Section 1: 10-Q (10-Q)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2018

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission file number: 001-13561

EPR PROPERTIES

(Exact name of registrant as specified in its charter)

Maryland	**43-1790877**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
909 Walnut Street, Suite 200 Kansas City, Missouri	**64106**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (816) 472-1700

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically 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 ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

At July 30, 2018, there were 74,349,321 common shares outstanding.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

With the exception of historical information, certain statements contained or incorporated by reference herein may contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), such as those pertaining to our acquisition or disposition of properties, our capital resources, future expenditures for development projects, and our results of operations and financial condition. Forward-looking statements involve numerous risks and uncertainties and you should not rely on them as predictions of actual events. There is no assurance the events or circumstances reflected in the forward-looking statements will occur. You can identify forward-looking statements by use of words such as “will be,” “intend,” “continue,” “believe,” “may,” “expect,” “hope,” “anticipate,” “goal,” “forecast,” “pipeline,” “estimates,” “offers,” “plans,” “would,” or other similar expressions or other comparable terms or discussions of strategy, plans or intentions in this Quarterly Report on Form 10-Q. In addition, references to our budgeted amounts and guidance are forward-looking statements.

Factors that could materially and adversely affect us include, but are not limited to, the factors listed below:

- Global economic uncertainty and disruptions in financial markets;
- Reduction in discretionary spending by consumers;
- Adverse changes in our credit ratings;
- Fluctuations in interest rates;
- Unsuccessful development, operation, financing or compliance with licensing requirements of the planned casino and resort development by the third-party lessee;
- Risks related to overruns for the construction of common infrastructure at our planned casino and resort development for which we would be responsible;
- Defaults in the performance of lease terms by our tenants;
- Defaults by our customers and counterparties on their obligations owed to us;
- A borrower's bankruptcy or default;
- Our ability to renew maturing leases with theatre tenants on terms comparable to prior leases and/or our ability to lease any re-claimed space from some of our larger theatres at economically favorable terms;
- Risks of operating in the entertainment industry;
- Our ability to compete effectively;
- Risks associated with a single tenant representing a substantial portion of our lease revenues;
- The ability of our public charter school tenants to comply with their charters and continue to receive funding from local, state and federal governments, the approval by applicable governing authorities of substitute operators to assume control of any failed public charter schools and our ability to negotiate the terms of new leases with such substitute tenants on acceptable terms, and our ability to complete collateral substitutions as applicable;
- The ability of our build-to-suit education tenants to achieve sufficient enrollment within expected timeframes and therefore have capacity to pay their agreed upon rent, including the ability of our early education tenant, Children's Learning Adventure, to successfully negotiate a restructuring and secure capital necessary to achieve positive cash flow;
- Risks associated with the pending criminal indictments against one of our waterpark mortgagors and certain related parties, which may negatively impact the likelihood of repayment of the related mortgage loans secured by the waterpark and other collateral;
- Risks relating to our tenants' exercise of purchase options or borrowers' exercise of prepayment options related to our education properties;
- Risks associated with our level of indebtedness;
- Risks associated with use of leverage to acquire properties;
- Financing arrangements that require lump-sum payments;
- Our ability to raise capital;
- Covenants in our debt instruments that limit our ability to take certain actions;
- The concentration and lack of diversification of our investment portfolio;
- Our continued qualification as a real estate investment trust for U.S. federal income tax purposes;
- The ability of our subsidiaries to satisfy their obligations;

- Financing arrangements that expose us to funding or purchase risks;
- Our reliance on a limited number of employees, the loss of which could harm operations;
- Risks associated with security breaches and other disruptions;
- Changes in accounting standards that may adversely affect our consolidated financial statements;
- Fluctuations in the value of real estate income and investments;
- Risks relating to real estate ownership, leasing and development, including local conditions such as an oversupply of space or a reduction in demand for real estate in the area, competition from other available space, whether tenants and users such as customers of our tenants consider a property attractive, changes in real estate taxes and other expenses, changes in market rental rates, the timing and costs associated with property improvements and rentals, changes in taxation or zoning laws or other governmental regulation, whether we are able to pass some or all of any increased operating costs through to tenants, and how well we manage our properties;
- Our ability to secure adequate insurance and risk of potential uninsured losses, including from natural disasters;
- Risks involved in joint ventures;
- Risks in leasing multi-tenant properties;
- A failure to comply with the Americans with Disabilities Act or other laws;
- Risks of environmental liability;
- Risks associated with the relatively illiquid nature of our real estate investments;
- Risks with owning assets in foreign countries;
- Risks associated with owning, operating or financing properties for which the tenants', mortgagors' or our operations may be impacted by weather conditions and climate change;
- Risks associated with the development, redevelopment and expansion of properties and the acquisition of other real estate related companies;
- Our ability to pay dividends in cash or at current rates;
- Fluctuations in the market prices for our shares;
- Certain limits on changes in control imposed under law and by our Declaration of Trust and Bylaws;
- Policy changes obtained without the approval of our shareholders;
- Equity issuances that could dilute the value of our shares;
- Future offerings of debt or equity securities, which may rank senior to our common shares;
- Risks associated with changes in the Canadian exchange rate; and
- Changes in laws and regulations, including tax laws and regulations.

Our forward-looking statements represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. Many of the factors that will determine these items are beyond our ability to control or predict. For further discussion of these factors see Item 1A - "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the Securities and Exchange Commission ("SEC") on March 1, 2018, as supplemented by Part II, Item 1A- "Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 filed with the SEC on May 9, 2018.

For these statements, we claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995. You are cautioned not to place undue reliance on our forward-looking statements, which speak only as of the date of this Quarterly Report on Form 10-Q or the date of any document incorporated by reference herein. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. Except as required by law, we do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Quarterly Report on Form 10-Q.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

EPR PROPERTIES
Consolidated Balance Sheets
(Dollars in thousands except share data)

	June 30, 2018	December 31, 2017
	(unaudited)	
Assets		
Rental properties, net of accumulated depreciation of $810,604 and $741,334 at June 30, 2018 and December 31, 2017, respectively	$ 4,853,188	$ 4,604,231
Land held for development	31,076	33,692
Property under development	268,090	257,629
Mortgage notes and related accrued interest receivable	641,428	970,749
Investment in direct financing leases, net	58,305	57,903
Investment in joint ventures	4,999	5,602
Cash and cash equivalents	3,017	41,917
Restricted cash	11,283	17,069
Accounts receivable, net	97,804	93,693
Other assets	135,034	109,008
Total assets	$ 6,104,224	$ 6,191,493
Liabilities and Equity		
Liabilities:		
Accounts payable and accrued liabilities	$ 122,359	$ 136,929
Common dividends payable	26,765	25,203
Preferred dividends payable	6,036	4,982
Unearned rents and interest	79,121	68,227
Debt	2,983,975	3,028,827
Total liabilities	3,218,256	3,264,168
Equity:		
Common Shares, $.01 par value; 100,000,000 shares authorized; and 77,195,820 and 76,858,632 shares issued at June 30, 2018 and December 31, 2017, respectively	772	769
Preferred Shares, $.01 par value; 25,000,000 shares authorized:		
5,399,050 Series C convertible shares issued at June 30, 2018 and December 31, 2017; liquidation preference of $134,976,250	54	54
3,447,381 and 3,449,115 Series E convertible shares issued at June 30, 2018 and December 31, 2017, respectively; liquidation preference of $86,184,525	34	34
6,000,000 Series G shares issued at June 30, 2018 and December 31, 2017; liquidation preference of $150,000,000	60	60
Additional paid-in-capital	3,491,561	3,478,986
Treasury shares at cost: 2,847,949 and 2,733,552 common shares at June 30, 2018 and December 31, 2017, respectively	(129,048)	(121,591)
Accumulated other comprehensive income	17,497	12,483
Distributions in excess of net income	(494,962)	(443,470)
Total equity	$ 2,885,968	$ 2,927,325
Total liabilities and equity	$ 6,104,224	$ 6,191,493

See accompanying notes to consolidated financial statements.

EPR PROPERTIES
Consolidated Statements of Income
(Unaudited)
(Dollars in thousands except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Rental revenue	$ 137,019	$ 123,410	$ 269,943	$ 234,196
Other income	646	1,304	1,276	1,996
Mortgage and other financing income	65,202	23,068	86,616	40,702
Total revenue	202,867	147,782	357,835	276,894
Property operating expense	7,334	6,072	14,898	12,422
General and administrative expense	12,976	10,660	25,300	21,717
Litigation settlement expense	2,090	—	2,090	—
Costs associated with loan refinancing or payoff	15	9	31,958	14
Gain on early extinguishment of debt	—	(977)	—	(977)
Interest expense, net	34,079	32,967	68,416	63,659
Transaction costs	405	218	1,014	275
Impairment charges	16,548	10,195	16,548	10,195
Depreciation and amortization	37,582	33,148	75,266	61,225
Income before equity in income from joint ventures and other items	91,838	55,490	122,345	108,364
Equity in (loss) income from joint ventures	(88)	59	(37)	51
Gain on sale of real estate	473	25,461	473	27,465
Income before income taxes	92,223	81,010	122,781	135,880
Income tax expense	(642)	(475)	(1,662)	(1,429)
Net income	91,581	80,535	121,119	134,451
Preferred dividend requirements	(6,036)	(5,952)	(12,072)	(11,904)
Net income available to common shareholders of EPR Properties	$ 85,545	$ 74,583	$ 109,047	$ 122,547
Per share data attributable to EPR Properties common shareholders:				
Basic earnings per share data:				
Net income available to common shareholders	$ 1.15	$ 1.02	$ 1.47	$ 1.79
Diluted earnings per share data:				
Net income available to common shareholders	$ 1.15	$ 1.02	$ 1.47	$ 1.78
Shares used for computation (in thousands):				
Basic	74,329	73,159	74,238	68,621
Diluted	74,365	73,225	74,273	68,689

See accompanying notes to consolidated financial statements.

EPR PROPERTIES
Consolidated Statements of Comprehensive Income
(Unaudited)
(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income	$ 91,581	$ 80,535	$ 121,119	$ 134,451
Other comprehensive income (loss):				
Foreign currency translation adjustment	(4,068)	4,548	(9,468)	6,222
Change in net unrealized gain (loss) on derivatives	5,084	(3,456)	14,482	(4,258)
Comprehensive income	$ 92,597	$ 81,627	$ 126,133	$ 136,415

See accompanying notes to consolidated financial statements.

EPR PROPERTIES
Consolidated Statements of Changes in Equity
Six Months Ended June 30, 2018
(Unaudited)
(Dollars in thousands)

	EPR Properties Shareholders' Equity								
	Common Stock		Preferred Stock		Additional paid-in capital	Treasury shares	Accumulated other comprehensive income (loss)	Distributions in excess of net income	Total
	Shares	Par	Shares	Par					
Balance at December 31, 2017	76,858,632	$769	14,848,165	$148	$3,478,986	$(121,591)	$ 12,483	$ (443,470)	$2,927,325
Restricted share units issued to Trustees	23,571	—	—	—	—	—	—	—	—
Issuance of nonvested shares, net	295,202	3	—	—	3,971	—	—	—	3,974
Purchase of common shares for vesting	—	—	—	—	—	(7,155)	—	—	(7,155)
Amortization of nonvested shares and restricted share units	—	—	—	—	7,462	—	—	—	7,462
Share option expense	—	—	—	—	147	—	—	—	147
Foreign currency translation adjustment	—	—	—	—	—	—	(9,468)	—	(9,468)
Change in unrealized gain on derivatives	—	—	—	—	—	—	14,482	—	14,482
Net income	—	—	—	—	—	—	—	121,119	121,119
Issuances of common shares	11,873	—	—	—	693	—	—	—	693
Conversion of Series E Convertible Preferred shares to common shares	800	—	(1,734)	—	—	—	—	—	—
Stock option exercises, net	5,742	—	—	—	302	(302)	—	—	—
Dividends to common and preferred shareholders	—	—	—	—	—	—	—	(172,611)	(172,611)
Balance at June 30, 2018	77,195,820	$772	14,846,431	$148	$3,491,561	$(129,048)	$ 17,497	$ (494,962)	$2,885,968

See accompanying notes to consolidated financial statements.

EPR PROPERTIES
Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

	Six Months Ended June 30,	
	2018	2017
Operating activities:		
Net income	$ 121,119	$ 134,451
Adjustments to reconcile net income to net cash provided by operating activities:		
Gain from early extinguishment of debt	—	(977)
Impairment charges	16,548	10,195
Gain on sale of real estate	(473)	(27,465)
Gain on insurance recovery	—	(606)
Deferred income tax expense	663	684
Costs associated with loan refinancing or payoff	31,958	14
Equity in loss (income) from joint ventures	37	(51)
Distributions from joint ventures	567	442
Depreciation and amortization	75,266	61,225
Amortization of deferred financing costs	2,837	2,981
Amortization of above/below market leases and tenant allowances, net	(472)	14
Share-based compensation expense to management and Trustees	7,608	6,961
(Increase) decrease in mortgage notes accrued interest receivable	(374)	1,915
(Increase) decrease in accounts receivable, net	(5,625)	3,506
Increase in direct financing leases receivable	(401)	(804)
Increase in other assets	(3,989)	(2,195)
Decrease in accounts payable and accrued liabilities	(6,758)	(7,099)
Increase in unearned rents and interest	11,237	11,444
Net cash provided by operating activities	249,748	194,635
Investing activities:		
Acquisition of and investments in rental properties and other assets	(84,306)	(196,957)
Proceeds from sale of real estate	6,195	130,726
Investment in mortgage notes receivable	(21,079)	(101,721)
Proceeds from mortgage notes receivable paydowns	196,038	15,610
Investment in promissory notes receivable	(7,739)	(1,387)
Proceeds from promissory note receivable paydown	7,500	1,599
Additions to properties under development	(135,605)	(196,354)
Net cash used by investing activities	(38,996)	(348,484)
Financing activities:		
Proceeds from debt facilities and senior unsecured notes	840,000	915,000
Principal payments on debt	(881,684)	(601,962)
Deferred financing fees paid	(8,557)	(7,042)
Costs associated with loan refinancing or payoff (cash portion)	(28,650)	(6)
Net proceeds from issuance of common shares	530	68,352
Purchase of common shares for treasury for vesting	(7,156)	(6,729)
Dividends paid to shareholders	(169,831)	(147,845)
Net cash (used) provided by financing activities	(255,348)	219,768
Effect of exchange rate changes on cash	(90)	129
Net (decrease) increase in cash and cash equivalents and restricted cash	(44,686)	66,048
Cash and cash equivalents and restricted cash at beginning of the period	58,986	29,079
Cash and cash equivalents and restricted cash at end of the period	$ 14,300	$ 95,127

Supplemental information continued on next page.

