014 ("IMPACT Act"). The law required MedPAC to submit a report to Congress by June 30, 2016, evaluating and recommending features of a post-acute payment system that establishes payment rates according to individual characteristics instead of the post-acute setting where the patient is treated. On June 15, 2016, MedPAC submitted this report to Congress, which provides general guidelines, rather than specific details, for developing a new cross-facility payment system, including a common unit of service, a common risk adjustment system using patient characteristics, separate models to establish payments for non-therapy ancillary services and therapy services, and two outlier policies for high-cost stays and short stays. The IMPACT Act requires MedPAC to issue another report in 2023, following CMS's development of an actual payment prototype.

On November 3, 2015, CMS published a proposed rule that would revise the discharge planning requirements that hospitals, including long-term acute care hospitals ("LTCHs"), inpatient rehabilitation facilities ("IRFs") and home health agencies ("HHAs") must meet in order to participate in the Medicare and Medicaid programs. Among other things, the proposed rule would require hospitals and other facilities to evaluate patients for their discharge needs and develop specific written discharge plans for them. The proposed rule would also implement the discharge planning requirements of the IMPACT Act. Provider groups have expressed concern that the proposed rule, if implemented, could create burdensome paperwork requirements, resulting in the need to hire additional staff and necessarily expend more resources.

On February 9, 2016, President Obama released his budget proposal for fiscal year ("FY") 2017. The proposed budget would cut Medicare payments to providers by $420 billion over ten years. Among other Medicare-related changes, the President's budget plan over ten years would: (1) reduce bad debt payments to providers by $32.9 billion, (2) reduce the payment updates for post-acute care providers by $86.6 billion, (3) raise the "60% Rule" threshold for IRFs back to 75% for reductions of $2.2 billion, and (4) implement bundled post-acute care payments for reductions of $9.9 billion. If these recommendations are adopted, we cannot predict whether they will have a material impact on our operators' or tenants' property or business.

On March 11, 2016, CMS published a proposed rule to test new models regarding Medicare Part B payments for prescription drugs. The proposal is designed to test different physician and patient incentives to drive the prescribing of the most effective drugs and test new payment approaches to reward positive patient outcomes. If this proposed rule is finalized, it may impact our operators' and tenants' Medicare reimbursement rates, and our revenues and operations may be indirectly affected.

On March 15, 2016, the House Energy and Commerce Committee approved the Common Sense Act of 2016, which would lower the maximum rate for Medicaid provider tax assessments from 6.0% of taxpayer revenues to 5.5%. If enacted, the bill could lower funds available for state Medicaid programs and may result in lower Medicaid rates to our operators.

On March 24, 2016, CMS announced the next phase of its Initiative to Reduce Avoidable Hospitalizations among Nursing Facility Residents. Through this new payment model, CMS will encourage healthcare practitioners to provide additional treatments for especially ill or frail nursing home residents by equalizing the payments between a comprehensive assessment given at skilled nursing facilities ("SNFs") and hospitals. Participating SNFs will also receive payment to provide additional treatment for common medical conditions that often lead to avoidable hospitalizations.

On April 1, 2016, CMS's bundled payment program for Lower Extremity Joint Replacement ("CJR") procedures went into effect. The CJR bundled payment program is mandatory for all hospitals paid under the Medicare Inpatient Prospective Payment System and located in the 67 selected Metropolitan Statistical Areas. This could have an effect on our SNF operators as patients are down streamed for recovery.

On April 4, 2016, CMS announced the final 2017 payment rates for Medicare Advantage, with an expected average payment increase of 0.85%. Changes in Medicare Advantage plan payments may indirectly affect our operators and tenants that contract with Medicare Advantage plans.

On April 25, 2016, CMS published proposed rules regarding FY 2017 Medicare payment policies and rates for SNFs and IRFs. Under the proposed SNF rule, CMS projects that aggregate payments to SNFs will increase by $800 million, or 2.1%, from payments in FY 2016. Under the proposed IRF rule, CMS projects that aggregate payments to IRFs will increase by $125 million, or 1.6%, from payments in FY 2016.

On April 26, 2016, CMS published a proposed rule regarding FY 2017 Medicare payment policies and rates for LTCHs. As a result of the continuation of the phase-in of site neutral payment rates for specified cases in LTCHs, CMS projects FY 2017 Medicare payments to LTCHs would decrease by 6.9%, or approximately $355 million under the rule. Payment rates would increase by 0.3% for cases that qualify for the higher standard LTCH Prospective Payment System rate. The proposed rule would also implement a

25% threshold policy ("25% rule"), under which payment adjustments are made when the number of cases an LTCH admits from a single hospital exceeds a specified threshold (generally 25%). Finally, in response to the federal district court's review of the "Two-Midnight" payment policy in *Shands Jacksonville Medical Center, Inc., et al. v. Burwell, No. 14-263 (D.D.C.),* CMS proposes to remove the 0.2% Medicare Part A hospital payment cut and also its effects for FYs 2014, 2015, and 2016 by adjusting the FY 2017 payment rates. The impact of this proposal would be to increase FY 2017 payments by approximately 0.8%.

On June 16, 2016, CMS published a proposed rule that would update the requirements that hospitals and critical access hospitals ("CAHs") must meet to participate in the Medicare and Medicaid programs. The rule would apply new conditions of participation to such hospitals, including revisions to reduce readmissions, advance non-discrimination protections, increase infection control, and address other quality measures. If finalized, these new conditions of participation may potentially increase the operating costs of our tenants and operators.

On July 6, 2016, CMS issued a proposed rule regarding 2017 Medicare payment rates for Hospital Outpatient Departments ("HOPDs") and Ambulatory Surgery Centers ("ASCs"). CMS Estimates that updates in the proposed rule would increase HOPD payments by approximately 1.6% and ASC payments by 1.2% in 2017. In addition, CMS proposes to implement section 603 of the Bipartisan Budget Act of 2015, which requires that, with the exception of dedicated emergency department services, services furnished in off-campus provider-based departments that began billing under the HOPD Prospective Payment System ("PPS") on or after November 2, 2015 would no longer be paid under the HOPD PPS; instead, these services would be paid under other applicable Part B payment systems, including the Physician Fee Schedule ("PFS"), beginning January 1, 2017. Specifically, CMS would pay physicians at the "nonfacility" PFS rate and there would be no payment made directly to the hospital by Medicare.

***HHS Office of Inspector General Recommendations Addressing SNF Billing***

In the HHS, Office of Inspector General's ("OIG's") April 2016 Compendium of Unimplemented Recommendations, OIG cited its prior September 2014 report addressing the need to reform the Medicare payment system for SNF services. In response to its findings that Medicare payments for therapy greatly exceeded SNF's costs for therapy, OIG recommended, among other things, that CMS evaluate the extent to which Medicare payment rates for therapy should be reduced. Similarly, in May 2016, OIG issued a report finding that the improper payment rate for SNF claims increased by 4.10% in FY 2015 (compared to FY 2014) due to insufficient documentation. If followed, these reports and recommendations may impact our tenants and operators.

***Other Related Laws, Initiatives, and Considerations***

On February 12, 2016, CMS published a final rule regarding the obligations of Medicare providers to report and return overpayments arising under Parts A and B. The final rule, which became effective March 14, 2016, implements § 6402(a) of the Affordable Care Act, also known as the "60-day report and return statute," which requires providers to report and return Medicare and Medicaid overpayments within the later of (a) 60 days after the overpayment is "identified," or (b) the date any corresponding cost report is due, if applicable. An overpayment impermissibly retained under this statute could violate the federal False Claims Act and subject providers to potential Medicare and Medicaid program exclusion and penalties under the federal Civil Monetary Penalty statute.

On March 9, 2016, CMS released SNF utilization and payment data around facility costs and services. In its press release, CMS expressed concern that the amount of therapy provided for ultra-high and very high resource utilization groups is often very close to the minimum amount of minutes needed to qualify a patient for these categories. CMS referred the issue to Recovery Auditor Contractors for further investigation. On March 30, 2016, the Department of Justice launched 10 regional Elder Justice Task Forces to coordinate and enhance efforts to pursue nursing homes that provide grossly substandard care to their residents. We cannot predict the extent to which increased monitoring and auditing activities by government agencies may impact our operators.

On June 30, 2016, DOJ issued an interim rule increasing the penalties under the False Claims Act ("FCA") from the current range of $5,500 to $11,000 per false claim, to a new range of $10,781 to $21,562. The interim rule takes effect August 1, 2016, and applies to false claims made after November 2, 2015.

Many of our operators and tenants are subject to federal and state privacy and security laws. There have been increased enforcement efforts under these laws, and we expect this trend to continue. Under the Health Information Technology for Economic and Clinical Health Act ("HITECH"), state attorney generals have the right to prosecute Health Insurance Portability and Accountability Act ("HIPAA") violations committed against residents of their states, and several such actions have been brought to-date. In addition, HITECH mandates that the Secretary of HHS conduct periodic compliance audits of HIPAA covered entities and business associates. On March 21, 2016, the HHS Office of Civil Rights announced the official start of the 2016 Phase 2 HIPAA

Audit Program. Enforcement actions may stem from these audits, including civil monetary penalty fines or monetary settlements, which may impact an operator's ability to meet their financial obligations to us.

**United Kingdom**

***Brexit***

On June 23, 2016, the United Kingdom ("UK") held an "in-or-out referendum" on the UK's membership of the European Union ("EU"), the result of which favored the exit of the UK from the EU ("Brexit"). A process of negotiation will determine the future terms of the UK's relationship with the EU which could take many forms. In the meantime, the UK remains a member of the EU. The potential impact of Brexit is currently unclear, but may include reduced economic growth and volatility, changes to the regulatory environment and uncertainty in the capital markets. We cannot predict whether Brexit will have a material impact on our operators' or tenants' property or business.

***National Minimum Wage***

In the July 2015, Budget the UK government announced that it would introduce the National Living Wage at a premium of 50 pence above the National Minimum Wage to take effect from April 2016. The National Minimum Wage (Amendment) Regulations 2016 came into force on April 1, 2016 ("2016 Regulations"). The 2016 Regulations amend the Regulation of the National Minimum Wage Regulations 2015 to provide a National Living Wage rate of £7.20 an hour for workers aged 25 and over. The current National Minimum Wage for adults of £6.70 will continue to apply for workers aged 21 to 24. The 2016 Regulations also amend the National Minimum Wage Act 1998 by increasing the financial penalty payable by employers who underpay the National Minimum Wage from 100% to 200% of the underpayment due to each worker. The maximum fine for non-payment will be £20,000 per worker and employers who fail to pay will be banned from being a company director for up to 15 years.

***Privacy***

In the EU, data protection is governed by the EU Data Protection Directive 95/46/EC (the "Data Protection Directive"). The Data Protection Directive has been implemented in the UK by the Data Protection Act 1998 (the "Act") which entered into force on March 2000 and is enforced by the Information Commissioner's Office ("ICO").

A new EU General Data Protection Regulation will replace the Data Protection Directive and impose a significant number of new obligations including, among others, a requirement to appoint data protection officers, having detailed documentation on the processing of personal data, carrying out privacy impact assessments in certain circumstances, providing standardized data protection notices, reporting security breaches without undue delay, and providing certain rights to individuals such as a right of erasure of personal data. The EU General Data Protection Regulation is expected to have significant enforcement powers with fines proposed by the European Commission of up to 4% of annual worldwide turnover or €20 million, whichever is greater. The EU General Data Protection Regulation was adopted in May 2016 and will enter into force in EU Member States on May 25, 2018. If the Regulation is adopted, we cannot predict whether it will have a material impact on our operators' or tenants' property or business.

**Canada**

***Licensing and Regulation***

***British Columbia***

The Community Care and Assisted Living Act, the Residential Care Regulation, and the Community Care and Assisted Living Regulation (together, the "B.C. Act") regulate "community care facilities" (long-term care facilities) as premises used for the purpose of supervising vulnerable persons who require three or more prescribed services (from a list that includes regular assistance with activities of daily living; distribution of medication; management of cash resources; monitoring of food intake; structured behavior management and intervention; and psychosocial or physical rehabilitative therapy).

The B.C. Act also creates a separate regime for regulating "assisted living residences," the definition of which changed in May 2016 to facilities providing one or more prescribed care services.