EPR PROPERTIES
Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

Continued from previous page.

	Six Months Ended June 30,	
	2018	**2017**
Reconciliation of cash and cash equivalents and restricted cash:		
Cash and cash equivalents at beginning of the period	$ 41,917	$ 19,335
Restricted cash at beginning of the period	17,069	9,744
Cash and cash equivalents and restricted cash at beginning of the period	$ 58,986	$ 29,079
Cash and cash equivalents at end of the period	$ 3,017	$ 70,872
Restricted cash at end of the period	11,283	24,255
Cash and cash equivalents and restricted cash at end of the period	$ 14,300	$ 95,127
Supplemental schedule of non-cash activity:		
Transfer of property under development to rental properties	$ 110,742	$ 206,115
Issuance of nonvested shares and restricted share units at fair value, including nonvested shares issued for payment of bonuses	$ 18,252	$ 23,983
Issuance of common shares for acquisition	$ —	$ 657,473
Assumption of liabilities net of accounts receivable for acquisition	$ —	$ 12,083
Conversion or reclassification of mortgage notes receivable to rental properties	$ 155,185	$ —
Supplemental disclosure of cash flow information:		
Cash paid during the period for interest	$ 75,386	$ 65,623
Cash paid during the period for income taxes	$ 1,105	$ 654
Interest cost capitalized	$ 4,538	$ 5,340
(Decrease) increase in accrued capital expenditures	$ (3,394)	$ 9,347

See accompanying notes to consolidated financial statements.

1. Organization

Description of Business

EPR Properties (the Company) is a specialty real estate investment trust (REIT) organized on August 29, 1997 in Maryland. The Company develops, owns, leases and finances properties in select market segments primarily related to Entertainment, Recreation and Education. The Company's properties are located in the United States and Canada.

2. Summary of Significant Accounting Policies and Recently Issued Accounting Standards

Basis of Presentation

The accompanying unaudited consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial information and with the instructions to 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. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates. In addition, operating results for the six month period ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018.

The Company consolidates certain entities when it is deemed to be the primary beneficiary in a variable interest entity (VIE) in which it has a controlling financial interest in accordance with the consolidation guidance of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC).

The consolidated balance sheet as of December 31, 2017 has been derived from the audited consolidated balance sheet at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017 filed with the Securities and Exchange Commission (SEC) on March 1, 2018.

Recently Adopted Accounting Pronouncements

On January 1, 2018, the Company adopted Accounting Standards Update (ASU) No. 2016-18, *Statement of Cash Flows*, and certain reclassifications have been made to prior period balances to conform to current presentation in the consolidated statement of cash flows. Under ASU No. 2016-18, transfers to or from restricted cash which have been previously shown in the Company's operating activities section of the accompanying consolidated statement of cash flows are now required to be shown as part of the total change in cash and cash equivalents and restricted cash in the consolidated statements of cash flows. In addition, on January 1, 2018, the Company adopted ASU No. 2016-15, *Classification of Certain Cash Receipts and Cash Payments.* The ASU clarifies the treatment of several cash flow issues with the objective of reducing diversity in practice. The adoption of this ASU had no impact to the Company's financial position, results of operations or presentation in the consolidated statement of cash flows.

On January 1, 2018, the Company adopted Accounting Standards Codification (ASC) 606, *Revenue from Contracts with Customers* (ASC 606) and ASC 610-20, *Other Income: Gains and Losses from the Derecognition of Non-financial Assets* (ASC 610-20) using a modified retrospective (cumulative effect) method of adoption. The core principle of ASC 606 is that an entity will recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers when it satisfies performance obligations. The Company's primary source of revenue is from lease revenue (which is excluded from the revenue standard but will be impacted upon adoption of the lease standard in 2019 discussed in Impact of Recently Issued Accounting Standards) and mortgage and other financing income (which is not in scope of the revenue standard). ASC 610-20 provides guidance on how entities recognize sales to non-customers including presentation of gain or loss on a net basis in the consolidated statements of income. The Company has concluded that its property sales represent transactions with non-customers. The Company had two property sale transactions that occurred in 2017 in which the Company received an aggregate of $12.3 million in mortgage notes receivable as full consideration for the sales. The mortgage notes require interest only payments until maturity and the Company determined in 2017 that these transactions qualified as sales; however, the gain on each sale was deferred. Upon adoption of ASC 610-20 on January 1, 2018, the Company determined that these transactions did not qualify for de-recognition. Accordingly, the Company recorded an adjustment in the six months ended June 30, 2018 to reclassify these assets from mortgage notes receivable to rental properties on its consolidated balance sheet. All other sales of real estate were all cash transactions in which the purchaser obtained control of the property, therefore, there was no cumulative adjustment recognized to beginning retained earnings as a result of adopting ASC 610-20.

Operating Segments

The Company has four reportable operating segments: Entertainment, Recreation, Education and Other. See Note 15 for financial information related to these operating segments.

Rental Properties

Rental properties are carried at cost less accumulated depreciation. Costs incurred for the acquisition and development of the properties are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which generally are estimated to be 30 to 40 years for buildings and three to 25 years for furniture, fixtures and equipment and 10 to 20 years for site improvements. Tenant improvements, including allowances, are depreciated over the shorter of the base term of the lease or the estimated useful life and leasehold interests are depreciated over the useful life of the underlying ground lease. Expenditures for ordinary maintenance and repairs are charged to operations in the period incurred. Significant renovations and improvements that improve or extend the useful life of the asset are capitalized and depreciated over their estimated useful life.

Management reviews a property for impairment whenever events or changes in circumstances indicate that the carrying value of a property may not be recoverable. The review of recoverability is based on an estimate of undiscounted future cash flows expected to result from its use and eventual disposition. If impairment exists due to the inability to recover the carrying value of the property, an impairment loss is recorded to the extent that the carrying value of the property exceeds its estimated fair value.

The Company evaluates the held-for-sale classification of its real estate as of the end of each quarter. Assets that are classified as held for sale are recorded at the lower of their carrying amount or fair value less costs to sell. Assets are generally classified as held for sale once management has initiated an active program to market them for sale and it is probable the assets will be sold within one year. On occasion, the Company will receive unsolicited offers from third parties to buy individual Company properties. Under these circumstances, the Company will classify the properties as held for sale when a sales contract is executed with no contingencies and the prospective buyer has funds at risk to ensure performance.

Real Estate Acquisitions

Upon acquisition of real estate properties, the Company evaluates the acquisition to determine if it is a business combination or an asset acquisition. In January 2017, the FASB issued ASU No. 2017-01, Business Combinations (Topic 805): *Clarifying the Definition of a Business*. The update clarifies the definition of a business with the objective of adding guidance to assist entities with evaluating whether acquisitions should be accounted for as business combinations or asset acquisitions. The standard is effective for annual reporting periods beginning after December 15, 2017, including interim periods within those fiscal years, with early application of the guidance permitted. The Company elected to early adopt ASU No. 2017-01 as of January 1, 2017. As a result, the Company expects that fewer of its real estate acquisitions will be accounted for as business combinations.

Costs incurred for asset acquisitions and development properties, including transaction costs, are capitalized. For asset acquisitions, the Company allocates the purchase price and other related costs incurred to the acquired tangible assets and identified intangible assets and liabilities based on recent independent appraisals or methods similar to those used by independent appraisers and management judgment. Acquisition-related costs in connection with business combinations are expensed as incurred. Costs related to such transactions, as well as costs associated with terminated transactions, are included in the accompanying consolidated statements of income as transaction costs.

Deferred Financing Costs

Deferred financing costs are amortized over the terms of the related debt obligations or mortgage note receivable as applicable. Deferred financing costs of $36.0 million and $32.9 million as of June 30, 2018 and December 31, 2017, respectively, are shown as a reduction of debt. The deferred financing costs related to the unsecured revolving credit facility are included in other assets.

Allowance for Doubtful Accounts

Accounts receivable is reduced by an allowance for amounts where collection is not probable. The Company's accounts receivable balance is comprised primarily of rents and operating cost recoveries due from tenants as well as accrued rental rate increases to be received over the life of the existing leases. The Company regularly evaluates the adequacy of its allowance for doubtful accounts. The evaluation primarily consists of reviewing past due account balances and considering such factors as the credit quality of the Company's tenants, historical trends of the tenant and/or other debtor, current economic conditions and changes in customer payment terms. Additionally, with respect to tenants in bankruptcy, the Company estimates the expected recovery through bankruptcy claims and increases the allowance for amounts deemed uncollectible. These estimates have a direct impact on the Company's net income.

Revenue Recognition

Rents that are fixed and determinable are recognized on a straight-line basis over the non-cancellable terms of the leases. Straight-line rental revenue is subject to an evaluation for collectability, and the Company records a provision for losses against rental revenues if collectability of these future rents is not reasonably assured. For the six months ended June 30, 2018 and 2017, the Company recognized $3.9 million and $9.1 million, respectively, of straight-line rental revenue. Base rent escalation on leases that are dependent upon increases in the Consumer Price Index (CPI) is recognized when known. For both the six months ended June 30, 2018 and 2017, the Company recognized $7.7 million of tenant reimbursements that related to the operations of its entertainment retail centers. Certain reclassifications have been made to the 2017 presentation to conform to the 2018 presentation to combine tenant reimbursements with rental revenue. In addition, most of the Company's tenants are subject to additional rents if gross revenues of the properties exceed certain thresholds defined in the lease agreements (percentage rents). Percentage rents as well as participating interest for those mortgage agreements that contain similar such clauses are recognized at the time when specific triggering events occur as provided by the lease or mortgage agreements. Rental revenue included percentage rents of $3.0 million and $2.5 million for the six months ended June 30, 2018 and 2017, respectively.

Direct financing lease income is recognized on the effective interest method to produce a level yield on funds not yet recovered. Estimated unguaranteed residual values at the date of lease inception represent management's initial estimates of fair value of the leased assets at the expiration of the lease, not to exceed original cost. Significant assumptions used in estimating residual values include estimated net cash flows over the remaining lease term and expected future real estate values. The Company evaluates on an annual basis (or more frequently, if necessary) the collectability of its direct financing lease receivable and unguaranteed residual value to determine whether they are impaired. A direct financing lease receivable is considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the existing contractual terms. When a direct financing lease receivable is considered to be impaired, the amount of loss is calculated by comparing the recorded investment to the value determined by discounting the expected future cash flows at the direct financing lease receivable's effective interest rate or to the fair value of the underlying collateral, less costs to sell, if such receivable is collateralized.

Property Sales

Sales of real estate properties are recognized when a contract exists, collectability is probable and the purchaser has obtained control of the property. Gains on sales of properties are recognized in full in a partial sale of nonfinancial assets, to the extent control is not retained. Any noncontrolling interest retained by the seller would, accordingly, be measured at fair value.

The Company evaluates each sale or disposal transaction to determine if it meets the criteria to qualify as discontinued operations. A discontinued operation is a component of an entity or group of components that have been disposed of or are classified as held for sale and represent a strategic shift that has or will have a major effect on the Company's operations and financial results. If the sale or disposal transaction does not meet the criteria, the operations and related gain or loss on sale is included in income from continuing operations.

Mortgage Notes and Other Notes Receivable

Mortgage notes and other notes receivable, including related accrued interest receivable, consist of loans originated by the Company and the related accrued and unpaid interest income as of the balance sheet date. Mortgage notes and other notes receivable are initially recorded at the amount advanced to the borrower. Interest income is recognized using the effective interest method based on the stated interest rate over the estimated life of the note. Premiums and discounts are amortized or accreted into income over the estimated life of the note using the effective interest method. The Company evaluates the collectability of both interest and principal of each of its loans to determine whether it is impaired. A loan is considered to be impaired when, based on current information and events, the Company determines that it is probable that it will be unable to collect all amounts due according to the existing contractual terms. An insignificant delay or shortfall in amounts of payments does not necessarily result in the loan being identified as impaired. When a loan is considered to be impaired, the amount of loss, if any, is calculated by comparing the recorded investment to the value determined by discounting the expected future cash flows at the loan's effective interest rate or to the fair value of the Company's interest in the underlying collateral, less costs to sell, if the loan is collateral dependent. For impaired loans, interest income is recognized on a cash basis, unless the Company determines based on the loan to estimated fair value ratio the loan should be on the cost recovery method, and any cash payments received would then be reflected as a reduction of principal. Interest income recognition is recommenced if and when the impaired loan becomes contractually current and performance is demonstrated to be resumed.

Concentrations of Risk

American Multi-Cinema, Inc. (AMC) was the lessee of a substantial portion (34%) of the megaplex theatre rental properties held by the Company at June 30, 2018. For the six months ended June 30, 2018 and 2017, approximately $57.4 million or 16.0% and $57.6 million or 20.8%, respectively, of the Company's total revenues were derived from rental payments by AMC. These rental payments are from AMC under the leases, or from its parent, AMC Entertainment, Inc. (AMCE), as the guarantor of AMC's obligations under the leases. AMCE is wholly owned by AMC Entertainment Holdings, Inc. (AMCEH). AMCEH is a publicly held company (NYSE: AMC) and its consolidated financial information is publicly available at www.sec.gov.

Share-Based Compensation

Share-based compensation to employees of the Company is granted pursuant to the Company's Annual Incentive Program and Long-Term Incentive Plan and share-based compensation to non-employee Trustees of the Company is granted pursuant to the Company's Trustee compensation program. Prior to May 12, 2016, share-based compensation granted to employees and non-employee Trustees was issued under the 2007 Equity Incentive Plan. The 2016 Equity Incentive Plan was approved by shareholders at the May 11, 2016 annual shareholder meeting and this plan replaced the 2007 Equity Incentive Plan. Accordingly, all share-based compensation granted on or after May 12, 2016 has been issued under the 2016 Equity Incentive Plan.