***Quebec***

In Québec, retirement homes are regulated by the Act Respecting Health Services and Social Services and the Regulation required to obtain a certificate of compliance based on operating standards for a private seniors' residence. The required certificate of compliance is issued for a period of four years, is renewable and can only be validly transferred to another person with the written permission of the regional licensing agency.

***Other Legislation***

In Quebec, the Safety Code was amended in December 2015 to require that private seniors' residences be equipped with a fire alarm and detection system, as well as the installation of a sprinkler system in certain private seniors' residences. The amendments came into force March 18, 2016, except regarding the installation of the sprinkler system, which has a five year grace period, and comes into force December 2, 2020.

**Critical Accounting Policies**

Our unaudited consolidated financial statements are prepared in accordance with U.S. GAAP, which requires us to make estimates and assumptions. Management considers an accounting estimate or assumption critical if:

- the nature of the estimates or assumptions is material due to the levels of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and
- the impact of the estimates and assumptions on financial condition or operating performance is material.

Management has discussed the development and selection of its critical accounting policies with the Audit Committee of the Board of Directors. Management believes the current assumptions and other considerations used to estimate amounts reflected in our unaudited consolidated financial statements are appropriate and are not reasonably likely to change in the future. However, since these estimates require assumptions to be made that were uncertain at the time the estimate was made, they bear the risk of change. If actual experience differs from the assumptions and other considerations used in estimating amounts reflected in our unaudited consolidated financial statements, the resulting changes could have a material adverse effect on our consolidated results of operations, liquidity and/or financial condition. Please refer to Note 2 to the financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2015 for further information regarding significant accounting policies that impact us. There have been no material changes to these policies in 2016.

**Cautionary Statement Regarding Forward-Looking Statements**

This Quarterly Report on Form 10-Q may contain "forward-looking" statements as defined in the Private Securities Litigation Reform Act of 1995. When the company uses words such as "may," "will," "intend," "should," "believe," "expect," "anticipate," "project," "estimate" or similar expressions that do not relate solely to historical matters, it is making forward-looking statements. In particular, these forward-looking statements include, but are not limited to, those relating to the company's opportunities to acquire, develop or sell properties; the company's ability to close its anticipated acquisitions, investments or dispositions on currently anticipated terms, or within currently anticipated timeframes; the expected performance of the company's operators/tenants and properties; the company's expected occupancy rates; the company's ability to declare and to make distributions to shareholders; the company's investment and financing opportunities and plans; the company's continued qualification as a real estate investment trust ("REIT"); the company's ability to access capital markets or other sources of funds; and the company's ability to meet its earnings guidance. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that may cause the company's actual results to differ materially from the company's expectations discussed in the forward-looking statements. This may be a result of various factors, including, but not limited to: the status of the economy; the status of capital markets, including availability and cost of capital; issues facing the health care industry, including compliance with, and changes to, regulations and payment policies, responding to government investigations and punitive settlements and operators'/tenants' difficulty in cost-effectively obtaining and maintaining adequate liability and other insurance; changes in financing terms; competition within the health care and seniors housing industries; negative developments in the operating results or financial condition of operators/tenants, including, but not limited to, their ability to pay rent and repay loans; the company's ability to transition or sell properties with profitable results; the failure to make new investments or acquisitions as and when anticipated; natural disasters and other acts of God affecting the company's properties; the company's ability to re-lease space at similar rates as vacancies occur; the company's ability to timely reinvest sale proceeds at similar rates to assets sold; operator/tenant or joint venture partner bankruptcies or insolvencies; the cooperation of joint venture partners; government regulations affecting Medicare and Medicaid reimbursement rates and operational requirements; liability or contract claims by or against operators/tenants; unanticipated difficulties and/or expenditures relating to future investments or acquisitions; environmental laws affecting the company's properties; changes in rules or practices governing the company's financial reporting; the movement of U.S. and foreign currency exchange rates; the company's ability to maintain its qualification as a REIT; and key management personnel recruitment and retention. Other important factors are identified in the company's Annual Report on Form 10-K for the year ended December 31, 2015, including factors identified under the headings

"Business," "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations." Finally, the company undertakes no obligation to update or revise publicly any forward-looking statements, whether because of new information, future events or otherwise, or to update the reasons why actual results could differ from those projected in any forward-looking statements.

## Item 3. *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. We seek to mitigate the underlying foreign currency exposures with gains and losses on derivative contracts hedging these exposures. We seek to mitigate the effects of fluctuations in interest rates by matching the terms of new investments with new long-term fixed rate borrowings to the extent possible. We may or may not elect to use financial derivative instruments to hedge interest rate exposure. These decisions are principally based on our policy to match our variable rate investments with comparable borrowings, but are also based on the general trend in interest rates at the applicable dates and our perception of the future volatility of interest rates. This section is presented to provide a discussion of the risks associated with potential fluctuations in interest rates and foreign currency exchange rates.

We historically borrow on our primary unsecured credit facility to acquire, construct or make loans relating to health care and seniors housing properties. Then, as market conditions dictate, we will issue equity or long-term fixed rate debt to repay the borrowings under our primary unsecured credit facility. We are subject to risks associated with debt financing, including the risk that existing indebtedness may not be refinanced or that the terms of refinancing may not be as favorable as the terms of current indebtedness. The majority of our borrowings were completed under indentures or contractual agreements that limit the amount of indebtedness we may incur. Accordingly, in the event that we are unable to raise additional equity or borrow money because of these limitations, our ability to acquire additional properties may be limited.

A change in interest rates will not affect the interest expense associated with our fixed rate debt. Interest rate changes, however, will affect the fair value of our fixed rate debt. Changes in the interest rate environment upon maturity of this fixed rate debt could have an effect on our future cash flows and earnings, depending on whether the debt is replaced with other fixed rate debt, variable rate debt or equity or repaid by the sale of assets. To illustrate the impact of changes in the interest rate markets, we performed a sensitivity analysis on our fixed rate debt instruments whereby we modeled the change in net present values arising from a hypothetical 1% increase in interest rates to determine the instruments' change in fair value. The following table summarizes the analysis performed as of the dates indicated (in thousands):

| | June 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Principal balance | Change in fair value | Principal balance | Change in fair value |
| Senior unsecured notes | $ 8,120,320 | $ (574,842) | $ 7,965,107 | $ (519,901) |
| Secured debt | 2,657,077 | (89,196) | 2,757,123 | (91,376) |
| Totals | $ 10,777,397 | $ (664,038) | $ 10,722,230 | $ (611,277) |

Our variable rate debt, including our primary unsecured credit facility, is reflected at fair value. At June 30, 2016, we had $2,207,045,000 outstanding under our variable rate debt. Assuming no changes in outstanding balances, a 1% increase in interest rates would result in increased annual interest expense of $22,070,000. At December 31, 2015, we had $2,236,733,000 outstanding under our variable rate debt. Assuming no changes in outstanding balances, a 1% increase in interest rates would have resulted in increased annual interest expense of $22,367,000.

We are subject to currency fluctuations that may, from time to time, affect our financial condition and results of operations. Increases or decreases in the value of the Canadian Dollar or Pounds Sterling relative to the U.S. Dollar impact the amount of net income we earn from our investments in Canada and the United Kingdom. Based solely on our results for the three months ended June 30, 2016, including the impact of existing hedging arrangements, if these exchange rates were to increase or decrease by 10%, our net income from these investments would increase or decrease, as applicable, by less than $350,000. We will continue to mitigate these underlying foreign currency exposures with non-U.S. denominated borrowings and gains and losses on derivative contracts. If we increase our international presence through investments in, or acquisitions or development of, seniors housing and health care properties outside the U.S., we may also decide to transact additional business or borrow funds in currencies other than U.S. Dollars, Canadian Dollars or Pounds Sterling. To illustrate the impact of changes in foreign currency markets, we performed a sensitivity analysis on our derivative portfolio whereby we modeled the change in net present values arising from a hypothetical 1% increase in foreign currency exchange rates to determine the instruments' change in fair value. The following table summarizes the results of the analysis performed (dollars in thousands):

| | June 30, 2016 | | December 31, 2015 | |
|---|---|---|---|---|
| | Carrying Value | Change in fair value | Carrying Value | Change in fair value |
| Foreign currency forward contracts[1] | $ 68,818 | $ 2,731 | $ 117,452 | $ 1,915 |
| Debt designated as hedges | 1,581,879 | 13,000 | 1,728,979 | 13,000 |
| Totals | $ 1,650,697 | $ 15,731 | $ 1,846,431 | $ 14,915 |

(1) Amounts exclude cross currency hedge activity.

For additional information regarding fair values of financial instruments, see “Item 2 — Management’s Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies” and Notes 11 and 16 to our unaudited consolidated financial statements.

### Item 4. *Controls and Procedures*

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”)) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in providing reasonable assurance that information required to be disclosed by us in the reports we file with or submit to the SEC under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC’s rules and forms. No changes in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. *Legal Proceedings*

From time to time, there are various legal proceedings pending to which we are a party or to which some of our properties are subject arising in the normal course of business. We do not believe that the ultimate resolution of these proceedings will have a material adverse effect on our consolidated financial position or results of operations.

### Item 1A. *Risk Factors*

There have been no material changes from the risk factors identified under the heading “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015.

**Item 2.** ***Unregistered Sales of Equity Securities and Use of Proceeds***

Issuer Purchases of Equity Securities

| Period | Total Number of Shares Purchased[1] | Average Price Paid Per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs[2] | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| April 1, 2016 through April 30, 2016 | - | $ - | | |
| May 1, 2016 through May 31, 2016 | 107 | 70.30 | | |
| June 1, 2016 through June 30, 2016 | 9,971 | 76.10 | | |
| Totals | 10,078 | $ 76.04 | | |

(1) During the three months ended June 30, 2016, the company acquired shares of common stock held by employees who tendered owned shares to satisfy tax withholding obligations.

(2) No shares were purchased as part of publicly announced plans or programs.

**Item 5.** ***Other Information***

None.

**Item 6.** ***Exhibits***

10.1 Credit Agreement dated as of May 13, 2016 by and among Welltower Inc., the lenders listed therein, KeyBank National Association, as administrative agent, L/C issuer and a swingline lender, Bank of America, N.A. and JPMorgan Chase Bank, N.A., as co-syndication agents, Deutsche Bank Securities Inc., as documentation agent, Merrill Lynch, Pierce, Fenner & Smith Incorporated, JPMorgan Chase Bank, N.A., KeyBanc Capital Markets Inc. and Deutsche Bank Securities Inc., as U.S. joint lead arrangers, Merrill Lynch, Pierce, Fenner & Smith Incorporated, JPMorgan Chase Bank, N.A., KeyBanc Capital Markets Inc. and RBC Capital Markets, as Canadian joint lead arrangers, and Merrill Lynch, Pierce, Fenner & Smith Incorporated and JPMorgan Chase Bank, N.A., as joint book runners (filed with the Securities and Exchange Commission as Exhibit 10.1 to the company's Form 8-K filed May 16, 2016, and incorporated herein by reference thereto).

10.2 Welltower Inc. 2016 Long-Term Incentive Plan (filed with the Securities and Exchange Commission as Exhibit 10.1 to the company's Form 8-K filed May 10, 2016, and incorporated herein by reference thereto).*

10.3 Welltower Inc. 2016-2018 Long-Term Incentive Program.*

10.4 Transition Agreement, dated as of June 30, 2016, by and between Erin C. Ibele and Welltower Inc.*

12 Statement Regarding Computation of Ratio of Earnings to Fixed Charges and Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends (Unaudited).

31.1 Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.

31.2 Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.

32.1 Certification pursuant to 18 U.S.C. Section 1350 by Chief Executive Officer.

32.2 Certification pursuant to 18 U.S.C. Section 1350 by Chief Financial Officer.

101.INS XBRL Instance Document**

101.SCH XBRL Taxonomy Extension Schema Document**

101.CAL XBRL Taxonomy Extension Calculation Linkbase Document**

101.LAB XBRL Taxonomy Extension Label Linkbase Document**

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document**

101.DEF XBRL Taxonomy Extension Definition Linkbase Document**

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* Management Contract or Compensatory Plan or Arrangement

** Attached as Exhibit 101 to this Quarterly Report on Form 10-Q are the following materials, formatted in XBRL (eXtensible Business Reporting Language): (i) the Consolidated Balance Sheets at June 30, 2016 and December 31, 2015, (ii) the Consolidated Statements of Comprehensive Income for the six months ended June 30, 2016 and 2015, (iii) the Consolidated Statements of Equity for the six months ended June 30, 2016 and 2015, (iv) the Consolidated Statements of Cash Flows for the six months ended June 30, 2016 and 2015 and (v) the Notes to Unaudited Consolidated Financial Statements.

## SIGNATURES

Pursuant to the requirements 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.

**WELLTOWER INC.**

| | |
|---|---|
| Date: August 2, 2016 | By: /s/ THOMAS J. DEROSA<br>Thomas J. DeRosa,<br>Chief Executive Officer<br>(Principal Executive Officer) |
| Date: August 2, 2016 | By: /s/ SCOTT A. ESTES<br>Scott A. Estes,<br>Executive Vice President and Chief Financial Officer<br>(Principal Financial Officer) |
| Date: August 2, 2016 | By: /s/ PAUL D. NUNGESTER, JR.<br>Paul D. Nungester, Jr.,<br>Senior Vice President and Controller<br>(Principal Accounting Officer) |

**EXHIBIT 10.3**

**WELLTOWER INC.**

**2016-2018 LONG-TERM INCENTIVE PROGRAM**

1. **Purpose**. This 2016-2018 Long-Term Incentive Program (the "Program") is adopted pursuant to the Amended and Restated Welltower Inc. 2005 Long-Term Incentive Plan (the "Equity Plan") and any successor equity plan and is intended to provide an incentive for superior work and to motivate executives and employees of Welltower Inc. (the "Company") toward even higher achievement and business results, to tie their goals and interests to those of the Company and its stockholders and to enable the Company to attract and retain highly qualified executives and employees. The Program is for the benefit of Participants (as defined below).

2. **Definitions**. Capitalized terms used herein without definitions shall have the meanings given to those terms in the Equity Plan. In addition, as used herein:

"All REIT Index" means the MSCI US REIT Index

"Annualized TSR Percentage" means (1*(1 + Cumulative TSR))^(1/3) - 1.

"Average Same-Store Cash NOI Growth" means the average same-store cash net operating income growth for the period January 1, 2016 through September 30, 2018, as calculated in accordance with generally acceptable accounting standards.

"Award" means a grant to a Participant hereunder.

"Award Notice" means the restricted stock unit award agreement with a Participant that sets forth the terms, conditions and limitations of the Participant's participation in this Program, including, without limitation, the Participant's Target Award.

"Cause" for termination of the Participant's employment for purposes of Section 6 means (a) if the Participant is a party to an employment agreement with the Company immediately prior to such termination, and "Cause" is defined therein, then "Cause" shall have the meaning set forth in such employment agreement, or (b) if the Participant is not party to an employment agreement with the Company immediately prior to such termination or the Participant's employment agreement does not define "Cause," then "Cause" shall mean: (i) gross negligence or willful misconduct by the Participant in connection with the performance of his or her material duties as an employee of the Company or any Subsidiary; (ii) a breach by the Participant of any of his or her material duties as an employee of the Company or any Subsidiary and the failure of the Participant to cure such breach within 30 days after written notice thereof by the Company or any Subsidiary; (iii) conduct by the Participant against the material best interests of the Company or any Subsidiary or a material act of statutory or common law fraud against the Company, any Subsidiary or the employees of either the Company or any Subsidiary; or (iv) indictment of the Participant of a felony or a misdemeanor involving moral turpitude and such indictment has a material adverse effect on the interests or reputation of the Company or any Subsidiary.

"Change in Corporate Control" shall have the same meaning as set forth in Section 10.1(a) (but substituting "fifty percent (50%)" for "twenty percent (20%)") and Section 10.1(c) of the Equity Plan.

"Code" means the Internal Revenue Code of 1986, as amended.

"Common Stock" means the Company's common stock, par value $1.00 per share, either currently existing or authorized hereafter.

"Common Stock Price" means, as of a particular date, the average of the Fair Market Value of one share of Common Stock over the 20 consecutive trading days ending on, and including such date (or if such date is not a trading day, the most recent trading day immediately preceding such date); provided that, if such date is the date upon which a Transactional Change of Control occurs, the Common Stock Price as of such date shall be equal to the fair value, as determined by the Committee, of the total consideration paid or payable in the transaction resulting in the Transactional Change of Control for one share of Common Stock.

"Cumulative TSR" means ((1*(1 + TSR Year 1)*(1 + TSR Year 2)*(1 + TSR Year 3)) - 1.

“Disability” for termination of the Participant’s employment for purposes of Section 6 means (a) if the Participant is a party to an employment agreement with the Company immediately prior to such termination, and “Disability” is defined therein, then “Disability” shall have the meaning set forth in such employment agreement, or (b) if the Participant is not party to an employment agreement with the Company that defines “Disability,” then “Disability” shall have the same meaning as defined in the Equity Plan.

“Dividend Value” means the aggregate amount of dividends and other distributions paid on one Share for which the record date occurred on or after the first day of the Performance Period and prior to the Issuance Date for the Performance Period (excluding dividends and distributions paid in the form of additional Shares).

“Earned Award” means, with respect to a Participant, the actual number of shares of Restricted Stock that were earned by such Participant pursuant to this Program at the end of the Performance Period.

“Equity Plan” means the Amended and Restated Welltower Inc. 2005 Long-Term Incentive Plan, as amended from time to time.

“Fair Market Value” means, as of any given date, the fair market value of a security which shall be the closing sale price reported for such security on the principal stock exchange or, if applicable, any other national exchange on which the security is traded or admitted to trading on such date on which a sale was reported. If there are no market quotations for such date, the determination shall be made by reference to the last date preceding such date for which there are market quotations.

“Fixed Charge Coverage” means the Company’s fixed charge coverage, as calculated in accordance with generally acceptable accounting standards and measured as of the last quarter of the Performance Period annualized.

“Good Reason” for termination of the Participant’s employment for purposes of Section 6 means (a) if the Participant is a party to an employment agreement with the Company immediately prior to such termination, and “good reason” is defined therein, then “Good Reason” shall have the meaning set forth in such employment agreement, or (b) if the Participant is not party to an employment agreement with the Company immediately prior to such termination and/or the Participant’s employment agreement does not define “Good Reason”: (i) a substantial adverse change, not consented to by the Participant, in the nature or scope of the Participant’s responsibilities, authorities, powers, functions, or duties; (ii) a breach by the Company of any of its material obligations hereunder; or (iii) a material change in the geographic location at which the Participant must perform his or her services. Unless otherwise provided in an employment agreement to which the Participant is a party immediately prior to such termination, to constitute “good reason termination,” the Participant must: (1) provide written notice to the Company within 90 days of the initial existence of the event constituting “Good Reason;” (2) may not terminate his or her employment unless the Company fails to remedy the event constituting “Good Reason” within 30 days after such notice has been given; and (3) the Participant must terminate employment with the Company no later than 30 days after the end of the 30-day period in which the Company fails to remedy the event constituting “Good Reason.”

“Health Care REIT Index” means the NAREIT Health Care REIT Index comprising of Ventas, Inc, HCP, Inc., Omega Healthcare Investors, Senior Housing Properties Trust, Healthcare Trust of America, Inc., Healthcare Realty Trust, National Health Investors, Medical Properties Trust, Community Healthcare Trust, Inc., Care Capital Properties, Sabra Health Care REIT, LTC Properties, New Senior Investment Group, Physicians Realty Trust, Universal Health Realty Income and Care Trust REIT, but specifically excluding the Company. Any health care REIT organization that is not in existence for the entire Performance Period shall be omitted from this index.

“Index Return” means, with respect to the Performance Period, the compounded annualized return of the either the Health Care REIT Index, or the All REIT Index, as applicable, over the Performance Period expressed as a percentage. For the avoidance of doubt, the intent of the Committee is that Index Return over the Performance Period be calculated in a manner designed to produce a fair comparison between the Company’s Annualized TSR Percentage and the Index Return for the purpose of determining Relative Performance. In the case of the Health Care REIT Index, the Index Return shall be calculated by a non-weighted comparison of all the companies that comprise the Health Care REIT Index as of program commencement.

“Participant” means an executive or employee of the Company or any Subsidiary selected by the Compensation Committee to participate in the Program.

“Performance Peers” means HCP, Inc., Ventas, Inc., Healthcare Trust of America, Inc., Healthcare Realty Trust Incorporated and Sabra Health Care REIT, Inc.

"Performance Period" means the period commencing on January 1, 2016 and concluding on the earlier of (i) December 31, 2018, or (ii) a Change in Corporate Control.

"Program" means this Welltower Inc. 2016-2018 Long-Term Incentive Program, as amended from time to time.

"Qualified Termination" means termination of a Participant's employment for Good Reason, by reason of the Participant's death, Disability, by the Company without Cause, Retirement and in the case of a Participant who is party to an employment agreement with the Company, a non-renewal by the Company of the term of such agreement.

"Relative Performance" means the Annualized TSR Percentage relative to the applicable Index Return.

"Relative Same-Store Cash NOI Growth" means the differential between the Company's Average Same-Store Cash NOI Growth and the Performance Peer Group's Average Same-Store Cash NOI Growth for the same period.

"Retirement" means the voluntary termination of employment by a Participant after attaining age 55, completing ten consecutive years of service and if the sum of the Participant's age and years of service to the Company is equal to 70 or more; provided that the Participant (a) delivers to the Company, at least six months prior to the date of his or her retirement, written notice specifying such retirement date and the Participant remains in the continuous service of the Company from the date the notice is provided until his or her retirement date, and (b) enters into a retirement agreement with the Company that includes (i) a customary release of claims against the Company and its affiliates and (ii) non-competition, non-solicitation, non-disparagement and non-disclosure covenants in favor of the Company.

"Target Award" means a Participant's target award, expressed in numbers of Restricted Stock Units, for the Performance Period, as set forth in the Participant's Award Notice.

"Total Shareholder Return" or "TSR" means the compounded annual growth rate, expressed as a percentage (rounded to the nearest tenth of a percent (0.1%)), in the value per share of Common Stock during the Performance Period due to the appreciation in the price per share of Common Stock and dividends paid during the Performance Period, assuming dividends are reinvested. Total Shareholder Return or TSR for any 12-month period shall be calculated as follows: (i) the Common Stock Price at the end of the period plus dividends paid during the 12-month period divided by (ii) the Fair Market Value of the Common Stock at the beginning of the period, minus (iii) 1. As set forth in, and pursuant to, Section 8 of this Agreement, appropriate adjustments to the Total Shareholder Return shall be made to take into account all stock dividends, stock splits, reverse stock splits and the other events set forth in Section 8 that occur during the Performance Period.

"Transactional Change of Control" means a Change in Corporate Control resulting from any person or group making a tender offer for Common Stock, a merger or consolidation where the Company is not the acquirer or surviving entity or consisting of a sale, lease, exchange or other transfer to an unrelated party of all or substantially all of the assets of the Company.

"Valuation Date" means the earlier of (a) December 31, 2018, or (b) the date upon which a Change of Control shall occur.

3. **Administration**

(a) The Program shall be administered by the Compensation Committee in accordance with the Equity Plan. The Compensation Committee shall have the discretionary authority to make all determinations (including, without limitation, the interpretation and construction of the Program and the determination of relevant facts) regarding the entitlement to any Award hereunder and the amount of any Award to be paid under the Program (including the number of shares of Restricted Stock issuable to any Participant), provided such determinations are made in good faith and are consistent with the terms, purpose and intent of the Program. In particular, but without limitation and subject to the foregoing, the Compensation Committee shall have the authority:

(i) to select Participants under the Program;

(ii) to determine the Target Award and any formula or criteria for the determination of the Target Award for each Participant and to determine the Earned Award;

(iii) to determine the terms and conditions, consistent with the terms of this Program, which shall govern Award Notices and all other written instruments evidencing an Award hereunder, including the waiver or modification of any such conditions;

(iv) to adopt, alter and repeal such administrative rules, guidelines and practices governing the Program as it shall from time to time deem advisable; and

(v) to interpret the terms and provisions of the Program and any Award granted under the Program (and any Award Notices or other agreements relating thereto) and to otherwise supervise the administration of the Program.