Share-based compensation expense consists of share option expense and amortization of nonvested share grants issued to employees, and amortization of share units issued to non-employee Trustees for payment of their annual retainers. Share-based compensation included in general and administrative expense in the accompanying consolidated statements of income totaled $7.6 million and $7.0 million for the six months ended June 30, 2018 and 2017, respectively.

Share Options

Share options are granted to employees pursuant to the Long-Term Incentive Plan. The fair value of share options granted is estimated at the date of grant using the Black-Scholes option pricing model. Share options granted to employees vest over a period of four years and share option expense for these options is recognized on a straight-line basis over the vesting period. Expense recognized related to share options and included in general and administrative expense in the accompanying consolidated statements of income was $147 thousand and $361 thousand for the six months ended June 30, 2018 and 2017, respectively.

Nonvested Shares Issued to Employees

The Company grants nonvested shares to employees pursuant to both the Annual Incentive Program and the Long-Term Incentive Plan. The Company amortizes the expense related to the nonvested shares awarded to employees under the Long-Term Incentive Plan and the premium awarded under the nonvested share alternative of the Annual Incentive

Program on a straight-line basis over the future vesting period (three or four years). Expense recognized related to nonvested shares and included in general and administrative expense in the accompanying consolidated statements of income was $6.9 million and $6.0 million for the six months ended June 30, 2018 and 2017, respectively.

Restricted Share Units Issued to Non-Employee Trustees

The Company issues restricted share units to non-employee Trustees for payment of their annual retainers under the Company's Trustee compensation program. The fair value of the share units granted was based on the share price at the date of grant. The share units vest upon the earlier of the day preceding the next annual meeting of shareholders or a change of control. The settlement date for the shares is selected by the non-employee Trustee, and ranges from one year from the grant date to upon termination of service. This expense is amortized by the Company on a straight-line basis over the year of service by the non-employee Trustees. Total expense recognized related to shares issued to non-employee Trustees was $570 thousand and $599 thousand for the six months ended June 30, 2018 and 2017, respectively.

Derivative Instruments

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): *Targeted Improvements to Accounting for Hedging Activities*. The update amended existing guidance in order to better align a company's financial reporting for hedging activities with the economic objectives of those activities. It requires the Company to disclose the effect of its hedging activities on its consolidated statements of income and eliminated the periodic measurement and recognition of hedging ineffectiveness. The standard is effective for annual reporting periods beginning after December 15, 2018, including interim periods within those fiscal years, with early application of the guidance permitted. The Company elected to early adopt ASU No. 2017-12 as of October 1, 2017. Early adoption had no impact on the Company's financial position or results of operations.

The Company has entered into certain derivative instruments to reduce exposure to fluctuations in foreign currency exchange rates and variable interest rates. The Company has established policies and procedures for risk assessment and the approval, reporting and monitoring of derivative financial instrument activities. These derivatives consist of foreign currency forward contracts, cross-currency swaps and interest rate swaps.

The Company records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. Derivatives may also be designated as hedges of the foreign currency exposure of a net investment in a foreign operation. For its net investment hedges, the Company has elected to assesses hedge effectiveness using a method based on changes in spot exchange rates and record the changes in the fair value amounts excluded from the assessment of effectiveness into earnings on a systematic and rational basis. The Company may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Company elects not to apply hedge accounting.

The Company's policy is to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Impact of Recently Issued Accounting Standards

In February 2016, the FASB issued ASU No. 2016-02, *Leases*, which amends existing accounting standards for lease accounting and is intended to improve financial reporting related to lease transactions. The ASU will require lessees to classify leases as either finance or operating leases based on certain criteria and to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. Lessor accounting will remain largely unchanged from current U.S. GAAP. The standard eliminates current real estate-specific provisions and changes the guidance on sale-leaseback transactions and will require new disclosures within the notes accompanying the consolidated financial statements.

Although the Company is primarily a lessor, ASU No. 2016-02 will impact the Company's consolidated financial statements and disclosures as it has certain operating land leases and other arrangements for which it is the lessee and will be required to recognize these arrangements on the consolidated financial statements. For the land lease arrangements, the Company is also, in substantially all cases, in a sub-lessor position and passes the obligation to pay the monthly land lease payments on to its sublessees. The Company has completed its initial inventory and evaluation of the land leases and other arrangements and expects that it will be required to recognize a right-of-use asset and a lease liability for the present value of the minimum lease payments. The Company is in the process of preparing the initial estimates of the amount of its right-of-use assets and lease liabilities. Based on the current contracts under which the Company is a lessee, it is estimated that its right-of-use assets and lease liabilities to be recognized upon adoption will be less than 4% of total assets. However, the ultimate impact of adopting ASU No. 2016-02 will depend on the Company's lease portfolio as of the adoption date.

A substantial portion of the Company's lease contracts (under which it is lessor) are triple-net leases, which require the tenants to make payments to third parties for operating expenses such as property taxes, insurance and common area maintenance costs associated with the properties. The Company currently does not include these payments made by the lessee to third parties in rental revenue or property operating expenses. Because of applying the guidance in ASU No. 2016-02, the Company may be required to show certain payments made by its tenants on a gross basis in its consolidated statements of income. Although no impact to net income or cash flows is expected as a result of a gross presentation, it would have the impact of increasing both reported revenues and property operating expenses. The Company is continuing to evaluate the impact of this potential presentation.

The ASU will become effective for the Company for interim and annual reporting periods in fiscal years beginning after December 15, 2018. The Company expects to adopt the new standard on its effective date. The standard offers several practical expedients for transition and certain expedients specific to lessees or lessors. Both lessees and lessors are permitted to make an election to apply a package of practical expedients available for implementation under the standard. The Company has concluded it will apply the package of practical expedients and certain other transition expedients, including the expedient to not evaluate existing or expired land easements. For transition, the Company intends to recognize all effects of transition in the beginning of the adoption reporting period on January 1, 2019.

The Company will continue its implementation work in 2018 including enhancements to the Company's internal control framework, accounting systems and related documentation surrounding its lease accounting processes and the preparation of any additional disclosures that will be required.

In June 2016, the FASB issued ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments*, which amends ASC Topic 326, Financial Instruments - Credit Losses. The ASU changes the methodology for measuring credit losses on financial instruments and timing of when such losses are recorded. The amendments in ASU No. 2016-13 require the Company to measure all expected credit losses based upon historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of financial assets and eliminates the incurred losses methodology under current U.S. GAAP. ASU No. 2016-13 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. The Company is currently evaluating the impact that the ASU will have on its consolidated financial statements and related disclosures.

3. Rental Properties

The following table summarizes the carrying amounts of rental properties as of June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	December 31, 2017
Buildings and improvements	$ 4,390,112	$ 4,123,356
Furniture, fixtures & equipment	89,559	87,630
Land	1,158,347	1,108,805
Leasehold interests	25,774	25,774
	5,663,792	5,345,565
Accumulated depreciation	(810,604)	(741,334)
Total	$ 4,853,188	$ 4,604,231

Depreciation expense on rental properties was $72.9 million and $59.3 million for the six months ended June 30, 2018 and 2017, respectively.

4. Impairment Charges

In July 2018, the Company entered into a new lease agreement with Children's Learning Adventure USA (CLA) related to 21 open schools which replaces the prior lease arrangements and provides for a one-month term for rent of $1.0 million expiring on August 31, 2018. If the new lease is not extended, CLA will be required to expeditiously vacate these properties, in which case the Company intends to lease some or all of the 21 schools to other operators. The Company had $250.9 million classified in rental properties, net, in the accompanying consolidated balance sheets at June 30, 2018 for these 21 schools, and determined that the estimated undiscounted future cash flow exceed the carrying values of these properties. In addition, CLA also agreed to relinquish control of four of the Company's properties that were still under development as the Company no longer intends to develop these properties for CLA. As a result, the Company revised its estimated undiscounted cash flows for these four properties, considering shorter expected holding periods, and determined that those estimated cash flows were not sufficient to recover the carrying values of these four properties. During the three months ended June 30, 2018, the Company determined the estimated fair value of these properties using Level 3 inputs, including independent appraisals of these properties, and reduced the carrying value of these assets to $9.8 million, recording an impairment charge of $16.5 million. The charge is primarily related to the cost of improvements specific to the development of CLA's prototype.

5. Investments and Dispositions

The Company's investment spending during the six months ended June 30, 2018 totaled $238.5 million, and included investments in each of its primary operating segments.

Entertainment investment spending during the six months ended June 30, 2018 totaled $49.3 million, including spending on build-to-suit development and redevelopment of megaplex theatres, entertainment retail centers and family entertainment centers, as well as a $7.5 million megaplex theatre acquisition.

Recreation investment spending during the six months ended June 30, 2018 totaled $150.6 million, including spending on build-to-suit development of golf entertainment complexes and attractions, redevelopment of ski areas, a $7.8 million acquisition of a recreation facility, an investment of $10.3 million in a mortgage note secured by one other recreation facility and the acquisition of one attraction property described below.

On June 22, 2018, the Company acquired one attraction property located in Pagosa Springs, Colorado for approximately $36.4 million. The property is a natural hot springs resort and spa on approximately eight acres and is subject to a long-term, triple-net lease.

Education investment spending during the six months ended June 30, 2018 totaled $38.6 million, including spending on build-to-suit development and redevelopment of public charter schools, early education centers and private schools, as well as $8.4 million on two early education center acquisitions.

Mortgage Notes

On February 16, 2018, a borrower exercised its put option to convert its mortgage note agreement, totaling $142.9 million and secured by 28 education facilities including both early education and private school properties, to a lease agreement. As a result, the Company recorded the rental property at the carrying value, which approximated fair value, of the mortgage note on the conversion date and allocated this cost on a relative fair value basis. The properties are leased pursuant to a triple-net master lease with a 23-year remaining term.

On March 11, 2018, the Company received payment in full on one mortgage note receivable of $1.5 million that was secured by land located in California. Additionally, on March 26, 2018, the Company received payment in full on one mortgage note receivable of $9.0 million that was secured by real estate in Washington. There were no prepayment fees received in connection with these note payoffs.

On May 7, 2018, Boyne USA, Inc. (Boyne) purchased seven ski properties from Och-Ziff Real Estate (OZRE) that partially secured the Company's mortgage note receivable due from OZRE. Following the acquisition by Boyne, OZRE made a partial prepayment to the Company of $175.4 million on this mortgage note receivable, leaving a carrying value of $74.6 million at June 30, 2018 that is secured by the remaining six ski properties. In connection with the partial prepayment of this note, the Company recognized a prepayment fee totaling $45.9 million that is included in mortgage and other financing income in the accompanying consolidated statements of income for the three and six months ended June 30, 2018.

On May 29, 2018, the Company received a partial prepayment of $8.0 million on one mortgage note receivable that is secured by the observation deck of the John Hancock Tower in Chicago, Illinois. In connection with the partial prepayment of this note, the Company recognized a prepayment fee of $1.4 million that is included in mortgage and other financing income in the accompanying consolidated statements of income for the three and six months ended June 30, 2018.

Dispositions

During the six months ended June 30, 2018, the Company completed the sales of two entertainment parcels located in Illinois for net proceeds totaling $4.2 million. In connection with these sales, the Company recognized a gain on sale of $0.5 million during the six months ended June 30, 2018. Additionally, the Company completed the sale of one early education center for net proceeds of $1.6 million. No gain or loss was recognized on this sale.

Subsequent to June 30, 2018, pursuant to a tenant purchase option, the Company completed the sale of one public charter school located in California for net proceeds totaling $11.9 million. In connection with this sale, the Company will recognize a gain on sale of $1.9 million during the third quarter of 2018.

6. Accounts Receivable, Net

The following table summarizes the carrying amounts of accounts receivable, net as of June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	December 31, 2017
Receivable from tenants	$ 17,766	$ 19,923
Receivable from non-tenants	4,745	3,932
Receivable from Sullivan County Infrastructure Revenue Bonds	16,883	14,718
Straight-line rent receivable	67,903	62,605
Allowance for doubtful accounts	(9,493)	(7,485)
Total	$ 97,804	$ 93,693

The above totals include receivables from tenants of approximately $7.2 million and $6.0 million from CLA, which were fully reserved in the allowance for doubtful accounts at June 30, 2018 and December 31, 2017, respectively. See Note 14 for further discussion related to CLA. During the three months ended June 30, 2018, the Company recorded impairment charges of $16.5 million related to four properties classified in land held for development. See Note 4 for further discussion on impairment charges recognized related to CLA properties.

7. Investment in Direct Financing Leases

The Company's investment in direct financing leases relates to the Company's leases of six public charter school properties as of June 30, 2018 and December 31, 2017, with affiliates of Imagine Schools, Inc. (Imagine). Investment in direct financing leases, net represents estimated unguaranteed residual values of leased assets and net unpaid rentals, less related deferred income. The following table summarizes the carrying amounts of investment in direct financing leases, net as of June 30, 2018 and December 31, 2017 (in thousands):

	June 30, 2018	December 31, 2017
Total minimum lease payments receivable	$ 109,294	$ 112,411
Estimated unguaranteed residual value of leased assets	47,000	47,000
Less deferred income [(1)]	(97,989)	(101,508)
Investment in direct financing leases, net	$ 58,305	$ 57,903

[(1)] Deferred income is net of $0.8 million of initial direct costs at June 30, 2018 and December 31, 2017.

During the year ended December 31, 2017, the Company recorded an impairment charge of $9.6 million, which included an allowance for lease loss of $7.3 million and a charge of $2.3 million related to estimated unguaranteed residual value. The Company determined that no additional allowance for losses was necessary at June 30, 2018.

Additionally, during the year ended December 31, 2017, the Company performed its annual review of the estimated unguaranteed residual value on its other properties leased to Imagine and determined that the residual value on one of these properties was impaired. As such, the Company recorded an impairment charge of the unguaranteed residual value of $0.6 million during the year ended December 31, 2017.

The Company's direct financing leases have expiration dates ranging from approximately 14 to 16 years. Future minimum rentals receivable on these direct financing leases at June 30, 2018 are as follows (in thousands):

	Amount
Year:	
2018	$ 3,184
2019	6,490
2020	6,685
2021	6,885
2022	7,092
Thereafter	78,958
Total	$ 109,294

Subsequent to June 30, 2018, the Company completed the sale of four public charter school properties leased to Imagine, located in Arizona, Ohio and Washington D.C for net proceeds of $43.4 million. In connection with this sale, the Company expects to recognize a gain on sale of $5.5 million during the third quarter of 2018.