(b) Subject to the terms hereof, all decisions made by the Compensation Committee in good faith pursuant to the Program shall be final, conclusive and binding on all persons, including the Company and the Participants. No member of the Compensation Committee, nor any officer or employee of the Company acting on behalf of the Compensation Committee, shall be personally liable for any action, determination, or interpretation taken or made in good faith with respect to this Program, and all members of the Compensation Committee and each and any officer or employee of the Company acting on their behalf shall, to the extent permitted by law, be fully indemnified and protected by the Company in respect of any such action, determination or interpretation.

4. **Determination of Awards**

(a) Each Participant's Award Notice shall specify such Participant's Target Award.

(b) The percentage of a Participant's Target Award that may be earned for the Performance Period shall be determined as follows: 35 percent of the Target Award shall be earned based on the Company's Relative Performance to the Health Care REIT Index; 15 percent of the Target Award shall be earned based on the Company's Relative Performance to the All REIT Index; 15 percent of the Target Award shall be earned based on the Company's Annualized TSR Percentage; 20 percent of the Target Award shall be earned based on the Company's Fixed Charge Coverage; and 15 percent of the Target Award shall be earned based on the Company's New Strategic Initiatives; and as further set forth on Exhibit A.

(c) Depending on the weighted average score for the Company's performance during the Performance Period as determined pursuant to Exhibit A, the percentage of a Participant's Target Award that may be earned for the Performance Period shall be determined as follows:

| Threshold | Target | High | Extraordinary |
|---|---|---|---|
| 50% | 100% | 125% | 150% |

For performance between two different tiers, the percentage payable shall be calculated using interpolation between tiers.

Except as otherwise provided herein, the Earned Award shall be settled in shares of Restricted Stock subject to additional vesting requirements as set forth in Section 7.

5. **Change in Corporate Control**. In the event that prior to the end of the Performance Period, a Change in Corporate Control occurs, then each outstanding Award will be deemed earned as of the date of such Change in Corporate Control in accordance with the computation described in Section 4(b) as if the Performance Period ended on the day prior to the consummation of the Change in Corporate Control except that corporate metrics not tied to TSR shall be calculated based on the results through the most recent quarter, but each Award shall further be multiplied by a fraction, the numerator of which shall be the number of full and partial months from the beginning of the Performance Period through the Change in Corporate Control and the denominator of which shall be 36. Any shares of Common Stock issued to satisfy outstanding Earned Awards shall be fully vested and nonforfeitable.

6. **Termination of Participant's Employment**.

(a) If a Participant's employment with the Company terminates, the provision of this Section 6 shall govern the treatment of the Participant's Award exclusively, regardless of the provision of any employment, change in control or other agreement or arrangement to which the Participant is a party, or any termination or severance policies of the Company then in effect, which shall be superseded by this Program.

(b) In the event of termination of a Participant's employment by reason of a Qualified Termination prior to the end of the Performance Period, then the Compensation Committee shall determine the Participant's outstanding Award in accordance with the computation described in Section 4(b) as if the Performance Period ended on the calendar quarter end immediately preceding the date of the Participant's Qualified Termination; provided, however, that the Earned Award of such terminated Participant for the

Performance Period shall be multiplied by a fraction, the numerator of which shall be the number of full and partial months in which the Participant was employed by the Company in the Performance Period and the denominator of which shall be 36. The pro-rated Earned Award shall be paid out in shares of Common Stock that are not subject to any risk of forfeiture. Such terminated Participant shall also receive a cash payment in an amount determined pursuant to the provisions of Section 7(b) but taken into account only dividends paid through the date of the Qualified Termination.

(c) In the event of termination of a Participant's employment by reason of a Qualified Termination after the end of the Performance Period, any Restricted Stock granted to the Participant under this Program shall become fully vested and nonforfeitable.

(d) In the event of a termination of a Participant's employment for any reason other than a Qualified Termination prior to the end of the Performance Period, except as otherwise set forth in the Participant's Award Notice, the Award held by the Participant for the Performance Period shall, without payment of any consideration by the Company, automatically and without notice terminate, be forfeited and be and become null and void, and neither the Participant nor any of his or her successors, heirs, assigns, or personal representatives will thereafter have any further rights or interests in such Award. In the event of a termination of a Participant's employment for any reason other than a Qualified Termination after the end of the Performance Period, any shares of Restricted Stock granted under Section 7 that remain subject to risk of forfeiture shall be forfeited.

7. **Payment of Awards**.

(a) As soon as practicable following the end of the Performance Period, the Compensation Committee shall determine the size of each Participant's Earned Award, if any, with respect to the Performance Period (with the date of such determination being referred to as the "Issuance Date"). In no event shall the Issuance Date with respect to the Performance Period be later than 74 days after the end of the Performance Period; provided that (i) in the case of the Performance Period that ends upon a Change in Corporate Control, the Issuance Date shall be no later than immediately prior to the consummation of the Change in Corporate Control, and (ii) in the case of a determination required by Section 6(b), the Issuance Date shall be no later than 74 days after the date of the Participant's Qualified Termination.

(b) On the Issuance Date, the Company shall issue to each Participant (or such Participant's estate or beneficiary, if applicable) a number of shares of Restricted Stock equal to the Earned Award. Except as otherwise provided in Sections 5 and 6, one-third of such shares shall be immediately vested and nonforfeitable, one-third of such shares shall become fully vested and nonforfeitable on December 31, 2019, and one-third of such shares shall become fully vested and nonforfeitable on December 31, 2020, subject to continued employment of the Participant through each such date. On the Issuance Date for the Performance Period, the Company shall also pay in cash to each Participant (or such Participant's estate or beneficiary, if applicable) an amount equal to the Dividend Value for the Performance Period multiplied by the number of shares issued pursuant to this Section 7(b).

8. **Adjustments**. Without duplication with the provisions of Section 3 of the Equity Plan, if (i) the Company shall at any time be involved in a merger, consolidation, dissolution, liquidation, reorganization, exchange of Shares, sale of all or substantially all of the assets or Shares of the Company or a transaction similar thereto, (ii) any stock dividend, stock split, reverse stock split, stock combination, reclassification, recapitalization, or other similar change in the capital structure of the Company, or any distribution to holders of Shares other than ordinary cash dividends, shall occur or (iii) any other event shall occur which in the judgment of the Compensation Committee necessitates action by way of adjusting the terms of the Program, then and in that event, the Compensation Committee shall take such action as shall be necessary to maintain the Participants' rights hereunder so that they are substantially the same rights existing under this Program prior to such event.

9. **Restrictions and Conditions**. Subject to the provisions of the Equity Plan and this Program, except as may otherwise be permitted by the Compensation Committee, a Participant shall not be permitted voluntarily or involuntarily to sell, assign, transfer, or otherwise encumber or dispose of the Restricted Stock or an Award; provided that the foregoing restriction shall not apply to Shares actually issued to a Participant pursuant to Section 7 above that are no longer subject to a risk of forfeiture.

10. **Withholding of Tax**. Each Participant shall, not later than the date as of which vesting or payment in respect of an Award becomes a taxable event for Federal income tax purposes, pay to the Company or make arrangements satisfactory to the Company for payment of any Federal, state and local taxes required by law to be withheld on account of such taxable event. The Company shall have the authority to cause the required minimum tax withholding obligation to be satisfied by withholding a number of Shares to be issued to a Participant with an aggregate Fair Market Value that would satisfy the withholding amount due. The Company's obligation to deliver stock certificates (or evidence of book entry) to any Participant is subject to and conditioned on tax withholding obligations being satisfied by such Participant.

11. **Miscellaneous.**

(a) Amendment and Termination. The Company reserves the right to amend or terminate the Program at any time in its discretion without the consent of any Participant, but no such amendment shall adversely affect the rights of the Participants with regard to outstanding Awards.

(b) No Contract for Continuing Services. This Program shall not be construed as creating any contract for continued services between the Company or any of its Subsidiaries and any Participant and nothing herein contained shall give any Participant the right to be retained as an employee or consultant of the Company or any of its Subsidiaries.

(c) Governing Law. The Program and each Award Notice awarded under the Program shall be construed in accordance with and governed the laws of the State of Ohio, without regard to principles of conflict of laws of such state.

(d) Construction. Wherever appropriate, the use of the masculine gender shall be extended to include the feminine and/or neuter or vice versa; and the singular form of words shall be extended to include the plural; and the plural shall be restricted to mean the singular.

(e) Headings. The Section headings and Section numbers are included solely for ease of reference. If there is any conflict between such headings or numbers and the text of this Program, the text shall control.

(f) Effect on Other Plans. Nothing in this Program shall be construed to limit the rights of Participants under the Company's or its Subsidiaries' benefit plans, programs or policies.

(g) Clawback Policy. All Awards granted under this Program shall be subject to forfeiture (as determined by the Compensation Committee) in accordance with the terms of the Company's clawback or recoupment policy (as in effect from time to time).

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**EXHIBIT 10.4**

**TRANSITION AGREEMENT**

This Transition Agreement (this "Agreement") is made as of June 30, 2016 by and between Erin C. Ibele ("Executive") and Welltower Inc., a Delaware corporation (the "Company").

WHEREAS, Executive and the Company entered into the Third Amended and Restated Employment Agreement, dated as of December 29, 2008 (the "Employment Agreement") and Executive currently serves as the Company's Executive Vice President, Head of Human Capital and Corporate Secretary;

WHEREAS, Executive and the Company have agreed that Executive will resign from her current position with the Company on June 30, 2016 (the "Transition Date") but remain employed by the Company in the capacity of President of the Welltower Foundation; and

WHEREAS, the Company and Executive desire to set forth the terms and conditions of Executive's proposed transition of employment to provide for an orderly transition of Executive's duties, loyalty and responsibilities.

NOW, THEREFORE, in consideration of the promises and mutual covenants herein contained, the parties agree with each other as follows:

**1. TRANSITION DATE**.

a. Effective as of the Transition Date, Executive hereby resigns her positions as Executive Vice President, Head of Human Capital and Corporate Secretary and relinquishes all of Executive's authority and responsibilities with respect to those positions. Effective as of the Transition Date, Executive also hereby resigns all other positions Executive holds (i) with the Company other than as a non-executive employee of the Company, (ii) with any of the Company's direct and indirect subsidiaries and/or affiliates, other than with respect to the Welltower Foundation, or (iii) with any other organization as to any position held at the request of or for the benefit of the Company. Executive agrees to take any additional necessary steps and sign any additional documentation that may be reasonably requested by the Company in order to give full effect or confirmation of such resignations.

b. The Employment Agreement will terminate as of the Transition Date.

c. Executive acknowledges and agrees that no action taken by the Company pursuant to, or otherwise consistent with, this Agreement (including, without limitation, the changes to compensation and Executive's role with the Company on the Transition Date) will constitute "Good Reason" as defined in the Employment Agreement.

d. As of the Transition Date, Executive will have no authority or power to bind the Company or to represent the Company in relation to third parties or to represent to third parties that Executive has authority or power to bind the Company or represent the Company, except as required for her duties as President of the Welltower Foundation.

**2. PAYMENTS UPON TRANSITION**. The following payments and benefits (to which Executive would not otherwise be entitled) are being offered in consideration for Executive's execution and delivery of this Agreement, including the release set forth in Section 7, and it becoming effective and irrevocable in accordance with its terms and Section 3 and Section 8 of this Agreement, and are subject to Executive's compliance with the covenants and other obligations set forth in Section 6 of this Agreement, all of which must be satisfied in full in order for the payments and other benefits set forth below in this Section 2 to be earned.

a. A lump-sum payment equal to $826,168. Such amount, adjusted as needed to reflect the interest rate on 90-day Treasury bills, as reported in The Wall Street Journal (or similar publication) on the Transition Date in accordance with Section 5(a) of the Employment Agreement, will be paid in a lump sum on the next regularly scheduled payroll date following fifteen (15) days after the release set forth in Section 7 has become effective and irrevocable, subject to any delay as required by law as outlined in Section 10 of this Agreement.

b. An amount equal to $357,000, representing Executive's target annual bonus for 2016, shall be paid to Executive in a lump sum, less applicable deductions, on the date on which other executives of the Company are paid annual bonuses for 2016, but no later than March 15, 2017.

c. All stock options, restricted stock or other awards with time-based vesting granted to Executive under any deferred compensation, incentive or other benefit plan maintained by the Company shall become fully vested and earned and payable on the Transition Date, and in the case of stock options, exercisable in full for a period not to exceed the shorter of (i) one year following the Transition Date or (ii) the maximum term of the applicable option, and all other awards with performance-based vesting granted to the Executive under any deferred compensation, incentive or other benefit plan maintained by the Company shall become vested as provided in this Section 2(c). Attached hereto as Attachment A is a list of all of Executive's outstanding stock options, restricted stock or other awards with time-based or performance based-vesting under any deferred compensation, incentive or other benefit plan maintained by the Company (the "Existing Equity Awards"). Executive represents that Attachment A is a correct and complete list of her Existing Equity Awards on the date of this Agreement. The Existing Equity Awards with performance-based vesting conditions shall be treated as follows:

i. For purposes of Executive's Performance Restricted Stock Unit Award granted under the Company's 2015-2017 Long-Term Incentive Program (the "2015-2017 LTIP"), Executive shall be deemed to have had a termination of employment by reason of a Qualified Termination on Executive's Transition Date. Accordingly, Executive shall be entitled to receive a lump sum payment in shares of the Company's common stock as if the performance period had ended on June 30, 2016, determined and prorated in accordance with the terms of the 2015-2017 LTIP. Executive shall also receive a cash payment equal to the value of accrued dividend equivalents on such shares for the same period. The Company will permit Executive to elect on or prior to the Transition Date to have the required minimum tax withholding obligation to be satisfied by withholding a number of shares to be issued to Executive with an aggregate fair market value sufficient to satisfy the withholding amount due.

ii. For purposes of Executive's Performance Restricted Stock Unit Award under the Company's 2016-2018 Long-Term Incentive Program (the "2016-2018 LTIP"), Executive shall be deemed to have had a termination of employment by reason of a Qualified Termination on Executive's Transition Date. Accordingly, Executive shall be entitled to receive a lump sum payment in shares of the Company's common stock as if the performance period had ended on June 30, 2016, determined and prorated in accordance with the terms of the 2016-2018 LTIP. Executive shall also receive a cash payment equal to the value of accrued dividend equivalents on such shares for the same period. The Company will permit Executive to elect prior to December 31, 2018 to have the required minimum tax withholding obligation to be satisfied by withholding a number of shares to be issued to Executive with an aggregate fair market value sufficient to satisfy the withholding amount due.

d. An amount equal to Executive's accrued, unused PTO through the Transition Date, less applicable withholdings. Such amount will be paid in a lump sum on the next regularly scheduled payroll date following fifteen (15) days after the release set forth in Section 7 has become effective and irrevocable.

**3. CONDITIONS OF PAYMENTS.**

a. If this Agreement does not become effective and irrevocable by its terms no later than Friday, July 29, 2016, the Company will have no obligation to make the payments or provide the benefits set forth in Section 2, Section 4 or Section 5 of this Agreement and Executive will not be entitled to receive any payments or benefits under this Agreement.

b. Clawback. If it is decided by a court of law or an arbitrator that Executive has breached any of her obligations, covenants or representations under Section 6 of this Agreement, (i) the Company shall have the right to terminate Executive's employment for Cause (as defined below) and the obligations to provide the payments and benefits under Section 2, Section 4 and Section 5 of this Agreement will immediately cease, (ii) the Company will be entitled to recover the full amount paid under Section 2 and Section 5 of this Agreement and to obtain all other remedies provided by law or in equity, and (iii) Executive shall promptly reimburse the Company the full, pre-tax amount of any payments made under Section 2 and Section 5 of this Agreement.

**4. EMPLOYMENT FOLLOWING TRANSITION DATE.**

a. Transition Period. Subject to Section 3 of this Agreement, commencing as of the Transition Date, Executive shall continue employment with the Company and shall provide services solely as President of the Welltower Foundation through the earliest of (i) December 31, 2017, (ii) Executive's resignation of employment for any reason, (iii) the Company's termination of Executive's employment for Cause (as defined below), (iv) the Company's termination of Executive's employment without Cause, or (v) Executive's death or permanent disability (as defined in the Company's long-term disability policy) (the "Transition Period"). If Executive continues to serve as President of the Welltower Foundation through December 31, 2017, the Company and Executive may

agree that Executive may continue to provide services to the Company as shall be mutually agreed between the parties, but there will be no automatic successive employment periods following December 31, 2017.

For purposes of this Agreement, the term "Cause" shall be limited to (i) action by Executive involving willful disloyalty to the Company, such as embezzlement, fraud, misappropriation of corporate assets or a breach of the covenants set forth in Section 6 below; or (ii) Executive being convicted of a felony; or (iii) Executive being convicted of any lesser crime or offense committed in connection with the performance of her duties hereunder or involving moral turpitude; or (iv) the intentional and willful failure by Executive to substantially perform her duties hereunder as directed by the Company (other than any such failure resulting from Executive's incapacity due to physical or mental disability) after a demand for substantial performance is made on the Executive by the Company's CEO.

b. Scope of Services. During the Transition Period, Executive shall devote such percentage of her business time and effort to the performance of her services as President of the Welltower Foundation as may be mutually agreed upon by the Company and Executive, not exceeding 20 hours per month. Except as otherwise provided in Section 6 of this Agreement, Executive's obligations hereunder will not preclude Executive from performing services for an unaffiliated third party so long as the performance of such services does not interfere with Executive's performance of services hereunder. Neither party expects that Executive will provide services to the Company in the future at a level that exceeds the level set forth in this Section 4(b) and it is the parties' intent that Executive will have experienced a "separation from service" as defined in Section 409A of the Code no later than the Transition Date. During the Transition Period, Executive shall be afforded office space and administrative support as the Company may reasonably determine is necessary or desirable for Executive's performance of her services. The Company shall reasonably accommodate Executive's schedule and whenever possible provide at least two (2) weeks advance notice for any travel required by the Company in connection with the performance of her services hereunder.

c. Compensation. Executive shall receive a base salary during the Transition Period of a rate not less than $140,000 per annum, payable in substantially equal semi-monthly installments in accordance with the Company's standard payroll practices. Executive will not be eligible to receive an annual bonus from the Company during the Transition Period.

d. Benefits. During the Transition Period, Executive will continue to participate in the group medical, dental and vision plans (as in effect from time to time) sponsored by the Company (each, a "Company Plan") for which she is eligible. Notwithstanding the foregoing, Executive's portion of the premiums for participation in the Company's group health plans for which Executive is eligible will be on a post-tax basis and the Company's portion of any premiums will be treated as taxable income to Executive if necessary to avoid adverse tax consequences to Executive resulting from the application of Section 105(h) of the Internal Revenue Code of 1986, as amended (the "Code"). Executive shall also be eligible to continue participation in any other employee benefit plan sponsored by the Company in which she is eligible to participate by the terms of such plan. Executive shall not be eligible to accrue PTO during the Transition Period. The Company shall also reimburse Executive for the cost of the premium payment due in early 2017 for renewal of Executive's supplemental life insurance policy with North American Company for Life and Health Insurance to be pro-rated through the end of the Transition Period. The Company shall also pay for the cost of the Executive's annual physical exam conducted on or before January 31, 2017 in accordance with the terms of the Company's policy on executive annual physicals.

e. Except as otherwise expressly provided in this Agreement, all other personal benefits, fringe benefits and perquisites shall cease as of the Transition Date. Except as set forth in Section 5 of this Agreement, Executive shall not be eligible for severance benefits at such time her employment terminates.

**5. PAYMENTS UPON TERMINATION OF TRANSITION PERIOD**

a. The following payments (to which Executive would not otherwise be entitled) are being offered in consideration for Executive's execution and delivery of this Agreement and for Executive's (or the Executive's estate's) execution and delivery of a Release of Claims attached hereto as Attachment B (the "Transition Period Termination Release"), and it becoming effective by the twenty-eighth ($28^{th}$) day following the end of the Transition Period (or such later period as may be required by law in order to make the Transition Period Termination Release fully effective), and is subject to Executive's compliance with the covenants and other obligations set forth in Section 3 and Section 6 of this Agreement, all of which must be satisfied in full in order for the payments and other benefits set forth below in this Section 5(a) to be earned. The following payments shall not be payable in the event Executive's employment is terminated during the Transition Period for "Cause" (as defined above).

i. A lump sum payment in shares of the Company's common stock equal to the difference between (A) the number of shares that the Executive would have been eligible to receive under the 2015-2017 LTIP based on actual performance had Executive continued employment with the Company through December 31, 2017 and (B) the number of shares paid to Executive pursuant to Section 2(c)(i) of this Agreement. Executive shall also receive a cash payment equal to the value of accrued dividend equivalents on such shares for the performance period. Such amount shall be payable within 30 days after the date the Compensation Committee of the Board certifies the performance goals under the 2015-2017 LTIP, but in all events no later than March 15, 2018.

ii. A lump sum payment in shares of the Company's common stock equal to the difference between (A) the number of shares that the Executive would have been eligible to receive under the 2016-2018 LTIP based on actual performance had Executive continued employment with the Company through December 31, 2018 and (B) the number of shares paid to Executive pursuant to Section 2(c)(ii) of this Agreement. Executive shall also receive a cash payment equal to the value of accrued dividend equivalents on such shares for the performance period. Such amount shall be payable within 30 days after the date the Compensation Committee of the Board certifies the performance goals under the 2016-2018 LTIP, but in all events no later than March 15, 2019.

iii. In lieu of outplacement benefits, a lump sum payment in the amount of $15,000, payable on the next regularly scheduled payroll date following fifteen (15) days after the Transition Period Termination Release has become effective and irrevocable, subject to any delay as required by law as outlined in Section 10 of this Agreement.

iv. If Executive's employment is terminated by the Company without Cause during the Transition Period, then Executive will also be entitled to receive the following payments and benefits:

(A) a lump sum severance payment equal to an amount equal to $11,666.67 for each month remaining in the Transition Period; and

(B) continued coverage at the Company's expense under any group health plan maintained by the Company in which Executive participated at the time of her termination for the remaining term of the Transition Period, or until, if earlier, the date Executive obtains comparable coverage under benefit plans maintained by a new employer. With respect to continued health insurance coverage, the Company shall pay applicable premiums under the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended ("COBRA") for Executive and those of her dependents covered immediately prior to the date her employment terminates under the Company's group healthcare plan, assuming Executive timely elects COBRA continuation coverage. Executive agrees that the Company may impute income to Executive for the cost of Company-paid health coverage premiums if necessary to avoid adverse income tax consequences to Executive resulting from the application of Section 105(h) of Code to the Company's payment of such premiums.

b. If the Transition Period Termination Release is not executed and effective by the twenty-eighth ($28^{th}$) day following the end of the Transition Period (or such later period as may be required by law in order to make the Transition Period Termination Release fully effective) or if Executive fails to fulfill Executive's representations, agreements, and commitments as set forth or referenced in this Agreement, the Company will have no obligation to make, and Executive will not be entitled to receive, the additional payments set forth in this Section 5.