8. Debt and Capital Markets

On January 2, 2018, the Company prepaid in full a mortgage note payable totaling $11.7 million with an annual interest rate of 6.19%, which was secured by one theatre property.

Additionally, on February 28, 2018, the Company redeemed all of its outstanding 7.75% Senior Notes due July 15, 2020. The notes were redeemed at a price equal to the principal amount of $250.0 million plus a premium calculated pursuant to the terms of the indenture of $28.6 million, together with accrued and unpaid interest up to, but not including the redemption date of $2.3 million. In connection with the redemption, the Company recorded a non-cash write off of $3.3 million in deferred financing costs. The premium and non-cash write off were recognized as costs associated with loan refinancing or payoff in the accompanying consolidated statements of income for the six months ended June 30, 2018.

On April 16, 2018, the Company issued $400.0 million in aggregate principal amount of senior notes due April 15, 2028 pursuant to an underwritten public offering. The notes bear interest at an annual rate of 4.95%. Interest is payable on April 15 and October 15 of each year beginning on October 15, 2018 until the stated maturity date of April 15, 2028. The notes were issued at 98.883% of their face value and are unsecured. The notes contain various covenants, including: (i) a limitation on incurrence of any debt which would cause the ratio of the Company’s debt to adjusted total assets to exceed 60%; (ii) a limitation on incurrence of any secured debt which would cause the ratio of the Company’s secured debt to adjusted total assets to exceed 40%; (iii) a limitation on incurrence of any debt which would cause the Company’s debt service coverage ratio to be less than 1.5 times and (iv) the maintenance at all times of the Company's total unencumbered assets such that they are not less than 150% of the Company’s outstanding unsecured debt. Net proceeds from the note offering were used to pay down the Company's unsecured revolving credit facility.

9. Variable Interest Entities

The Company’s variable interest in VIEs currently are in the form of equity ownership and loans provided by the Company to a VIE or other partner. The Company examines specific criteria and uses its judgment when determining if the Company is the primary beneficiary of a VIE. Factors considered in determining whether the Company is the primary beneficiary include risk and reward sharing, experience and financial condition of other partner(s), voting rights, involvement in day-to-day capital and operating decisions, representation on a VIE’s executive committee, existence of unilateral kick-out rights or voting rights, and level of economic disproportionality between the Company and the other partner(s).

Consolidated VIEs

As of June 30, 2018, the Company had invested approximately $30.0 million included in rental properties in the accompanying consolidated balance sheet for one real estate project which is a VIE. This entity does not have any other significant assets or liabilities at June 30, 2018 and was established to facilitate the development of a theatre project.

Unconsolidated VIE

At June 30, 2018, the Company's recorded investment in two unconsolidated VIEs totaled $180.4 million. The Company's maximum exposure to loss associated with these VIEs is limited to the Company's outstanding mortgage notes and related accrued interest receivable of $180.4 million. These mortgage notes are secured by three recreation properties and one public charter school. While these entities are VIEs, the Company has determined that the power to direct the activities of these VIEs that most significantly impact the VIEs' economic performance is not held by the Company.

10. Derivative Instruments

All derivatives are recognized at fair value in the consolidated balance sheets within the line items "Other assets" and "Accounts payable and accrued liabilities" as applicable. The Company's derivatives are subject to a master netting arrangement and the Company has elected not to offset its derivative position for purposes of balance sheet presentation and disclosure. The Company had derivative liabilities of $0.6 million and $0.1 million recorded in “Accounts payable and accrued liabilities” in the consolidated balance sheet at June 30, 2018 and December 31, 2017, respectively. The Company had derivative assets of $40.7 million and $25.8 million recorded in “Other assets” in the consolidated balance sheet at June 30, 2018 and December 31, 2017, respectively. The Company had not posted or received collateral with its derivative counterparties as of June 30, 2018 or December 31, 2017. See Note 11 for disclosures relating to the fair value of the derivative instruments as of June 30, 2018 and December 31, 2017.

Risk Management Objective of Using Derivatives

The Company is exposed to certain risk arising from both its business operations and economic conditions including the effect of changes in foreign currency exchange rates and interest rates on its LIBOR based borrowings. The Company manages this risk by following established risk management policies and procedures including the use of derivatives. The Company's objective in using derivatives is to add stability to reported earnings and to manage its exposure to foreign exchange and interest rate movements or other identified risks. To accomplish this objective, the Company primarily uses interest rate swaps, cross-currency swaps and foreign currency forwards.

Cash Flow Hedges of Interest Rate Risk

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements on its LIBOR based borrowings. To accomplish these objectives, the Company currently uses interest rate swaps as its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt or payment of variable-rate amounts from a counterparty which results in the Company recording net interest expense that is fixed over the life of the agreements without exchange of the underlying notional amount.

As of June 30, 2018, the Company had two interest rate swap agreements to fix the interest rate at 2.64% on $300.0 million of borrowings under the unsecured term loan facility from July 6, 2017 to April 5, 2019. Additionally, as of June 30, 2018, the Company had three additional interest rate swap agreements to fix the interest rate at 3.15% on an additional $50.0 million of borrowings under the unsecured term loan facility from November 6, 2017 to April 5, 2019 and on $350.0 million of borrowings under the unsecured term loan facility from April 6, 2019 to February 7, 2022.

The change in the fair value of interest rate derivatives designated and that qualify as cash flow hedges is recorded in accumulated other comprehensive income (AOCI) and is subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings within the same income statement line item as the earnings effect of the hedged transaction. During the six months ended June 30, 2018 and 2017, such derivatives were used to hedge the variable cash flows associated with existing variable-rate debt.

Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on the Company's variable-rate debt. As of June 30, 2018, the Company estimates that during the twelve months ending June 30, 2019, $2.4 million will be reclassified from AOCI to a reduction of interest expense.

Cash Flow Hedges of Foreign Exchange Risk

The Company is exposed to foreign currency exchange risk against its functional currency, USD, on its four Canadian properties. The Company uses cross currency swaps and foreign currency forwards to mitigate its exposure to fluctuations in the USD-CAD exchange rate on its Canadian properties. These foreign currency derivatives should hedge a significant portion of the Company's expected CAD denominated cash flow of the Canadian properties as their impact on the Company's cash flow when settled should move in the opposite direction of the exchange rates used to translate revenues and expenses of these properties.

As of June 30, 2018, the Company had USD-CAD cross-currency swaps with a fixed original notional value of $100.0 million CAD and $98.1 million USD. The net effect of these swaps is to lock in an exchange rate of $1.05 CAD per USD on approximately $13.5 million of annual CAD denominated cash flows on the properties through July 1, 2018.
Additionally, on August 30, 2017, the Company entered into a cross-currency swap that became effective July 1, 2018 with a fixed original notional value of $100.0 million CAD and $79.5 million USD. The net effect of this swap is to lock in an exchange rate of $1.26 CAD per USD on approximately $13.5 million of annual CAD denominated cash flows on the properties through June 2020. On June 29, 2019, the Company entered into two cross-currency swap agreements designated as net investment hedges and are described below.

The change in the fair value of foreign currency derivatives designated and that qualify as cash flow hedges of foreign exchange risk is recorded in AOCI and subsequently reclassified into earnings in the period that the hedged forecasted transaction affects earnings within the same income statement line item as the earnings effect of the hedged transaction.

As of June 30, 2018, the Company estimates that during the twelve months ending June 30, 2019, $0.4 million of gains will be reclassified from AOCI to other income.

Net Investment Hedges

As discussed above, the Company is exposed to fluctuations in foreign exchange rates on its four Canadian properties. As such, the Company uses currency forward agreements to hedge its exposure to changes in foreign exchange rates. Currency forward agreements involve fixing the USD-CAD exchange rate for delivery of a specified amount of foreign currency on a specified date. The currency forward agreements are typically cash settled in USD for their fair value at or close to their settlement date. In order to hedge the net investment in four of the Canadian properties, on June 13, 2013, the Company entered into a forward contract with a fixed notional value of $100.0 million CAD and $94.3 million USD with a July 2018 settlement. The exchange rate of this forward contract is approximately $1.06 CAD per USD. Additionally, on February 28, 2014, the Company entered into a forward contract with a fixed notional value of $100.0 million CAD and $88.1 million USD with a July 2018 settlement date. The exchange rate of this forward contract was approximately $1.13 CAD per USD.

On June 29, 2018, the Company de-designated these CAD to USD currency forward agreements in conjunction with entering into new agreements, described below, effectively terminating the currency forward agreements. These contracts were previously designated as net investment hedges. Subsequent to June 30, 2018, the Company received $30.8 million of cash in connection with the settlement of the CAD to USD currency forward agreements. The corresponding change in value of the forward contracts for the period from inception through settlement of $30.8 million will be reported in AOCI and will be reclassified into earnings upon a sale or complete or substantially complete liquidation of the Company's investment in its four Canadian properties.

Additionally, on June 29, 2018, the Company entered into two cross-currency swaps, designated as net investment hedges that became effective July 1, 2018 with a total fixed notional value of $200.0 million CAD and $151.6 million USD with a maturity date of July 1, 2023. Included in this net investment hedge, the Company locked in an exchange rate of $1.32 CAD per USD on approximately $4.5 million of additional annual CAD denominated cash flows on the properties through July 1, 2023.

For foreign currency derivatives designated as net investment hedges, the change in the fair value of the derivatives are reported in AOCI as part of the cumulative translation adjustment. Amounts are reclassified out of AOCI into earnings when the hedged net investment is either sold or substantially liquidated.

Below is a summary of the effect of derivative instruments on the consolidated statements of changes in equity and income for the three and six months ended June 30, 2018 and 2017.

Effect of Derivative Instruments on the Consolidated Statements of Changes in Equity and Income for the Three and Six Months Ended June 30, 2018 and 2017
(Dollars in thousands)

Description	Three Months Ended June 30, 2018	Three Months Ended June 30, 2017	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
Cash Flow Hedges				
Interest Rate Swaps				
Amount of Gain (Loss) Recognized in AOCI on Derivative	$ 2,115	$ (297)	$ 6,893	$ 207
Amount of Income (Expense) Reclassified from AOCI into Earnings (1)	275	(913)	262	(1,984)
Cross-Currency Swaps				
Amount of Gain (Loss) Recognized in AOCI on Derivative	447	(209)	1,062	(375)
Amount of Income Reclassified from AOCI into Earnings (2)	621	697	1,175	1,359
Net Investment Hedges				
Cross-Currency Swaps				
Amount of Loss Recognized in AOCI on Derivative	(591)	—	(591)	—
Amount of Income Reclassified from AOCI into Earnings	—	—	—	—
Currency Forward Agreements				
Amount of Gain (Loss) Recognized in AOCI on Derivative	4,009	(3,166)	8,555	(4,715)
Amount of Income Reclassified from AOCI into Earnings	—	—	—	—
Total				
Amount of Gain (Loss) Recognized in AOCI on Derivatives	$ 5,980	$ (3,672)	$ 15,919	$ (4,883)
Amount of Income (Expense) Reclassified from AOCI into Earnings	896	(216)	1,437	(625)
Interest expense, net in accompanying consolidated statements of income	34,079	32,967	68,416	63,659
Other income in accompanying consolidated statements of income	646	1,304	1,276	1,996

(1) Included in "Interest expense, net" in the accompanying consolidated statements of income for the three and six months ended June 30, 2018 and 2017.

(2) Included in "Other income" in the accompanying consolidated statements of income for the three and six months ended June 30, 2018 and 2017.

Credit-risk-related Contingent Features

The Company has agreements with each of its interest rate derivative counterparties that contain a provision where if the Company defaults on any of its obligations for borrowed money or credit in an amount exceeding $25.0 million for two of the agreements and $50.0 million for three of the agreements and such default is not waived or cured within a specified period of time, including default where repayment of the indebtedness has not been accelerated by the lender, then the Company could also be declared in default on its interest rate derivative obligations.

As of June 30, 2018, the fair value of the Company's derivatives in a liability position related to these agreements was $0.6 million. If the Company breached any of the contractual provisions of these derivative contracts, it would be required to settle its obligations under the agreements at their termination value, after considering the right of offset, of $0.6 million. As of June 30, 2018, the Company had not posted any collateral related to these agreements and was not in breach of any provisions in these agreements.

11. Fair Value Disclosures

The Company has certain financial instruments that are required to be measured under the FASB’s Fair Value Measurement guidance. The Company currently does not have any non-financial assets and non-financial liabilities that are required to be measured at fair value on a recurring basis.

As a basis for considering market participant assumptions in fair value measurements, the FASB’s Fair Value Measurement guidance establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity’s own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). Level 1 inputs use quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability, which are typically based on an entity’s own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

Derivative Financial Instruments

The Company uses interest rate swaps, foreign currency forwards and cross-currency swaps to manage its interest rate and foreign currency risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves, foreign exchange rates, and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts and the discounted expected variable cash payments. The variable cash payments are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty’s nonperformance risk in the fair value measurements. In adjusting the fair value of its derivative contracts for the effect of nonperformance risk, the Company has considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts, and guarantees. In conjunction with the FASB's Fair Value Measurement guidance, the Company made an accounting policy election to measure the credit risk of its derivative financial instruments that are subject to master netting agreements on a net basis by counterparty portfolio.

Although the Company determined that the majority of the inputs used to value its derivatives fall within Level 2 of the fair value hierarchy, the credit valuation adjustments associated with its derivatives also use Level 3 inputs, such as estimates of current credit spreads, to evaluate the likelihood of default by itself and its counterparties. As of June 30, 2018, the Company assessed the significance of the impact of the credit valuation adjustments on the overall valuation of its derivative positions and determined that the credit valuation adjustments are not significant to the overall valuation of its derivatives and therefore, classified its derivatives as Level 2 within the fair value reporting hierarchy.

The table below presents the Company's financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2018 and December 31, 2017 aggregated by the level in the fair value hierarchy within which those measurements are classified and by derivative type.