**6. COVENANTS BY EXECUTIVE**.

a. Non-Competition. As the Company's Executive Vice President, Head of Human Capital and Corporate Secretary, as well as through other positions Executive may have held with the Company and its affiliates, Executive has obtained extensive and valuable knowledge and information concerning the Company's business (including confidential information relating to the Company and its operations, intellectual property, assets, contracts, customers, personnel, plans, marketing plans, research and development plans and prospects). Executive acknowledges and agrees that it would be impossible for Executive to work as an employee, consultant or advisor in any business which competes with the Company in the business of (i) ownership and operation of Health Care Facilities (defined below); (ii) investment in or lending to health care related enterprises (including, without limitation, owners or developers of Heath Care Facilities); (iii) management of Health Care Facilities; or (iv) provision of any planning or development services for Health Care Facilities (individually, and in the aggregate, the "Company Business"), without inevitably disclosing confidential and proprietary information belonging to the Company. Accordingly, from the Transition Date until the later of (x) one year following the Transition Date and (y) the expiration or termination of the Transition Period, Executive will not, directly or indirectly, provide services, whether as an employee, consultant, independent contractor, agent, sole proprietor, partner, joint

venturer, corporate officer or director, on behalf of any corporation, limited liability company, partnership, or other entity or person or successor thereto that is engaged in the Company Business, anywhere in the world (a "Competitive Business"), provided that nothing in this provision shall restrict Executive from Executive's passive ownership of up to 2% of a publicly traded stock in one or more companies engaged in a Competitive Business. For purposes of this Agreement, "Health Care Facilities" means any senior housing facilities or facilities used or intended primarily for the delivery of health care services, including, without limitation, any active adult communities, independent living facilities, assisted living facilities, skilled nursing facilities, inpatient rehabilitation facilities, ambulatory surgery centers, medical office buildings, hospitals of any kind, or any similar types of facilities or projects. Executive hereby represents and warrants that she has not breached any of her obligations under Section 10 of her Employment Agreement.

b. Non-Solicitation. From the Transition Date until the later of (i) one year following the Transition Date and (ii) the expiration of the Transition Period, Executive will be prohibited, to the fullest extent allowed by applicable law, from directly or indirectly, individually or on behalf of persons or entities not now parties to this Agreement, encouraging, inducing, attempting to induce, recruiting, attempting to recruit, soliciting or attempting to solicit or participating in any way in hiring or retaining for employment, contractor or consulting opportunities anyone who is employed at that time by the Company or any subsidiary or affiliate.

c. Protection of Confidential Information. Executive hereby agrees that, during her employment with the Company and thereafter, she shall not, directly or indirectly, disclose or make available to any person, firm, corporation, association or other entity for any reason or purpose whatsoever, any Confidential Information (as defined below). Executive further agrees that, upon the Transition Date, all Confidential Information in her possession that is in written or other tangible form shall be returned to the Company and shall not be retained by Executive or furnished to any third party, in any form except as provided herein. Notwithstanding the foregoing, this Section 6(c) shall not apply to Confidential Information that (i) was publicly known at the time of disclosure to Executive, (ii) becomes publicly known or available thereafter other than by any means in violation of this Agreement or any other duty owed to the Company by Executive, (iii) is lawfully disclosed to Executive by a third party, or (iv) is required to be disclosed by law or by any court, arbitrator or administrative or legislative body with actual or apparent jurisdiction to order Executive to disclose or make accessible any information or is voluntarily disclosed by Executive to law enforcement or other governmental authorities. Furthermore, in accordance with the Defend Trade Secrets Act of 2016, Executive will not be held criminally or civilly liable under any federal or state trade secret law for the disclosure of a trade secret that (x) is made (i) in confidence to a federal, state or local government official, either directly or indirectly, or to an attorney; and (ii) solely for the purpose of reporting or investigating a suspected violation of law; or (y) is made in a complaint or other document filed in a lawsuit or other proceeding, if such filing is made under seal. As used in this Agreement, Confidential Information means, without limitation, any non-public confidential or proprietary information disclosed to Executive or known by Executive as a consequence of or through Executive's relationship with the Company, in any form, including electronic media. Confidential Information also includes, but is not limited to the Company's business plans and financial information, marketing plans, and business opportunities. Nothing herein shall limit in any way any obligation Executive may have relating to Confidential Information under any other agreement or promise to the Company. Executive hereby represents and warrants that she has not breached any of her obligations under Section 9 of her Employment Agreement.

d. Non-Disparagement. Executive will not make or direct anyone else to make on Executive's behalf any disparaging or untruthful remarks or statements, whether oral or written, about the Company, its operations or its products, services, affiliates, officers, directors, employees, or agents, or issue any communication that reflects adversely on or encourages any adverse action against the Company. Executive will not make any direct or indirect written or oral statements to the press, television, radio or other media or other external persons or entities concerning any matters pertaining to the business and affairs of the Company, its affiliates or any of its officers or directors. The Company agrees not to cause, and shall direct its officers or senior executives not to make on its behalf any disparaging or untruthful remarks or statements about Executive's employment with the Company following the Transition Date. The restrictions described in this section shall not apply to any truthful statements made in response to a subpoena or other compulsory legal process or to law enforcement or other governmental authorities.

e. Return of Company Property. On or before the Transition Date, and as a condition to Executive's receipt of consideration payable under Section 2 of this Agreement, Executive shall have returned to the Company all hard and soft copies of records, lists, books, documents, materials, software, and files in her possession or control, whether recorded, written or computer readable, which contain or relate to Confidential Information or sensitive information obtained by Executive in conjunction with her employment with the Company. Executive agrees that she will not keep any copies or excerpts of any of the above items. Notwithstanding the foregoing, Executive may retain her list of personal contacts and any other property that the Company determines is necessary in order for her to perform her duties during the Transition Period, including, but not limited to, keys, phones, mobile devices, laptops and parking permits.

f. Cooperation. Executive will fully cooperate with the Company in all matters relating to her employment, including the winding up of work performed in Executive's prior positions and the orderly transition of such work to other Company employees. Executive shall assist the Company, in connection with any litigation, investigation or other matter involving Executive's tenure as an employee, officer or director of the Company, including, but not limited to, attending meetings with Company representatives and counsel and giving truthful testimony in any legal proceeding involving the Company. The Company will reimburse Executive for reasonable out-of-pocket expenses incurred in rendering such assistance to the Company (including attorney's fees that may be incurred in accordance with the applicable provisions of the Company's Bylaws and Certificate of Incorporation), and will provide such reimbursement no later than ninety (90) days following the Company's receipt of supporting documentation of incurrence of these expenses.

g. Restrictions on Sale of Company Shares. Executive agrees that from the Transition Date until the end of the Transition Period, Executive will be subject to the same provisions of the Company's Insider Trading Policy as any person who is then a non-executive employee. Furthermore, from the Transition Date until the end of the Transition Period, Executive will not sell any shares of the Company's common stock except during "open trading window" periods in compliance with such policy.

h. For the avoidance of doubt, any breach of Section 6(a) through 6(g) of this Agreement shall constitute a material breach of this Agreement. Notwithstanding Section 9 of this Agreement, the parties agree that damages would be an inadequate remedy for the Company in the event of a breach or threatened breach by Executive of Section 6(a), 6(b), 6(c) and 6(e), or for the Company or Executive in the event of a breach or threatened breach of Section 6(d). In the event of any such breach or threatened breach, the non-breaching party may, either with or without pursuing any potential damage remedies and without being required to post a bond, obtain from a court of competent jurisdiction, and enforce, an injunction prohibiting the other party from violating this Agreement and requiring the other party to comply with the terms of this Agreement. Executive acknowledges that the Company may present this Agreement to any third party with which the Executive has accepted employment, or otherwise entered into a business relationship, that the Company contends violates this Section 6, if the Company has reason to believe Executive has or may have breached this Agreement.

**7. RELEASE OF CLAIMS.**

a. In exchange for the commitments of the Company as set forth in this Agreement, which Executive acknowledges and agrees provide consideration to which Executive would not otherwise be entitled, Executive agrees to release and discharge unconditionally the Company and any of its past or present subsidiaries, affiliates, related entities, predecessors, merged entities and parent entities, benefit plans, and all of their respective past and present officers, directors, stockholders, employees, benefit plan administrators and trustees, agents, attorneys, insurers, representatives, affiliates, and all of their respective successors and assigns (collectively, the "Company Released Parties"), from any and all claims, actions, causes of action, demands, obligations, grievances, suits, losses, debts and expenses (including attorney's fees and costs), damages and claims in law or in equity of any nature whatsoever, known or unknown, suspected or unsuspected, Executive ever had, now has, or may ever have against any Company Released Party up to and including the day on which Executive signs this Agreement. Without limiting the generality of the foregoing, the claims Executive is waiving include, but are not limited to, (a) any claims, demands, and causes of action alleging violations of public policy, or of any federal, state, or local law, statute, regulation, executive order, or ordinance, or of any duties or other obligations of any kind or description arising in law or equity under federal, state, or local law, regulation, ordinance, or public policy having any bearing whatsoever on the terms or conditions of Executive's employment with or by the Company or the termination or resignation of Executive's employment with the Company or any association or transaction with or by the Company; (b) all claims of discrimination or harassment on the basis of sex, race, national origin, religion, sexual orientation, disability, veteran status or any other legally protected category, and of retaliation; (c) all claims under Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act, the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, the Fair Labor Standards Act, the Genetic Information Nondiscrimination Act, 42 U.S.C. § 1981, as amended, and all other federal, state and local fair employment and anti-discrimination laws, all as amended; (d) all claims under the Worker Adjustment and Retraining Notification Act and similar state and local statutes, all as amended; (e) all claims under the National Labor Relations Act, as amended; (f) all claims under the Family and Medical Leave Act and other federal, state and local leave laws, all as amended; (g) all claims under the Employee Retirement Income Security Act (except with respect to accrued vested benefits under any retirement or 401(k) plan in accordance with the terms of such plan and applicable law); (h) all claims under the Sarbanes-Oxley Act of 2002, the False Claims Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Securities Exchange Act of 1934, the Commodity Exchange Act, the Consumer Financial Protection Act, the American Recovery and Reinvestment Act, the Foreign Corrupt Practices Act, and the EU Competition Law; (i) all claims of whistleblowing and retaliation under federal, state and local laws; (j) all claims under any principle of common law or sounding in tort or contract; (k) all claims concerning any right to reinstatement; and (l) all claims for attorneys' fees, costs, damages or other relief (monetary, equitable or otherwise), whether under

federal, state or local law, whether statutory, regulatory or common law, to the fullest extent permitted by law. Further, each of the persons and entities released herein is intended to and shall be a third-party beneficiary of this Agreement. This release of claims does not affect or waive any claim for workers' compensation benefits, unemployment benefits or other legally non-waivable rights or claims; claims that arise after Executive signs this Agreement; Executive's rights to indemnification or advancement of expenses under the bylaws of the Company or under any applicable directors and officers liability insurance policy with respect to Executive's liability as an employee, director or officer of the Company; Executive's right to exercise any and all Company stock options held by Executive that are exercisable as of the Transition Date during the applicable period of exercise and in accordance with all other terms of those options and the stock options plans, agreements, and notices under which such options were granted; or Executive's right to enforce the terms of this Agreement. Additionally, nothing in this Agreement waives or limits Executive's right to file a charge with, provide information to or cooperate in any investigation of or proceeding brought by a government agency (though Executive acknowledges Executive is not entitled to recover money or other relief with respect to the claims waived in this Agreement).

b. Executive represents and warrants that she has not filed any claim, charge or complaint against the Company or any of the released parties based upon any of the matters released in (a) above.

c. Executive acknowledges that: (i) the commitments of the Company under this Agreement, including the benefits provided in Sections 2 and 5 of this Agreement, constitute adequate consideration for the release of claims set forth in this Section 7(a), and (ii) the commitments of the Company under this Agreement, including the payments provided in Section 5 of this Agreement constitute adequate consideration for the release of claims set forth in the Transition Period Termination Release.

d. Executive intends that this release of claims cover all claims described in Section 7(a) above whether or not known to Executive. Executive further recognizes the risk that, subsequent to the execution of this Agreement, Executive may incur loss, damage or injury which Executive attributes to the claims encompassed by this release. Executive also expressly waives and relinquishes, to the fullest extent permitted by law, any and all rights she may have under California Civil Code Section 1542, or the comparable provisions of the laws of any other jurisdiction, which provides as follows:

> "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR."

e. Executive represents and warrants that there has been no assignment or other transfer of any interest in any claim by Executive that is covered by the release set forth in Section 7(a).

f. The Company, with the intention of binding itself and its predecessors and successors, does hereby waive and release Executive from any and all claims, causes of action, demands, obligations, grievances, suits, losses, debts and expenses (including attorney's fees and costs), damages and claims in law or in equity related to or arising out of Executive's employment and Employment Agreement with the Company and the end of that employment, whether known and unknown, asserted or unasserted, which the Company has or may have against Executive as of the date of execution of this Agreement. This release shall not include the following: (1) any act or omission by Executive that is a material violation of any statute, regulation, ordinance or other law, (2) any willful or deliberate misconduct by Executive, and (3) any proceeding as to which a release of claims is not permitted under applicable law.

**8. REVIEW AND REVOCATION OF AGREEMENT.** Executive acknowledges and agrees: (i) that she has been advised to consult an attorney regarding this Agreement and the releases set forth herein or attached hereto as Attachment B before executing this Agreement or the Transition Period Termination Release; (ii) that she was given 21 days to review and consider signing this Agreement, although she may, at her discretion, knowingly and voluntarily, sign and return the Agreement at any earlier time, but Executive may not sign and return the Agreement until on or after the Transition Date; (iii) that modification of this Agreement does not restart this 21 day consideration period; (iv) that she is waiving rights or claims which may be waived by law in exchange for consideration which is not otherwise due to Executive, including claims and rights under the Age Discrimination in Employment Act of 1967, as amended (the "ADEA"), and as otherwise described in this Agreement; (v) that rights or claims that may arise after the date this Agreement is executed, including those arising under the ADEA, are not waived by this Agreement; (vi) that at any time within 7 days after signing this Agreement, she may revoke the Agreement; and (vii) that this Agreement is not enforceable until the revocation period has passed without a revocation.