Assets and Liabilities Measured at Fair Value on a Recurring Basis at June 30, 2018 and December 31, 2017 (Dollars in thousands)

Description	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Assets (Liabilities) Balance at end of period
June 30, 2018				
Cross-Currency Swaps*	$ —	$ 794	$ —	$ 794
Cross-Currency Swaps**	—	(591)	—	(591)
Currency Forward Agreements*	$ —	$ 30,791	$ —	$ 30,791
Interest Rate Swap Agreements*	$ —	$ 9,127	$ —	$ 9,127
December 31, 2017				
Cross-Currency Swaps*	$ —	$ 1,041	$ —	$ 1,041
Cross-Currency Swaps**	$ —	$ (134)	$ —	$ (134)
Currency Forward Agreements*	$ —	$ 22,235	$ —	$ 22,235
Interest Rate Swap Agreements*	$ —	$ 2,496	$ —	$ 2,496

*Included in "Other assets" in the accompanying consolidated balance sheets.

**Included in "Accounts payable and accrued liabilities" in the accompanying consolidated balance sheets.

Non-recurring Fair Value Measurements

The table below presents the Company's assets measured at fair value on a non-recurring basis during the six months ended June 30, 2018 aggregated by the level in the fair value hierarchy within which those measurements fall.

Assets Measured at Fair Value on a Non-Recurring Basis During the Six Months Ended June 30, 2018 (Dollars in thousands)

Description	Quoted Prices in Active Markets for Identical Assets (Level I)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance at end of period
June 30, 2018				
Land held for development	$ —	$ —	$ 9,805	$ 9,805

As discussed further in Note 4, during the three months ended June 30, 2018, the Company recorded impairment charges totaling $16.5 million related to land held for development and property under development. Management estimated the fair values of these investments taking into account various factors including the independent appraisals, the shortened hold period and current market conditions. The Company determined, based on inputs, that its valuation of land held for development and property under development classified within Level 3 of the fair value hierarchy as many of the assumptions are not observable.

Fair Value of Financial Instruments

The following methods and assumptions were used by the Company to estimate the fair value of each class of financial instruments at June 30, 2018 and December 31, 2017:

Mortgage notes receivable and related accrued interest receivable:

The fair value of the Company's mortgage notes and related accrued interest receivable is estimated by discounting the future cash flows of each instrument using current market rates. At June 30, 2018, the Company had a carrying value of $641.4 million in fixed rate mortgage notes receivable outstanding, including related accrued interest, with a weighted average interest rate of approximately 8.67%. The fixed rate mortgage notes bear interest at rates of 7.00% to 11.43%. Discounting the future cash flows for fixed rate mortgage notes receivable using rates of

7.50% to 11.50%, management estimates the fair value of the fixed rate mortgage notes receivable to be approximately $666.1 million with an estimated weighted average market rate of 9.37% at June 30, 2018.

At December 31, 2017, the Company had a carrying value of $970.7 million in fixed rate mortgage notes receivable outstanding, including related accrued interest, with a weighted average interest rate of approximately 8.42%. The fixed rate mortgage notes bear interest at rates of 7.00% to 11.31%. Discounting the future cash flows for fixed rate mortgage notes receivable using rates of 7.00% to 11.50%, management estimates the fair value of the fixed rate mortgage notes receivable to be $992.6 million with an estimated weighted average market rate of 8.79% at December 31, 2017.

Investment in direct financing leases, net:
At June 30, 2018 and December 31, 2017, the Company had an investment in direct financing leases with a carrying value of $58.3 million and $57.9 million, respectively, and with a weighted average effective interest rate of 11.98% for both periods. At June 30, 2018 and December 31, 2017, the investment in direct financing leases bear interest at effective rates of 11.90% to 12.38%. The carrying value of the investment in direct financing leases approximated the fair value at June 30, 2018 and December 31, 2017.

Derivative instruments:
Derivative instruments are carried at their fair value.

Debt instruments:
The fair value of the Company's debt is estimated by discounting the future cash flows of each instrument using current market rates. At June 30, 2018, the Company had a carrying value of $455.0 million in variable rate debt outstanding with a weighted average interest rate of approximately 2.71%. The carrying value of the variable rate debt outstanding approximated the fair value at June 30, 2018.

At December 31, 2017, the Company had a carrying value of $635.0 million in variable rate debt outstanding with a weighted average interest rate of approximately 2.58%. The carrying value of the variable rate debt outstanding approximated the fair value at December 31, 2017.

At June 30, 2018 and December 31, 2017, $350.0 million of the Company's variable rate debt, discussed above, had been effectively converted to a fixed rate through February 7, 2022 by interest rate swap agreements.

At June 30, 2018, the Company had a carrying value of $2.57 billion in fixed rate long-term debt outstanding with a weighted average interest rate of approximately 4.86%. Discounting the future cash flows for fixed rate debt using June 30, 2018 market rates of 3.11% to 5.26%, management estimates the fair value of the fixed rate debt to be approximately $2.55 billion with an estimated weighted average market rate of 4.85% at June 30, 2018.

At December 31, 2017, the Company had a carrying value of $2.43 billion in fixed rate long-term debt outstanding with an average weighted interest rate of approximately 5.15%. Discounting the future cash flows for fixed rate debt using December 31, 2017 market rates of 2.49% to 4.56%, management estimates the fair value of the fixed rate debt to be approximately $2.53 billion with an estimated weighted average market rate of 4.04% at December 31, 2017.

12. Earnings Per Share

The following table summarizes the Company's computation of basic and diluted earnings per share (EPS) for the three and six months ended June 30, 2018 and 2017 (amounts in thousands except per share information):

	Three Months Ended June 30, 2018			Six Months Ended June 30, 2018		
	Income (numerator)	Shares (denominator)	Per Share Amount	Income (numerator)	Shares (denominator)	Per Share Amount
Basic EPS:						
Net income	$ 91,581			$ 121,119		
Less: preferred dividend requirements	(6,036)			(12,072)		
Net income available to common shareholders	$ 85,545	74,329	$ 1.15	$ 109,047	74,238	$ 1.47
Diluted EPS:						
Net income available to common shareholders	$ 85,545	74,329		$ 109,047	74,238	
Effect of dilutive securities:						
Share options	—	36			35	
Net income available to common shareholders	$ 85,545	74,365	$ 1.15	$ 109,047	74,273	$ 1.47

	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	Income (numerator)	Shares (denominator)	Per Share Amount	Income (numerator)	Shares (denominator)	Per Share Amount
Basic EPS:						
Net income	$ 80,535			$ 134,451		
Less: preferred dividend requirements	(5,952)			(11,904)		
Net income available to common shareholders	$ 74,583	73,159	$ 1.02	$ 122,547	68,621	$ 1.79
Diluted EPS:						
Net income available to common shareholders	$ 74,583	73,159		$ 122,547	68,621	
Effect of dilutive securities:						
Share options	—	66		—	68	
Net income available to common shareholders	$ 74,583	73,225	$ 1.02	$ 122,547	68,689	$ 1.78

The additional 2.1 million common shares that would result from the conversion of the Company's 5.75% Series C cumulative convertible preferred shares and the additional 1.6 million common shares that would result from the conversion of the Company's 9.0% Series E cumulative convertible preferred shares and the corresponding add-back of the preferred dividends declared on those shares are not included in the calculation of diluted earnings per share for the three and six months ended June 30, 2018 and 2017, respectively, because the effect is anti-dilutive.

The dilutive effect of potential common shares from the exercise of share options is included in diluted earnings per share for the three and six months ended June 30, 2018 and 2017. However, options to purchase 86 thousand and 5 thousand common shares at per share prices ranging from $56.94 to $76.63 and ranging from $61.79 to $76.63, were outstanding for the three and six months ended June 30, 2018 and 2017, respectively, but were not included in the computation of diluted earnings per share because they were anti-dilutive.

13. Equity Incentive Plan

All grants of common shares and options to purchase common shares were issued under the Company's 2007 Equity Incentive Plan prior to May 12, 2016 and under the 2016 Equity Incentive Plan on and after May 12, 2016. Under the 2016 Equity Incentive Plan, an aggregate of 1,950,000 common shares, options to purchase common shares and restricted share units, subject to adjustment in the event of certain capital events, may be granted. At June 30, 2018, there were 1,309,271 shares available for grant under the 2016 Equity Incentive Plan.

Share Options

Share options granted under the 2007 Equity Incentive Plan and the 2016 Equity Incentive Plan have exercise prices equal to the fair market value of a common share at the date of grant. The options may be granted for any reasonable term, not to exceed 10 years, and for employees typically become exercisable at a rate of 25% per year over a four-year period. The Company generally issues new common shares upon option exercise. A summary of the Company’s share option activity and related information is as follows:

	Number of options	Option price per share			Weighted avg. exercise price
Outstanding at December 31, 2017	257,606	$ 19.02	—	$ 76.63	$ 51.81
Exercised	(5,742)	45.20	—	61.79	52.42
Granted	3,835	56.94	—	56.94	56.94
Forfeited/Expired	(205)	51.64	—	61.79	59.02
Outstanding at June 30, 2018	255,494	$ 19.02	—	$ 76.63	$ 51.87

The weighted average fair value of options granted was $3.03 and $7.91 during the six months ended June 30, 2018 and 2017, respectively. The intrinsic value of share options exercised was $0.1 million and $0.5 million for the six months ended June 30, 2018 and 2017, respectively. At June 30, 2018, share-option expense to be recognized in future periods was $0.2 million.

The expense related to share options included in the determination of net income for the six months ended June 30, 2018 and 2017 was $0.1 million and $0.4 million, respectively. The following assumptions were used in applying the Black-Scholes option pricing model at the grant dates for the six months ended June 30, 2018: risk-free interest rate of 2.7%, dividend yield of 7.6%, volatility factors in the expected market price of the Company’s common shares of 18.9%, 0.74% expected forfeiture rate and an expected life of approximately six years. The Company uses historical data to estimate the expected life of the option and the risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant. Additionally, expected volatility is computed based on the average historical volatility of the Company’s publicly traded shares.

The following table summarizes outstanding options at June 30, 2018:

Exercise price range	Options outstanding	Weighted avg. life remaining	Weighted avg. exercise price	Aggregate intrinsic value (in thousands)
$ 19.02 - 19.99	11,097	0.9		
20.00 - 29.99	—	—		
30.00 - 39.99	1,428	1.5		
40.00 - 49.99	84,509	3.6		
50.00 - 59.99	76,474	5.7		
60.00 - 69.99	79,771	6.6		
70.00 - 76.63	2,215	8.7		
	255,494	5.1	$ 51.87	$ 3,328

The following table summarizes exercisable options at June 30, 2018:

Exercise price range	Options outstanding	Weighted avg. life remaining	Weighted avg. exercise price	Aggregate intrinsic value (in thousands)
$ 19.02 - 19.99	11,097	0.9		
20.00 - 29.99	—	—		
30.00 - 39.99	1,428	1.5		
40.00 - 49.99	84,509	3.6		
50.00 - 59.99	72,639	5.5		
60.00 - 69.99	58,593	6.6		
70.00 - 76.63	554	8.7		
	228,820	4.8	$ 50.68	$ 3,234

Nonvested Shares

A summary of the Company's nonvested share activity and related information is as follows:

	Number of shares	Weighted avg. grant date fair value	Weighted avg. life remaining
Outstanding at December 31, 2017	620,122	$ 68.07	
Granted	295,202	56.94	
Vested	(244,852)	65.33	
Forfeited	(38)	56.94	
Outstanding at June 30, 2018	670,434	$ 64.17	1.40

The holders of nonvested shares have voting rights and receive dividends from the date of grant. These shares vest ratably over a period of three to four years. The fair value of the nonvested shares that vested was $16.0 million and $15.0 million for the six months ended June 30, 2018 and 2017, respectively. At June 30, 2018, unamortized share-based compensation expense related to nonvested shares was $27.1 million.

Restricted Share Units

A summary of the Company's restricted share unit activity and related information is as follows:

	Number of shares	Weighted avg. grant date fair value	Weighted avg. life remaining
Outstanding at December 31, 2017	19,030	$ 70.91	
Granted	23,571	61.25	
Vested	(19,030)	70.91	
Outstanding at June 30, 2018	23,571	$ 61.25	0.92

The holders of restricted share units receive dividend equivalents from the date of grant. The share units vest upon the earlier of the day preceding the next annual meeting of shareholders or a change of control. The settlement date for the shares is selected by the non-employee Trustee, and ranges from one year from the grant date to upon termination of service. At June 30, 2018, unamortized share-based compensation expense related to restricted share units was $1.3 million.

14. Other Commitments and Contingencies

As of June 30, 2018, the Company had an aggregate of approximately $110.8 million of commitments to fund development projects including 12 entertainment development projects for which it had commitments to fund approximately $24.7 million, five recreation development projects for which it had commitments to fund approximately $52.2 million and seven education development projects for which it had commitments to fund approximately $33.9 million. Development costs are advanced by the Company in periodic draws. If the Company determines that construction is not being completed in accordance with the terms of the development agreement, it can discontinue funding construction draws. The Company has agreed to lease the properties to the operators at pre-determined rates upon completion of construction.

Additionally as of June 30, 2018, the Company had a commitment to fund approximately $201.2 million, of which $86.1 million had been funded, to complete an indoor waterpark hotel and adventure park at its casino and resort project in Sullivan County, New York. The Company is also responsible for the construction of the casino and resort project common infrastructure. In June 2016, the Sullivan County Infrastructure Local Development Corporation issued $110.0 million of Series 2016 Revenue Bonds which is expected to fund a substantial portion of such construction costs. The Company received reimbursements of $43.4 million and $23.9 million of construction costs during the years ended December 31, 2016 and 2017, respectively. During the six months ended June 30, 2018, the Company received an additional reimbursement of $6.9 million. Construction of infrastructure improvements is currently expected to be completed in the remainder of 2018.

The Company has certain commitments related to its mortgage note investments that it may be required to fund in the future. The Company is generally obligated to fund these commitments at the request of the borrower or upon the occurrence of events outside of its direct control. As of June 30, 2018, the Company had five mortgage notes receivable with commitments totaling approximately $18.6 million. If commitments are funded in the future, interest will be charged at rates consistent with the existing investments.

The Company has provided guarantees of the payment of certain economic development revenue bonds totaling $24.7 million related to two theatres in Louisiana for which the Company earns a fee at an annual rate of 4.00% over the 30-year terms of the related bonds. The Company recorded $13.3 million as a deferred asset included in other assets and $13.3 million included in other liabilities in the accompanying consolidated balance sheet as of June 30, 2018 related to these guarantees. No amounts have been accrued as a loss contingency related to these guarantees because payment by the Company is not probable.

In connection with construction of its development projects and related infrastructure, certain public agencies require posting of surety bonds to guarantee that the Company's obligations are satisfied. These bonds expire upon the completion of the improvements or infrastructure. As of June 30, 2018, the Company had six surety bonds outstanding totaling $22.8 million.

Resort Project in Sullivan County, New York

Prior proposed casino and resort developers Concord Associates, L.P., Concord Resort, LLC and Concord Kiamesha LLC, which are affiliates of Louis Cappelli and from whom the Company acquired the Resorts World Catskills resort property (the Cappelli Group), commenced litigation against the Company beginning in 2011 regarding matters relating to the acquisition of that property and the Company's relationship with the Empire Resorts, Inc. and certain of its subsidiaries. This litigation involved three separate cases filed in state and federal court. Two of the cases, a state and the federal case, were previously closed and resulted in no liability by the Company.

The remaining case was filed on October 20, 2011 by the Cappelli Group against the Company and two of its affiliates in the Supreme Court of the State of New York, County of Westchester (the Westchester Action), asserting a claim for breach of contract and the implied covenant of good faith, and seeking damages of at least $800 million, based on allegations that the Company had breached a casino development agreement, dated June 18, 2010. On June 29, 2018, the Company entered into a settlement agreement with the Cappelli Group whereby each of the parties fully settled all disputes between and among them. The terms of the settlement agreement include, among other terms, the Company’s payment of $2.0 million to the Cappelli Group, the mutual release of all parties, and the dismissal of the Westchester

Action with prejudice. Additionally, during the three months ended June 30, 2018, the Company paid approximately $90 thousand in professional fees associated with the settlement.

Early Childhood Education Tenant

During 2017, cash flow of CLA was negatively impacted by challenges brought on by its rapid expansion and related ramp up to stabilization and by adverse weather conditions in Texas during the third quarter of 2017. As a result, CLA initiated negotiations with the Company and other landlords regarding a potential restructuring. However, CLA did not secure the investments necessary to accomplish the restructuring. As a result, the Company sent CLA notices of lease termination on October 12, 2017 for the following CLA properties: (i) Broomfield, Colorado, (ii) Ashburn, Virginia, (iii) West Chester, Ohio, (iv) Chanhassen, Minnesota, (v) Ellisville, Missouri, (vi) Farm Road-Las Vegas, Nevada, (vii) Fishers, Indiana, (viii) Tredyffrin, Pennsylvania, and (ix) Westerville, Ohio.

On December 18, 2017, ten subsidiaries of CLA Parent filed separate voluntary petitions for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code with the United States Bankruptcy Court for the District of Arizona (Jointly Administered under Case No. 2:17-bk-14851-BMW). The CLA Debtors consist of CLA Properties SPE, LLC, CLA Maple Grove, LLC, CLA Carmel, LLC, CLA West Chester, LLC, CLA One Loudoun, LLC, LLC, CLA Fishers, LLC, CLA Chanhassen, LLC, CLA Ellisville, LLC, CLA Farm, LLC, and CLA Westerville, LLC. CLA Parent has not filed a petition for bankruptcy. The CLA Debtors include each of the Company's direct or indirect tenants on 24 out of the Company's 25 CLA properties, including 21 operating properties, two partially completed properties and one unimproved land parcel. The only CLA tenant unaffected by the bankruptcy is CLA King of Prussia, LLC, which is the CLA tenant entity for an unimproved land parcel located in Tredyffrin, Pennsylvania. It is the Company's understanding that the CLA Debtors filed bankruptcy petitions to stay the termination of the remaining CLA leases and delay the eviction process.

On January 8, 2018, the Company filed with the Court (i) motions seeking rent for the post-petition period beginning on December 18, 2017, and (ii) motions seeking relief from the automatic stay seeking the right to terminate the remaining leases and evict the CLA Debtors from the properties. On March 14, 2018, the CLA Parties and the Company entered into a Stipulation providing that (a) the CLA Parties will pay monthly rent for the months of March, April, May, June and July in the amounts of $750 thousand, $750 thousand, $750 thousand, $1.0 million and $1.0 million, respectively, (b) resolution of restructuring of the leases between the Company and the CLA Parties will be concluded no later than July 31, 2018 (the Forbearance Period), (c) relief from stay is granted with respect to the Company’s properties as needed to implement the Stipulation, (d) the parties will not commence or prosecute litigation against any other party during the Forbearance Period, and (e) the deadline for any motion by the CLA Debtors to assume or reject the leases under the U.S. Bankruptcy Code was extended to July 31, 2018. On May 7, 2018, the Court entered an order approving the Stipulation. The CLA Parties have made all of the required rent payments since entering into the Stipulation.

In July 2018, the Company entered into a new lease agreement with CLA related to the 21 operating properties which replaces the prior lease arrangements and provides for a one-month term for rent of $1.0 million expiring on August 31, 2018. The Company may agree to extend this lease, in its sole discretion, if the Company believes CLA is making adequate progress towards a satisfactory restructuring. If the new lease is not extended, CLA will be required to expeditiously vacate these properties, in which case the Company intends to lease some or all of the 21 schools to other operators. CLA also agreed to relinquish control of the four properties that were still under development as the Company no longer intends to develop these properties for CLA.

CLA continues to negotiate with third parties regarding a restructuring that would permit CLA to continue operation of the CLA properties. In addition, the Company is actively pursuing other alternatives for these properties, including replacement tenants and operators. There can be no assurances as to the ultimate outcome of such actions or the Company's pursuit of its legal remedies with respect to the CLA properties.

15. Segment Information

The Company groups investments into four reportable operating segments: Entertainment, Recreation, Education and Other. The financial information summarized below is presented by reportable operating segment:

Balance Sheet Data:

	As of June 30, 2018					
	Entertainment	**Recreation**	**Education**	**Other**	**Corporate/Unallocated**	**Consolidated**
Total Assets	$ 2,376,492	$ 2,050,032	$ 1,420,034	$ 201,976	$ 55,690	$ 6,104,224

	As of December 31, 2017					
	Entertainment	**Recreation**	**Education**	**Other**	**Corporate/Unallocated**	**Consolidated**
Total Assets	$ 2,380,129	$ 2,102,041	$ 1,429,992	$ 199,052	$ 80,279	$ 6,191,493

Operating Data:

	Three Months Ended June 30, 2018					
	Entertainment	**Recreation**	**Education**	**Other**	**Corporate/Unallocated**	**Consolidated**
Rental revenue	$ 74,640	$ 34,443	$ 25,649	$ 2,287	$ —	$ 137,019
Other income	4	—	—	—	642	646
Mortgage and other financing income	2,100	57,540	5,562	—	—	65,202
Total revenue	76,744	91,983	31,211	2,287	642	202,867
Property operating expense	5,816	24	644	689	161	7,334
Total investment expenses	5,816	24	644	689	161	7,334
Net operating income - before unallocated items	70,928	91,959	30,567	1,598	481	195,533
Reconciliation to Consolidated Statements of Income:						
General and administrative expense						(12,976)
Litigation settlement expense						(2,090)
Costs associated with loan refinancing or payoff						(15)
Interest expense, net						(34,079)
Transaction costs						(405)
Impairment charges						(16,548)
Depreciation and amortization						(37,582)
Equity in loss from joint ventures						(88)
Gain on sale of real estate						473
Income tax expense						(642)
Net income						91,581
Preferred dividend requirements						(6,036)
Net income available to common shareholders of EPR Properties						$ 85,545

Operating Data:

	Three Months Ended June 30, 2017					
	Entertainment	Recreation	Education	Other	Corporate/Unallocated	Consolidated
Rental revenue	$ 69,403	$ 29,384	$ 22,333	$ 2,290	$ —	$ 123,410
Other income	606	—	1	—	697	1,304
Mortgage and other financing income	1,096	13,104	8,868	—	—	23,068
Total revenue	71,105	42,488	31,202	2,290	697	147,782
Property operating expense	5,545	29	32	353	113	6,072
Total investment expenses	5,545	29	32	353	113	6,072
Net operating income - before unallocated items	65,560	42,459	31,170	1,937	584	141,710
Reconciliation to Consolidated Statements of Income:						
General and administrative expense						(10,660)
Costs associated with loan refinancing or payoff						(9)
Gain on early extinguishment of debt						977
Interest expense, net						(32,967)
Transaction costs						(218)
Impairment charges						(10,195)
Depreciation and amortization						(33,148)
Equity in income from joint ventures						59
Gain on sale of real estate						25,461
Income tax expense						(475)
Net income						80,535
Preferred dividend requirements						(5,952)
Net income available to common shareholders of EPR Properties						$ 74,583

Operating Data:

	Six Months Ended June 30, 2018					
	Entertainment	Recreation	Education	Other	Corporate/Unallocated	Consolidated
Rental revenue	$ 149,488	$ 67,875	$ 48,034	$ 4,546	$ —	$ 269,943
Other income	4	62	—	—	1,210	1,276
Mortgage and other financing income	2,902	71,245	12,469	—	—	86,616
Total revenue	152,394	139,182	60,503	4,546	1,210	357,835
Property operating expense	12,045	57	1,473	1,003	320	14,898
Total investment expenses	12,045	57	1,473	1,003	320	14,898
Net operating income - before unallocated items	140,349	139,125	59,030	3,543	890	342,937
Reconciliation to Consolidated Statements of Income:						
General and administrative expense						(25,300)
Litigation settlement expense						(2,090)
Costs associated with loan refinancing or payoff						(31,958)
Interest expense, net						(68,416)
Transaction costs						(1,014)
Impairment charges						(16,548)
Depreciation and amortization						(75,266)
Equity in loss from joint ventures						(37)
Gain on sale of real estate						473
Income tax expense						(1,662)
Net income						121,119
Preferred dividend requirements						(12,072)
Net income available to common shareholders of EPR Properties						$ 109,047

Operating Data:

	Six Months Ended June 30, 2017					
	Entertainment	Recreation	Education	Other	Corporate/Unallocated	Consolidated
Rental revenue	$ 138,243	$ 46,683	$ 44,690	$ 4,580	$ —	$ 234,196
Other income	612	—	1	—	1,383	1,996
Mortgage and other financing income	2,275	21,010	17,417	—	—	40,702
Total revenue	141,130	67,693	62,108	4,580	1,383	276,894
Property operating expense	11,380	57	32	693	260	12,422
Total investment expenses	11,380	57	32	693	260	12,422
Net operating income - before unallocated items	129,750	67,636	62,076	3,887	1,123	264,472
Reconciliation to Consolidated Statements of Income:						
General and administrative expense						(21,717)
Costs associated with loan refinancing or payoff						(14)
Gain on early extinguishment of debt						977
Interest expense, net						(63,659)
Transaction costs						(275)
Impairment charges						(10,195)
Depreciation and amortization						(61,225)
Equity in income from joint ventures						51
Gain on sale of real estate						27,465
Income tax expense						(1,429)
Net income						134,451
Preferred dividend requirements						(11,904)
Net income available to common shareholders of EPR Properties						$ 122,547

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

The following discussion should be read in conjunction with the Consolidated Financial Statements and Notes thereto included in this Quarterly Report on Form 10-Q of EPR Properties (the "Company", "EPR", "we" or "us"). The forward-looking statements included in this discussion and elsewhere in this Quarterly Report on Form 10-Q involve risks and uncertainties, including anticipated financial performance, business prospects, industry trends, shareholder returns, performance of leases by tenants, performance on loans to customers and other matters, which reflect management's best judgment based on factors currently known. See "Cautionary Statement Concerning Forward-Looking Statements" which is incorporated herein by reference. Actual results and experience could differ materially from the anticipated results and other expectations expressed in our forward-looking statements as a result of a number of factors, including but not limited to those discussed in Item 1A - "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 1, 2018, as supplemented by Part II, Item 1A - "Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 filed with the SEC on May 9, 2018.

Overview

Business

Our principal business objective is to enhance shareholder value by achieving predictable and increasing Funds From Operations ("FFO") and dividends per share. Our prevailing strategy is to focus on long-term investments in a limited number of categories in which we maintain a depth of knowledge and relationships, and which we believe offer sustained performance throughout all economic cycles. Our investment portfolio includes ownership of and long-term mortgages on entertainment, recreation and education properties. Substantially all of our owned single-tenant properties are leased pursuant to long-term, triple net leases, under which the tenants typically pay all operating expenses of the property. Tenants at our owned multi-tenant properties are typically required to pay common area maintenance charges to reimburse us for their pro-rata portion of these costs.

It has been our strategy to structure leases and financings to ensure a positive spread between our cost of capital and the rentals or interest paid by our tenants. We have primarily acquired or developed new properties that are pre-leased to a single tenant or multi-tenant properties that have a high occupancy rate. We have also entered into certain joint ventures and we have provided mortgage note financing. We intend to continue entering into some or all of these types of arrangements in the foreseeable future.

Historically, our primary challenges have been locating suitable properties, negotiating favorable lease or financing terms (on new or existing properties), and managing our portfolio as we have continued to grow. We believe our management's knowledge and industry relationships have facilitated opportunities for us to acquire, finance and lease properties. Our business is subject to a number of risks and uncertainties, including those described in Item 1A - "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC on March 1, 2018, as supplemented by Part II, Item 1A - "Risk Factors" in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2018 filed with the SEC on May 9, 2018.

We group our investments into four reportable operating segments: Entertainment, Recreation, Education and Other. As of June 30, 2018, our total assets were approximately $6.1 billion (after accumulated depreciation of approximately $0.8 billion) which included investments in each of our four operating segments with properties located in 43 states, the District of Columbia and Ontario, Canada.

- Our Entertainment segment included investments in 151 megaplex theatre properties, seven entertainment retail centers (which include seven additional megaplex theatre properties) and 11 family entertainment centers. Our portfolio of owned entertainment properties consisted of 13.3 million square feet and was 99% leased, including megaplex theatres that were 100% leased.
- Our Recreation segment included investments in 18 ski areas, 21 attractions, 31 golf entertainment complexes and ten other recreation facilities. Our portfolio of owned recreation properties was 100% leased.

- Our Education segment included investments in 65 public charter school properties, 67 early education centers and 14 private schools. Our portfolio of owned education properties consisted of 4.7 million square feet and was 98% leased.
- Our Other segment consisted primarily of land under ground lease, property under development and land held for development related to the Resorts World Catskills casino and resort project in Sullivan County, New York.