To revoke this Agreement, Executive must send a written statement of revocation delivered by certified mail to Welltower Inc., Attn: Chief Executive Officer, 5400 Dorr Street, Toledo, OH 43615. This revocation must be received no later than the seventh (7th) day following Executive's execution of this Agreement.

**9. ARBITRATION.** Subject to Section 6(h) hereof, all claims, disputes, questions, or controversies arising out of or relating to this Agreement and Executive's employment hereunder, including without limitation the construction or application of any of the terms, provisions, or conditions of this Agreement and any claims for any alleged discrimination, harassment, or retaliation in violation of any federal, state or local law, will be resolved exclusively in final and binding arbitration held under the auspices of the American Arbitration Association ("AAA") in accordance with AAA's then current Employment Arbitration Rules, or successor rules then in effect. The arbitration will be held in Toledo, Ohio and will be conducted and administered by AAA or, in the event AAA does not then conduct arbitration proceedings, a similarly reputable arbitration administrator. Executive and the Company will select a mutually acceptable, neutral arbitrator from among the AAA panel of arbitrators. Except as provided by this Agreement, the Federal Arbitration Act will govern the administration of the arbitration proceedings. The arbitrator will apply the substantive law (and the law of remedies, if applicable) of the State of Ohio, or federal law, if Ohio law is preempted, and the arbitrator is without jurisdiction to apply any different substantive law. Executive and the Company will each be allowed to engage in adequate discovery, the scope of which will be determined by the arbitrator consistent with the nature of the claim[s] in dispute. The arbitrator will have the authority to entertain a motion to dismiss and/or a motion for summary judgment by any party and will apply the standards governing such motions under the Federal Rules of Civil Procedure. The arbitrator will render a written award and supporting opinion that will set forth the arbitrator's findings of fact and conclusions of law. Judgment upon the award may be entered in any court of competent jurisdiction. The Company will pay the arbitrator's fees, as well as all administrative fees, associated with the arbitration. Each party will be responsible for paying its own attorneys' fees and costs (including expert witness fees and costs, if any), provided, however, that the arbitrator may award attorney's fees and costs to the prevailing party, except as prohibited by law. The existence and subject matter of all arbitration proceedings, including, any settlements or awards there under, shall remain confidential. In entering into this Agreement, both parties are waiving the right to a trial by judge or jury.

**10. SECTION 409A.**

a. This Agreement is intended to comply with Section 409A of the Code and will be interpreted in a manner intended to comply with Code Section 409A. Any provision that would cause this Agreement or any payment hereof to fail to satisfy Code Section 409A of the Code shall have no force or effect until amended to the minimum extent required to comply with Code Section 409A, which amendment may be retroactive to the extent permitted by Code Section 409A. A termination of employment shall not be deemed to have occurred for purposes of any provision of this Agreement providing for the payment of amounts or benefits that may be considered "deferred compensation" under Code Section 409A (after taking into account all exclusions applicable to such payments or benefits under Code Section 409A) upon or following a termination of employment unless such termination is also a "Separation from Service" within the meaning of Code Section 409A and, for purposes of any such provision of this Agreement, references to a "retirement," "termination," "termination of employment" or like terms shall mean Separation from Service.

b. Any payment scheduled to be made under this Agreement that may be considered "deferred compensation" under Code Section 409A (after taking into account all exclusions applicable to such payments or benefits under Code Section 409A), that are otherwise due on or within the six-month period following the Transition Date will accrue during such six-month period and will instead become payable in a lump sum payment on the first business day period following such six month period. Furthermore, if any other payments of money or other benefits due to Executive under this Agreement could cause the application of an accelerated or additional tax under Code Section 409A, such payments or other benefits shall be deferred if deferral will make such payment or other benefits compliant under Code Section 409A, or otherwise such payment or other benefits shall be restructured, to the extent possible, in a manner, determined by the Company, that does not cause such an accelerated or additional tax. To the extent any reimbursements or in-kind benefits due to Executive under this Agreement constitute "deferred compensation" under Code Section 409A (after taking into account all exclusions applicable to such payments or benefits under Section 409A), any such reimbursements or in-kind benefits shall be paid to Executive in a manner consistent with Treas. Reg. Section 1.409A-3(i)(1)(iv).

c. Notwithstanding any contrary provision herein, Executive's right to any payment (including each installment payment) under this Agreement shall be treated as a "separate payment" within the meaning of Code Section 409A.

d. The Company shall consult with Executive in good faith regarding the implementation of the provisions of this section; provided that neither the Company nor any of its employees or representatives shall have any liability to Executive with respect thereto.

**11. NO ADMISSION OF LIABILITY.** Nothing in this Agreement will constitute or be construed in any way as an admission of any liability or wrongdoing whatsoever by the Company or Executive.

**12. INTEGRATED AGREEMENT.** This Agreement is intended by the parties to be a complete and final expression of their rights and duties respecting the subject matter of this Agreement and supersedes all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto, and any prior agreement of the parties hereto in respect of the subject matter contained herein, including but not limited to the Employment Agreement, except as expressly set forth herein. Except as expressly provided herein, nothing in this Agreement is intended to negate Executive's agreement to abide by the Company's policies while serving as an employee of the Company (or thereafter to the extent provided by such policies), including but not limited to the Company's Code of Business Conduct and Ethics and its Employee Handbook, or any other agreement governing the disclosure and/or use of proprietary information, which Executive signed while working with the Company or its predecessors; nor to waive any of Executive's obligations under state and federal trade secret laws.

**13. LEGAL FEES**. The Company shall reimburse Executive up to $5,000, in the aggregate, for Executive's reasonable attorney's fees and expenses incurred in connection with negotiating and documenting this Agreement. The Company will provide such reimbursements no later than ninety (90) days following the Company's receipt of supporting documentation of incurrence of these expenses, but in any event no later than the end of the calendar year following the calendar year in which those expenses were incurred and otherwise in compliance with Section 409A of the Code.

**14. TAXES AND OTHER WITHHOLDINGS.** Notwithstanding any other provision of this Agreement, the Company may withhold from amounts payable hereunder all federal, state, local and foreign taxes and other amounts that are required to be withheld by applicable laws or regulations, and the withholding of any amount shall be treated as payment thereof for purposes of determining whether Executive has been paid amounts to which she is entitled. Executive acknowledges that (i) the Company has made no representation to Executive as to the tax treatment of any compensation or benefits to be paid to Executive under this Agreement and (ii) the Company has no obligation to "gross-up" any amount payable to Executive under this Agreement for taxes payable by Executive thereon.

**15. SURVIVAL**. The covenants, agreements, representations and warranties contained in or made in Section 3, 6, 7, 8, 9 or 12 of this Agreement shall survive any termination of Executive's services hereunder or any termination of this Agreement.

**16. WAIVER.** Neither party shall, by mere lapse of time, without giving notice or taking other action hereunder, be deemed to have waived any breach by the other party of any of the provisions of this Agreement. Further, the waiver by either party of a particular breach of this Agreement by the other shall neither be construed as, nor constitute, a continuing waiver of such breach or of other breaches of the same or any other provision of this Agreement.

**17. MODIFICATION.** This Agreement may not be modified unless such modification is embodied in writing, signed by the party against whom the modification is to be enforced.

**18. NOTICE**. Except as otherwise expressly provided in this Agreement, any notice to either party hereunder shall be in writing and sent by overnight courier, certified mail, or registered mail (return receipt requested), postage prepaid, addressed as follows (or to such other address as such party may designate in writing from time to time):

If to the Company:

Welltower Inc.
5400 Dorr Street
Toledo, OH 43615
Attention: Legal Department

If to the Executive, at the address on file with the Company's Human Resources Department.

The actual date of mailing, as shown by a mailing receipt therefor, shall determine the time at which notice was given.

**19. ASSIGNMENT AND SUCCESSORS.** The Company shall have the right to assign its rights and obligations under this Agreement to an entity that, directly or indirectly, acquires all or substantially all of the assets or the business of the Company. The rights and obligations of the Company under this Agreement shall inure to the benefit and shall be binding upon the successors and assigns of the Company. Executive shall not have any right to assign her obligations under this Agreement and shall only be entitled to assign her rights under this Agreement upon her death, solely to the extent permitted by this Agreement, or as otherwise agreed to by the Company.

**20. SEVERABILITY.** Each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement is held to be prohibited by or invalid under applicable law, such provision will be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement. Moreover, if any of the provisions contained in this Agreement is determined by an arbitrator or court of competent jurisdiction to be unenforceable because it is excessively broad in scope, whether as to duration, activity, geographic application, subject or otherwise, it shall be construed, by limiting or reducing it to the extent legally permitted, so as to be enforceable to the extent compatible with then applicable law in order to achieve the intent of the parties.

**21. GOVERNING LAW.** This Agreement will be construed, interpreted, governed and enforced in accordance with the laws of the State of Ohio, without regard to its conflict of laws principles.

**IN WITNESS WHEREOF**, the Company has caused this Agreement to be duly executed, and the Executive has hereunto set her hand, as of the day and year first written above.

| **WELLTOWER INC.** | **EXECUTIVE** |
|---|---|
| By: /s/ JEFFREY H. MILLER | /s/ ERIN C. IBELE |
| Name: Jeffrey H. Miller | Erin C. Ibele |
| Title: Executive Vice President and Chief Operating Officer | |
| Date: June 30, 2016 | Date: June 30, 2016 |

**ATTACHMENT A**
**EXISTING EQUITYAWARDS**

**EXISTING EQUITY AWARDS WITH TIME-BASED VESTING**

1) Restricted Stock

| Date of Agreement | Initial Award | Unvested Shares as of Date of Agreement to be fully vested |
|---|---|---|
| 2/26/16 | 14,073 | 9,382 |
| 2/12/16 | 4,830 | 3,622 |
| 2/5/15 | 3,774 | 1,886 |
| 2/6/14 | 2,949 | 737 |
| 2/7/13 | 7,298 | 2,918 |
| 1/26/12 | 4,449 | 889 |
| | **TOTAL** | **19,434** |

2) Deferred Stock Units

| Date of Agreement | Initial Award | Unvested Shares as of Date of Agreement to be fully vested |
|---|---|---|
| 1/26/12 | 4,361 | 1,090 |

3) Stock Options

| Date of Agreement | Initial Grant | Exercise Price | Maximum Expiration Date | Options Outstanding as of June 10, 2016 | Unvested Options as of Date of Agreement to be fully vested |
|---|---|---|---|---|---|
| 1/27/11 | 6,575 | $49.17 | 1/27/21 | 1,315 | Fully vested |
| 1/26/12 | 7,652 | $57.33 | 1/26/22 | 7,652 | 1,530 |
| | | | **TOTAL** | **8,967** | **1,530** |

**EXISTING EQUITY AWARDS WITH PERFORMANCE-BASED VESTING**

Performance Restricted Stock Unit Award granted under the Health Care REIT, Inc. 2015-2017 Long-Term Incentive Program, granted August 6, 2015.

Performance Restricted Stock Unit Award granted under the Welltower Inc. 2016-2018 Long-Term Incentive Program, granted May 6, 2016.

**ATTACHMENT B**

**RELEASE OF CLAIMS AGREEMENT**

**UPON TERMINATION OF TRANSITION PERIOD**

I entered into a Transition Agreement with Welltower Inc. (together with its subsidiaries, merged entities and affiliates, and its and their respective predecessor and successor entities, "the Company") dated June 30, 2016 (the "Transition Agreement").