The combined owned portfolio consisted of 21.2 million square feet and was 99% leased. As of June 30, 2018, we had a total of approximately $268.1 million invested in property under development.

Our total investments (a non-GAAP financial measure) were approximately $6.7 billion at June 30, 2018. We define total investments as the sum of the carrying values of rental properties and rental properties held for sale (before accumulated depreciation), land held for development, property under development, mortgage notes receivable (including related accrued interest receivable), investment in direct financing leases, net, investment in joint ventures, intangible assets, gross (before accumulated amortization and included in other assets) and notes receivable and related accrued interest receivable (included in other assets). Total investments is a non-GAAP financial measure. See "Non-GAAP Financial Measures" for the calculation of total investments and reconciliation of total investments to "Total assets" in the consolidated balance sheet at June 30, 2018 and December 31, 2017.

Of our total investments of $6.7 billion at June 30, 2018, $3.0 billion or 44% related to our Entertainment segment, $2.1 billion or 32% related to our Recreation segment, $1.4 billion or 21% related to our Education segment and $179.3 million or 3% related to our Other segment.

Operating Results

Our total revenue, net income available to common shareholders per diluted share and Funds From Operations As Adjusted ("FFOAA") per diluted share (a non-GAAP financial measure) are detailed below for the three and six months ended June 30, 2018 and 2017 (in millions, except per share information):

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	**2017**	**Increase**	**2018**	**2017**	**Increase (decrease)**
Total revenue (1)	$ 202.9	$ 147.8	37%	$ 357.8	$ 276.9	29 %
Net income available to common shareholders per diluted share (2)	1.15	1.02	13%	1.47	1.78	(17)%
FFOAA per diluted share (3)	1.87	1.29	45%	3.12	2.48	26 %

(1) Total revenue for the three and six months ended June 30, 2018 versus the three and six months ended June 30, 2017 was favorably impacted by the effect of investment spending, including our transaction with CNL Lifestyle Properties Inc. ("CNL Lifestyle") and funds affiliated with Och-Ziff Real Estate ("OZRE"), which closed on April 6, 2017. Total revenue for the three and six months ended June 30, 2018 was also favorably impacted by $47.3 million in prepayment fees from the partial payoff of two mortgage notes. Total revenue for the three and six months ended June 30, 2018 and 2017 was unfavorably impacted by property dispositions and note payoffs that occurred in 2018 and 2017.

(2) Net income available to common shareholders per diluted share for the six months ended June 30, 2018 versus the six months ended June 30, 2017 was also impacted by the items affecting total revenue as described above. Additionally, net income available to common shareholders per diluted share for the three and six months ended June 30, 2018 versus the three and six months ended June 30, 2017 was unfavorably impacted by increases in interest expense, costs associated with loan refinancing or payoff (primarily related to our redemption of our 7.75% Senior Notes due 2020), general and administrative expense, bad debt expense, litigation settlement expense, transaction costs and impairment charges. Net income available to common shareholders per diluted share for the three and six months ended June 30, 2018 versus the three and six months ended June 30, 2017 was also unfavorably impacted by lower gains on sale of real estate, a gain on early extinguishment of debt recognized in 2017 and an increase in common shares outstanding.

(3) FFOAA per diluted share for the three and six months ended June 30, 2018 versus the three and six months ended June 30, 2017 was also impacted by the items affecting total revenue as described above. Additionally, FFOAA per diluted share for the three and six months ended June 30, 2018 versus the three and six months ended June 30, 2017 was unfavorably impacted by lower termination fees recognized with the exercise of tenant purchase options, as well as increases in interest expense, general and administrative expense, bad debt expense and common shares outstanding.

FFOAA is a non-GAAP financial measure. For the definitions and further details on the calculations of FFOAA and certain other non-GAAP financial measures, see section below titled "Non-GAAP Financial Measures."

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States (“GAAP”) requires management to make estimates and assumptions in certain circumstances that affect amounts reported in the accompanying consolidated financial statements and related notes. In preparing these financial statements, management has made its best estimates and assumptions that affect the reported assets and liabilities. The most significant assumptions and estimates relate to the valuation of real estate, accounting for real estate acquisitions, estimating reserves for uncollectible receivables and the impairment of mortgage and other notes receivable, all of which are described as our critical accounting policies in our Annual Report on Form 10-K for the year ended December 31, 2017. Application of these assumptions requires the exercise of judgment as to future uncertainties and, as a result, actual results could differ from these estimates. For the six months ended June 30, 2018, there were no changes to critical accounting policies.

Recent Developments and Capital Recycling

Debt Financing

On January 2, 2018, we prepaid in full a mortgage note payable totaling $11.7 million with an annual interest rate of 6.19%, which was secured by a theatre property.

Additionally, on February 28, 2018, we redeemed all of our outstanding 7.75% Senior Notes due July 15, 2020. The notes were redeemed at a price equal to the principal amount of $250.0 million plus a premium calculated pursuant to the terms of the indenture of $28.6 million, together with accrued and unpaid interest up to, but not including the redemption date of $2.3 million. In connection with the redemption, we recorded a non-cash write off of $3.3 million in deferred financing costs. The premium and non-cash write off were recognized as costs associated with loan refinancing or payoff in the accompanying consolidated statements of income for the six months ended June 30, 2018.

On April 16, 2018, we issued $400.0 million in aggregate principal amount of senior notes due April 15, 2028 pursuant to an underwritten public offering. The notes bear interest at an annual rate of 4.95%. Interest is payable on April 15 and October 15 of each year beginning on October 15, 2018 until the stated maturity date of April 15, 2028. The notes were issued at 98.883% of their face value and are unsecured. We used the net proceeds from the note offering of $391.8 million to pay down our unsecured revolving credit facility.

Investment Spending

Our investment spending during the six months ended June 30, 2018 totaled $238.5 million, and included investments in each of our primary operating segments.

Entertainment investment spending during the six months ended June 30, 2018 totaled $49.3 million, including spending on build-to-suit development and redevelopment of megaplex theatres, entertainment retail centers and family entertainment centers, as well as a $7.5 million megaplex theatre acquisition.

Recreation investment spending during the six months ended June 30, 2018 totaled $150.6 million, including spending on build-to-suit development of golf entertainment complexes and attractions, redevelopment of ski areas, a $7.8 million acquisition of a recreation facility, and an investment of $10.3 million in a mortgage note secured by one other recreation facility and the acquisition of one attraction property described below.

On June 22, 2018, we acquired one attraction property located in Pagosa Springs, Colorado for approximately $36.4 million. The property is a natural hot springs resort and spa on approximately eight acres and is subject to a long-term, triple-net lease.

Education investment spending during the six months ended June 30, 2018 totaled $38.6 million, including spending on build-to-suit development and redevelopment of public charter schools, early education centers and private schools, as well as $8.4 million on two early education center acquisitions.

The following table details our investment spending by category during the six months ended June 30, 2018 and 2017 (in thousands):

Six Months Ended June 30, 2018

Operating Segment	Total Investment Spending	New Development	Re-development	Asset Acquisition	Mortgage Notes or Notes Receivable
Entertainment	$ 49,350	$ 22,255	$ 19,600	$ 7,495	$ —
Recreation	150,575	94,676	452	44,206	11,241
Education	38,551	22,058	—	8,416	8,077
Other	29	29	—	—	—
Total Investment Spending	$ 238,505	$ 139,018	$ 20,052	$ 60,117	$ 19,318

Six Months Ended June 30, 2017

Operating Segment	Total Investment Spending	New Development	Re-development	Asset Acquisition	Mortgage Notes or Notes Receivable
Entertainment	$ 114,227	$ 26,913	$ 35,646	$ 47,905	$ 3,763
Recreation	866,134	79,419	579	513,906	272,230
Education	182,188	84,685	—	26,963	70,540
Other	763	763	—	—	—
Total Investment Spending	$ 1,163,312	$ 191,780	$ 36,225	$ 588,774	$ 346,533

The above amounts include $65 thousand and $71 thousand in capitalized payroll, $4.5 million and $5.3 million in capitalized interest and $0.5 million and $2.7 million in capitalized other general and administrative direct project costs for the six months ended June 30, 2018 and 2017, respectively. Excluded from the table above is approximately $10.2 million and $2.8 million of maintenance capital expenditures and other spending for the six months ended June 30, 2018 and 2017, respectively.

Property Dispositions

During the six months ended June 30, 2018, we completed the sales of two entertainment parcels located in Illinois for net proceeds totaling $4.2 million. In connection with these sales, we recognized a gain on sale of $0.5 million during the six months ended June 30, 2018. Additionally, we completed the sale of one early education center for net proceeds of $1.6 million. No gain or loss was recognized on this sale.

Subsequent to June 30, 2018, we completed the sale of four public charter schools, classified as investment in direct financing leases, and leased to Imagine Schools, Inc. for net proceeds of $43.4 million. In connection with this sale, we will recognize a $5.5 million gain on sale during the third quarter of 2018. Additionally subsequent to June 30, 2018, pursuant to a tenant purchase option, we completed the sale of one public charter school located in California for net proceeds totaling $11.9 million. In connection with this sale, we will recognize a gain on sale of $1.9 million during the third quarter of 2018.

Recreation Tenant Update

During the three months ended June 30, 2018, Six Flags Entertainment Corporation ("Six Flags") completed their acquisition of the leasehold interest in five of our attraction properties which were previously operated by Premier Parks, LLC. As a result, Six Flags operates six of our attraction properties at June 30, 2018.

Mortgage Notes Receivable

On February 16, 2018, a borrower exercised its put option to convert its mortgage note agreement, totaling $142.9 million and secured by 28 education facilities including both early education and private school properties, to a lease agreement. As a result, we recorded the rental property at the carrying value, which approximated fair value, of the mortgage note on the conversion date and allocated this cost on a relative fair value basis. The properties are leased pursuant to a triple-net master lease with a 23-year remaining term.

On March 11, 2018, we received payment in full on one mortgage note receivable of $1.5 million that was secured by land located in California. Additionally, on March 26, 2018, we received payment in full on one mortgage note receivable of $9.0 million that was secured by real estate in Washington. There were no prepayment fees received in connection with these note payoffs.

On May 7, 2018, Boyne USA, Inc. ("Boyne") purchased seven ski properties from OZRE that partially secured our mortgage note receivable due from OZRE. Following the acquisition by Boyne, OZRE made a partial prepayment of $175.4 million on this mortgage note receivable, leaving a carrying value of $74.6 million at June 30, 2018 that is secured by the remaining six ski properties. In connection with the partial prepayment of this note, we recognized a prepayment fee totaling $45.9 million.

On June 4, 2018, Vail Resorts, Inc. announced it intends to acquire four ski properties from OZRE. This sale is expected to close by the end of the year. These four properties partially secure our mortgage note receivable from OZRE and in conjunction with this sale it is expected that OZRE will prepay the entire remaining note balance. In connection with this prepayment, we are entitled to receive a prepayment fee, the amount of which is dependent upon the timing of the note repayment, and is currently estimated to be approximately $15.0 million.

On May 29, 2018, we received a partial prepayment of $8.0 million on one mortgage note receivable that is secured by the observation deck of the John Hancock Tower in Chicago, Illinois. In connection with the partial prepayment of this note, we recognized a prepayment fee of $1.4 million.

Cappelli Legal Settlement

On June 29, 2018, we entered into a settlement agreement with affiliates of Louis Cappelli (the "Cappelli Group") whereby each of the parties fully settled all disputes between and among them relating to previously disclosed litigation in which we were the defendant. The terms of the settlement agreement include, among other terms, a payment of $2.0 million to the plaintiffs, the mutual release of all parties, and the dismissal of the final pending New York state court case with prejudice. Additionally, during the three months ended June 30, 2018, we paid approximately $90 thousand in professional fees associated with the settlement. See Note 14 for further discussion related to the Cappelli Group legal settlement.

Early Childhood Education Tenant Update

As previously disclosed, certain subsidiaries of Children's Learning Adventure USA ("CLA") that are tenants of our leases (the "CLA Debtors") filed petitions in bankruptcy under Chapter 11 seeking the protections of the U.S. Bankruptcy Code. On March 14, 2018, we, CLA, CLA Debtors and certain other CLA subsidiaries' operating properties owned by us (collectively, the "CLA Parties") entered into and filed a Stipulation to Resolve Pending Motions (the "Stipulation") providing that (a) the CLA Parties will pay monthly rent of $750,000 for the months of March, April and May, and monthly rent of $1.0 million for the months of June and July, (b) resolution of restructuring of the leases between us and the CLA Parties will be concluded no later than July 31, 2018 (the "Forbearance Period"), (c) relief from stay is granted with respect to our properties as needed to implement the Stipulation, (d) the parties will not commence or prosecute litigation against any other party during the Forbearance Period, and (e) the deadline for any motion by the CLA Debtors to assume or reject the leases under the U.S. Bankruptcy Code was extended to July 31, 2018. On May 7, 2018, the Court entered an order approving the Stipulation.

In July 2018, we entered into a new lease agreement with CLA related to 21 open schools which replaces the prior lease arrangements and provides for a one-month term for rent of $1.0 million expiring on August 31, 2018. We may agree to extend this lease, in our sole discretion, if we believe CLA is making adequate progress towards a satisfactory restructuring. CLA made all of the $4.2 million of scheduled rent payments under the prior lease arrangements covering the period of March through July, 2018. If the new lease is not extended, CLA will be required to expeditiously vacate these properties, in which case we intend to lease some or all of the 21 schools to other operators. We had $250.9 million classified in rental properties, net, in the accompanying consolidated balance sheets at June 30, 2018 for these 21 schools, and determined that the estimated undiscounted future cash flow exceed the carrying values of these properties.

As part of this agreement, CLA also agreed to relinquish control of four of our properties that were still under development as we no longer intend to develop these properties for CLA. As a result, we revised our estimated undiscounted cash flows for these four properties, considering shorter expected holding periods, and determined that those estimated cash flows were not sufficient to recover the carrying values of these properties. During the three months ended June 30, 2018, we obtained independent appraisals of these four properties and reduced the carrying value of these assets to $9.8 million, recording an impairment charge of $16.5 million. The charge is primarily related to the cost of improvements specific to the development of CLA's prototype.

CLA continues to negotiate with third parties regarding a restructuring that would permit CLA to continue operation of the CLA properties. In addition, we are actively pursuing other alternatives for these properties, including replacement tenants and operators. There can be no assurances as to the ultimate outcome of such actions or our pursuit of our legal remedies with respect to the CLA properties.