I hereby acknowledge that:

1. A blank copy of this Release of Claims Agreement ("Release Agreement") was attached as Attachment B to the Transition Agreement when it was given to me for review. I have had more time to consider signing this Release Agreement than the ample time I was given to consider signing the Transition Agreement, and in any event more than 21 days have elapsed from the date that I received this Release Agreement. I may revoke this Release Agreement within seven (7) days after I sign it in the manner set forth in paragraph 9 below. I understand that I am giving up claims and rights under the Age Discrimination in Employment Act of 1967 as amended, and as described in the Transition Agreement. Additionally, I understand that this Release Agreement is not enforceable until the revocation period has passed without revocation. If this 7-day period expires without revocation, I understand that this Release Agreement will become final and effective on the eighth day following the date I sign this Release Agreement, which day will be the "Effective Date" of this Release Agreement. I was advised to discuss the Transition Agreement and this Release Agreement with an attorney before executing any of those documents.

2. I am not permitted to sign this Release Agreement until after my last day of employment with the Company.

3. The benefits payable under Section 5 of the Transition Agreement are only payable to me if I sign this Release Agreement and it becomes effective and irrevocable prior to the twenty-eighth (28th) day following the end of my employment or such later period as may be required by law in order to make this Release Agreement fully effective.

4. My employment actually terminated before I signed this Release Agreement and, in exchange for receiving benefits payable under Section 5 of the Transition Agreement, I hereby agree that this Release Agreement will be a part of my Transition Agreement and that my Transition Agreement, including without limitation, the release of claims set forth in Section 7 of the Transition Agreement, will be construed and applied as if I signed it on the day I signed this Release Agreement. This extends my commitments, covenants and other obligations under the Transition Agreement, and the release of claims in the Transition Agreement that arose following my Transition Date (as defined in the Transition Agreement) through the end of my employment.

5. I agree to release and discharge unconditionally the Company and any of its past or present subsidiaries, affiliates, related entities, predecessors, merged entities and parent entities, benefit plans, and all of their respective past and present officers, directors, stockholders, employees, benefit plan administrators and trustees, agents, attorneys, insurers, representatives, affiliates, and all of their respective successors and assigns (collectively, the "Company Released Parties"), from any and all claims, actions, causes of action, demands, obligations, grievances, suits, losses, debts and expenses (including attorney's fees and costs), damages and claims in law or in equity of any nature whatsoever, known or unknown, suspected or unsuspected, I ever had, now have, or may ever have against any Company Released Party up to and including the day on which I sign this Release Agreement. Without limiting the generality of the foregoing, the claims I am waiving include, but are not limited to, (a) any claims, demands, and causes of action alleging violations of public policy, or of any federal, state, or local law, statute, regulation, executive order, or ordinance, or of any duties or other obligations of any kind or description arising in law or equity under federal, state, or local law, regulation, ordinance, or public policy having any bearing whatsoever on the terms or conditions of my employment with or by the Company or the termination or resignation of my employment with the Company or any association or transaction with or by the Company; (b) all claims of discrimination or harassment on the basis of sex, race, age, national origin, religion, sexual orientation, disability, veteran status or any other legally protected category, and of retaliation; (c) all claims under Title VII of the Civil Rights Act of 1964, the Americans with Disabilities Act, the Age Discrimination in Employment Act, the Older Workers Benefit Protection Act, the Fair Labor Standards Act, the Genetic Information Nondiscrimination Act, 42 U.S.C. § 1981, as amended, and all other federal, state and local fair employment and anti-discrimination laws, all as amended; (d) all claims under the Worker Adjustment and Retraining Notification Act and similar state and local statutes, all as amended; (e) all claims under the National Labor Relations Act, as amended; (f) all claims under the Family and Medical Leave Act and other federal, state and local leave laws, all as amended; (g) all claims under the Employee Retirement Income Security Act (except with respect to accrued vested benefits under any retirement or 401(k) plan in accordance with the terms of such plan and applicable law); (h) all claims under the Sarbanes-Oxley Act of 2002, the False Claims Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the Securities Exchange Act of 1934, the

Commodity Exchange Act, the Consumer Financial Protection Act, the American Recovery and Reinvestment Act, the Foreign Corrupt Practices Act, and the EU Competition Law; (i) all claims of whistleblowing and retaliation under federal, state and local laws; (j) all claims under any principle of common law or sounding in tort or contract; (k) all claims concerning any right to reinstatement; and (l) all claims for attorneys' fees, costs, damages or other relief (monetary, equitable or otherwise), whether under federal, state or local law, whether statutory, regulatory or common law, to the fullest extent permitted by law. Further, each of the persons and entities released herein is intended to and shall be a third-party beneficiary of this Agreement. This release of claims does not affect or waive any claim for workers' compensation benefits, unemployment benefits or other legally non-waivable rights or claims; claims that arise after I sign this Release Agreement; claims for indemnification or advancement of expenses under the bylaws of the Company or under any applicable directors and officers liability insurance policy with respect to my liability as an employee, director or officer of the Company; my right to exercise any and all Company stock options held by me that are exercisable as of the end of the Transition Period during the applicable period of exercise and in accordance with all other terms of those options and the stock options plans, agreements, and notices under which such options were granted; or my right to enforce the terms of the Transition Agreement. Additionally, nothing in this Release Agreement waives or limits my right to file a charge with, provide information to or cooperate in any investigation of or proceeding brought by a government agency (though I acknowledge I am not entitled to recover money or other relief with respect to the claims waived in this Release Agreement).

6. I have returned to the Company all hard and soft copies of records, lists, books, documents, materials, software, and files in my possession or control, whether recorded, written or computer readable, which contain or relate to Confidential Information or sensitive information that I obtained in conjunction with my employment with the Company, as well as all other Company-owned property. I took all reasonable steps to protect the confidentiality of such Company information during my employment and have not kept any copies or excerpts of any of the above items.

7. I represent and warrant that there has been no assignment or other transfer of any interest in any claim by me that is covered by this Release Agreement.

8. I agree that except with respect to any payments and benefits that I remain entitled to receive under Section 5 of my Transition Agreement with the Company, I have received all other compensation, benefits, bonuses, severance, leave and notice that I am otherwise entitled to receive from the Company.

9. I understand that I may revoke this Release Agreement by sending a written statement of revocation delivered by certified mail to Welltower Inc., Attn: Chief Executive Officer, 5400 Dorr Street, Toledo, OH 43615. I understand that the revocation must be received no later than the seventh ($7^{th}$) day following my execution of this Release Agreement.

By signing this Release Agreement, I acknowledge that: I have had the opportunity to review the Transition Agreement, including the release set forth in Section 7 therein, and this Release Agreement carefully with legal or other personal advisors of my own choice; I understand that by signing this Release Agreement I am releasing the Company of all claims against it; I have read the Transition Agreement and this Release Agreement and understand their terms; I have been given a reasonable period of time to consider the terms and effect and to ask any questions I may have; I voluntarily agree to the terms of this Release Agreement.

AGREED AND ACCEPTED:

Dated: ______________________________

ERIN C. IBELE

_____________________________________
Sign Name

**STATEMENT REGARDING COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES AND RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS (UNAUDITED)**

| | Year Ended December 31, | | | | | Six Months Ended June 30, | |
|---|---|---|---|---|---|---|---|
| (dollars in thousands) | 2011 | 2012 | 2013 | 2014 | 2015 | 2015 | 2016 |
| Earnings: | | | | | | | |
| Pretax income from continuing operations before adjustment for income or loss from equity investees[1] | $ 112,203 | $ 185,912 | $ 102,245 | $ 384,213 | $ 636,117 | $ 315,637 | $ 378,232 |
| Fixed charges | 290,240 | 359,947 | 460,918 | 485,762 | 498,253 | 248,470 | 271,708 |
| Capitalized interest | (13,164) | (9,777) | (6,700) | (7,150) | (8,670) | (4,446) | (7,343) |
| Amortized premiums, discounts and capitalized expenses related to indebtedness | 13,905 | 11,395 | 4,142 | 2,427 | 2,586 | (4,082) | 920 |
| Noncontrolling interest in pre-tax income of subsidiaries that have not incurred fixed charges | 4,894 | 2,415 | 6,770 | (147) | (4,799) | (3,804) | 924 |
| Earnings | $ 408,078 | $ 549,892 | $ 567,375 | $ 865,105 | $ 1,123,487 | $ 551,775 | $ 644,441 |
| | | | | | | | |
| Fixed charges: | | | | | | | |
| Interest expense[1] | $ 290,981 | $ 361,565 | $ 458,360 | $ 481,039 | $ 492,169 | $ 239,942 | $ 265,285 |
| Capitalized interest | 13,164 | 9,777 | 6,700 | 7,150 | 8,670 | 4,446 | 7,343 |
| Amortized premiums, discounts and capitalized expenses related to indebtedness | (13,905) | (11,395) | (4,142) | (2,427) | (2,586) | 4,082 | (920) |
| Fixed charges | $ 290,240 | $ 359,947 | $ 460,918 | $ 485,762 | $ 498,253 | $ 248,470 | $ 271,708 |
| | | | | | | | |
| Consolidated ratio of earnings to fixed charges | 1.41 | 1.53 | 1.23 | 1.78 | 2.25 | 2.22 | 2.37 |
| | | | | | | | |
| Earnings: | | | | | | | |
| Pretax income from continuing operations before adjustment for income or loss from equity investees[1] | $ 112,203 | $ 185,912 | $ 102,245 | $ 384,213 | $ 636,117 | $ 315,637 | $ 378,232 |
| Fixed charges | 290,240 | 359,947 | 460,918 | 485,762 | 498,253 | 248,470 | 271,708 |
| Capitalized interest | (13,164) | (9,777) | (6,700) | (7,150) | (8,670) | (4,446) | (7,343) |
| Amortized premiums, discounts and capitalized expenses related to indebtedness | 13,905 | 11,395 | 4,142 | 2,427 | 2,586 | (4,082) | 920 |
| Noncontrolling interest in pre-tax income of subsidiaries that have not incurred fixed charges | 4,894 | 2,415 | 6,770 | (147) | (4,799) | (3,804) | 924 |
| Earnings | $ 408,078 | $ 549,892 | $ 567,375 | $ 865,105 | $ 1,123,487 | $ 551,775 | $ 644,441 |
| | | | | | | | |
| Fixed charges: | | | | | | | |
| Interest expense[1] | $ 290,981 | $ 361,565 | $ 458,360 | $ 481,039 | $ 492,169 | $ 239,942 | $ 265,285 |
| Capitalized interest | 13,164 | 9,777 | 6,700 | 7,150 | 8,670 | 4,446 | 7,343 |
| Amortized premiums, discounts and capitalized expenses related to indebtedness | (13,905) | (11,395) | (4,142) | (2,427) | (2,586) | 4,082 | (920) |
| Fixed charges | 290,240 | 359,947 | 460,918 | 485,762 | 498,253 | 248,470 | 271,708 |
| Preferred stock dividends | 60,502 | 69,129 | 66,336 | 65,408 | 65,406 | 32,703 | 32,703 |
| Combined fixed charges and preferred stock dividends | $ 350,742 | $ 429,076 | $ 527,254 | $ 551,170 | $ 563,659 | $ 281,173 | $ 304,411 |
| | | | | | | | |
| Consolidated ratio of earnings to combined fixed charges and preferred stock dividends | 1.16 | 1.28 | 1.08 | 1.57 | 1.99 | 1.96 | 2.12 |

(1) We have reclassified the income and expenses attributable to the properties sold prior to or held for sale at January 1, 2014 to discontinued operations.

**EXHIBIT 31.1**

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, **Thomas J. DeRosa**, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Welltower Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2016

/s/ THOMAS J. DEROSA

Thomas J. DeRosa,
Chief Executive Officer

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**EXHIBIT 31.2**

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, **Scott A. Estes**, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Welltower Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 2, 2016

/s/ SCOTT A. ESTES

Scott A. Estes,
Chief Financial Officer

**EXHIBIT 32.1**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**

I, Thomas J. DeRosa, the Chief Executive Officer of Welltower Inc. (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that (i) the Quarterly Report on Form 10-Q for the Company for the quarter ended June 30, 2016 (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ THOMAS J. DEROSA
Thomas J. DeRosa,

Chief Executive Officer
Date: August 2, 2016

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**EXHIBIT 32.2**

**CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350**

I, Scott A. Estes, the Chief Financial Officer of Welltower Inc. (the “Company”), certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), that (i) the Quarterly Report on Form 10-Q for the Company for the quarter ended June 30, 2016 (the “Report”), fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ SCOTT A. ESTES
Scott A. Estes,

Chief Financial Officer
Date: August 2, 2016

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.