We fully reserved approximately $7.2 million and $6.0 million in receivables from CLA at June 30, 2018 and December 31, 2017, respectively. If we receive payments from CLA in the future, we will recognize such payments on a cash basis until a successful restructuring is completed.

Results of Operations

Three months ended June 30, 2018 compared to three months ended June 30, 2017

Rental revenue was $137.0 million for the three months ended June 30, 2018 compared to $123.4 million for the three months ended June 30, 2017. This increase resulted primarily from $14.3 million of rental revenue related to property acquisitions and developments completed in 2018 and 2017 and conversion and reclassification of certain mortgage notes, partially offset by a decrease of $0.5 million in rental revenue due primarily to property dispositions, as well as a reduction in rental revenue of $0.2 million relating to CLA. Percentage rents of $1.7 million and $1.6 million were recognized during the three months ended June 30, 2018 and 2017, respectively. Straight-line rents of $2.1 million and $4.0 million were recognized during the three months ended June 30, 2018 and 2017, respectively. Tenant reimbursements of $3.8 million and $3.9 million were recognized during the three months ended June 30, 2018 and 2017, respectively.

During the three months ended June 30, 2018, we renewed two lease agreements on approximately 100,509 square feet and funded or agreed to fund an average of $69.65 per square foot in tenant improvements. We experienced a decrease of approximately 18.1% in rental rates and paid no leasing commissions with respect to these renewals.

Mortgage and other financing income for the three months ended June 30, 2018 was $65.2 million compared to $23.1 million for the three months ended June 30, 2017. The $42.1 million increase was primarily due to prepayment fees received in connection with partial prepayments on two mortgage notes during the three months ended June 30, 2018 totaling $47.3 million. See Note 5 to the consolidated financial statements included in this Quarterly Report on Form 10-Q for further detail. The increase was also due to additional real estate lending activities during 2018 and 2017. These increases were partially offset by the conversion of a mortgage note secured by 28 early education properties to leased properties during the six months ended June 30, 2018, as well as six public charter school properties reclassified from direct financing lease to operating leases in 2017 and other note payoffs during 2018 and 2017.

Our property operating expenses totaled $7.3 million for the three months ended June 30, 2018 compared to $6.1 million for the three months ended June 30, 2017. These property operating expenses arise from the operations of our retail centers and other specialty properties. The $1.2 million increase resulted from higher property operating expenses at our multi-tenant properties, as well as an increase in bad debt expense.

Our general and administrative expense totaled $13.0 million for the three months ended June 30, 2018 compared to $10.7 million for the three months ended June 30, 2017. The increase of $2.3 million related to an increase in payroll and benefits costs, including share based compensation, as well as an increase in professional fees.

Litigation settlement expense was $2.1 million for the three months ended June 30, 2018 and related to the settlement of our litigation with the Cappelli Group. See Note 14 to the consolidated financial statements included in this Quarterly Report on Form 10-Q for further detail. There was no litigation settlement expense for the three months ended June 30, 2017.

Gain on early extinguishment of debt for the three months ended June 30, 2017 was $1.0 million and related to a note payoff in advance of maturity that was initially recorded at fair value upon acquisition. There was no gain on early extinguishment of debt for the three months ended June 30, 2018.

Our net interest expense increased by $1.1 million to $34.1 million for the three months ended June 30, 2018 from $33.0 million for the three months ended June 30, 2017. This increase resulted from an increase in average borrowings partially offset by a decrease in the weighted average interest rate used to finance our real estate acquisitions and fund our mortgage notes receivable.

Impairment charges for the three months ended June 30, 2018 totaled $16.5 million and related to two partially completed early education centers and two land parcels with site improvements. See Note 4 to the consolidated financial statements included in this Quarterly Report on Form 10-Q for further information. Impairment charges for the three months ended June 30, 2017 totaled $10.2 million and related to six charter school properties included in our investment in a direct financing lease. See Note 7 to the consolidated financial statements included in the Quarterly Report on Form 10-Q for further information.

Depreciation and amortization expense totaled $37.6 million for the three months ended June 30, 2018 compared to $33.1 million for the three months ended June 30, 2017. The $4.5 million increase resulted primarily from acquisitions and developments completed in 2017 and 2018. This increase was partially offset by property dispositions that occurred during 2017 and 2018.

Gain on sale of real estate was $0.5 million for the three months ended June 30, 2018 and related to the sale of two entertainment parcels. Gain on sale of real estate was $25.5 million for the three months ended June 30, 2017 and related to the sale of three entertainment properties, the exercise of two tenant purchase options on public charter school properties and the sale of two additional education properties.

Six months ended June 30, 2018 compared to six months ended June 30, 2017

Rental revenue was $269.9 million for the six months ended June 30, 2018 compared to $234.2 million for the six months ended June 30, 2017. This increase resulted primarily from $38.8 million of rental revenue related to property acquisitions and developments completed in 2018 and 2017 (including our transaction with CNL Lifestyle which closed on April 6, 2017), and conversion and reclassification of certain mortgage notes, partially offset by a decrease of $0.9 million in rental revenue due primarily to property dispositions, as well as a reduction in rental revenue of $2.2 million relating to CLA. Percentage rents of $3.0 million and $2.5 million were recognized during the six months ended June 30, 2018 and 2017, respectively. Straight-line rents of $3.9 million and $9.1 million were recognized during the six months ended June 30, 2018 and 2017, respectively. Tenant reimbursements of $7.7 million were recognized during both the six months ended June 30, 2018 and 2017.

During the six months ended June 30, 2018, we renewed four lease agreements on approximately 339,366 square feet and funded or agreed to fund an average of $26.52 per square foot in tenant improvements. We experienced an increase of approximately 0.3% in rental rates and paid no leasing commissions with respect to these renewals.

Mortgage and other financing income for the six months ended June 30, 2018 was $86.6 million compared to $40.7 million for the six months ended June 30, 2017. The $45.9 million increase was primarily due to prepayment fees received in connection with partial prepayments on two mortgage notes during the six months ended June 30, 2018 totaling $47.3 million. See Note 5 to the consolidated financial statements included in this Quarterly Report on Form 10-Q for further detail. The increase was also due to additional real estate lending activities during 2018 and 2017. These increases were partially offset by the conversion of a mortgage note secured by 28 early education properties to leased properties during the six months ended June 30, 2018, as well as six public charter school properties reclassified from direct financing lease to operating leases in 2017 and other note payoffs during 2018 and 2017.

Our property operating expenses totaled $14.9 million for the six months ended June 30, 2018 compared to $12.4 million for the six months ended June 30, 2017. These property operating expenses arise from the operations of our retail centers and other specialty properties. The $2.5 million increase resulted from higher property operating expenses at our multi-tenant properties, as well as an increase in bad debt expense.

Our general and administrative expense totaled $25.3 million for the six months ended June 30, 2018 compared to $21.7 million for the six months ended June 30, 2017. The increase of $3.6 million related to an increase in payroll and benefits costs, including share based compensation, as well as an increase in professional fees and franchise taxes.

Litigation settlement expense was $2.1 million for the six months ended June 30, 2018 and related to the settlement of our litigation with the Cappelli Group. See Note 14 to the consolidated financial statements included in this Quarterly Report on Form 10-Q for further detail. There was no litigation settlement expense for the six months ended June 30, 2017.

Costs associated with loan refinancing or payoff for the six months ended June 30, 2018 was $32.0 million and primarily related to the redemption of the 7.75% Senior Notes due 2020. Costs associated with loan refinancing or payoff for the six months ended June 30, 2017 was $14 thousand and related to the prepayment of secured fixed rate mortgage notes payable.

Gain on early extinguishment of debt for the six months ended June 30, 2017 was $1.0 million and related to a note payoff in advance of maturity that was initially recorded at fair value upon acquisition. There was no gain on early extinguishment of debt for the six months ended June 30, 2018.

Our net interest expense increased by $4.7 million to $68.4 million for the six months ended June 30, 2018 from $63.7 million for the six months ended June 30, 2017. This increase resulted from an increase in average borrowings partially offset by a decrease in the weighted average interest rate used to finance our real estate acquisitions and fund our mortgage notes receivable.

Transaction costs totaled $1.0 million for the six months ended June 30, 2018 compared to $0.3 million for the six months ended June 30, 2017. The increase of $0.7 million was due to an increase in potential and terminated transactions.

Impairment charges for the six months ended June 30, 2018 totaled $16.5 million and related to two partially completed early education centers and two land parcels with site improvements. See Note 4 to the consolidated financial statement included in this Quarterly Report on Form 10-Q for further information. Impairment charges for the six months ended June 30, 2017 totaled $10.2 million and related to six charter school properties included in our investment in a direct financing lease. See Note 7 to the consolidated financial statements included in this Quarterly Report on Form 10-Q for further information.

Depreciation and amortization expense totaled $75.3 million for the six months ended June 30, 2018 compared to $61.2 million for the six months ended June 30, 2017. The $14.1 million increase resulted primarily from acquisitions and developments completed in 2017 and 2018, including our transaction with CNL Lifestyle which closed on April 6, 2017. This increase was partially offset by property dispositions that occurred during 2017 and 2018.

Gain on sale of real estate was $0.5 million for the six months ended June 30, 2018 and related to the sale of two entertainment parcels. Gain on sale of real estate was $27.5 million for the six months ended June 30, 2017 and related to the sale of four entertainment properties, the exercise of four tenant purchase options on public charter school properties and the sale of two additional education properties.

Liquidity and Capital Resources

Cash and cash equivalents were $3.0 million at June 30, 2018. In addition, we had restricted cash of $11.3 million at June 30, 2018. Of the restricted cash at June 30, 2018, $7.9 million related to cash held for our borrowers' debt service reserves for mortgage notes receivable or tenants' off-season rent reserves and $3.4 million related to escrow deposits held for potential acquisitions and redevelopments.

Mortgage Debt, Senior Notes, Unsecured Revolving Credit Facility and Unsecured Term Loan Facility

At June 30, 2018, we had total debt outstanding of $3.0 billion of which 99% was unsecured.

At June 30, 2018, we had outstanding $2.2 billion in aggregate principal amount of unsecured senior notes (excluding the private placement notes discussed below) ranging in interest rates from 4.50% to 5.75%. The notes contain various covenants, including: (i) a limitation on incurrence of any debt which would cause the ratio of our debt to adjusted total assets to exceed 60%; (ii) a limitation on incurrence of any secured debt which would cause the ratio of secured debt to adjusted total assets to exceed 40%; (iii) a limitation on incurrence of any debt which would cause our debt service coverage ratio to be less than 1.5 times; and (iv) the maintenance at all times of our total unencumbered assets such that they are not less than 150% of our outstanding unsecured debt.

At June 30, 2018, we had $30.0 million outstanding under our $1.0 billion unsecured revolving credit facility with interest at a floating rate of LIBOR plus 100 basis points, which was 3.10% at June 30, 2018.

At June 30, 2018, the unsecured term loan facility had a balance of $400.0 million with interest at a floating rate of LIBOR plus 110 basis points, which was 3.11% at June 30, 2018. As of June 30, 2018, $300.0 million of this LIBOR-based debt was fixed with interest rate swaps at 2.64% from July 6, 2017 to April 5, 2019. In addition, as of June 30, 2018, we have entered into interest rate swap agreements to fix the interest rate at 3.15% on an additional $50.0 million of this LIBOR-based debt from November 6, 2017 to April 5, 2019 and on $350.0 million of this LIBOR-based debt from April 6, 2019 to February 7, 2022.

At June 30, 2018, we had outstanding $340.0 million of senior unsecured notes that were issued in a private placement transaction. The private placement notes were issued in two tranches with $148.0 million bearing interest at 4.35% and due August 22, 2024, and $192.0 million bearing interest at 4.56% and due August 22, 2026.

Our unsecured credit facilities and the private placement notes contain financial covenants or restrictions that limit our levels of consolidated debt, secured debt, investment levels outside certain categories and dividend distributions; and require us to maintain a minimum consolidated tangible net worth and meet certain coverage levels for fixed charges and debt service. Additionally, these debt instruments contain cross-default provisions if we default under other indebtedness exceeding certain amounts. Those cross-default thresholds vary from $25.0 million to, in the case of the note purchase agreement governing the private placement notes, $75.0 million. We were in compliance with all financial covenants under our debt instruments at June 30, 2018.

Our principal investing activities are acquiring, developing and financing entertainment, recreation and education properties. These investing activities are generally financed with senior unsecured notes, as well as the proceeds from equity offerings. Our unsecured revolving credit facility is also used to finance the acquisition or development of properties, and to provide mortgage financing. We have and expect to continue to issue debt securities in public or private offerings. We have and may in the future assume mortgage debt in connection with property acquisitions or incur new mortgage debt on existing properties. We may also issue equity securities in connection with investing activities. Continued growth of our rental property and mortgage financing portfolios will depend in part on our continued ability to access funds through additional borrowings and securities offerings and, to a lesser extent, our ability to assume debt in connection with property acquisitions. We may also fund investments with the proceeds from asset dispositions.

Certain of our other long-term debt agreements contain customary restrictive covenants related to financial and operating performance as well as certain cross-default provisions. We were in compliance with all financial covenants at June 30, 2018.

Liquidity Requirements

Short-term liquidity requirements consist primarily of normal recurring corporate operating expenses, debt service requirements and distributions to shareholders. We meet these requirements primarily through cash provided by operating activities. Net cash provided by operating activities was $249.7 million and $194.6 million for the six months ended June 30, 2018 and 2017, respectively. Net cash used by investing activities was $39.0 million and $348.5 million for the six months ended June 30, 2018 and 2017, respectively. Net cash used by financing activities was $255.3 million for the six months ended June 30, 2018 and net cash provided by financing activities was $219.8 million for the six months ended June 30, 2017. We anticipate that our cash on hand, cash from operations, funds available under our unsecured revolving credit facility and proceeds from asset dispositions will provide adequate liquidity to meet our financial commitments including to fund our operations, make interest and principal payments on our debt, and allow distributions to our shareholders and avoid corporate level federal income or excise tax in accordance with REIT Internal Revenue Code requirements.

Commitments

As of June 30, 2018, we had an aggregate of approximately $110.8 million of commitments to fund development projects including 12 entertainment development projects for which we had commitments to fund approximately $24.7 million, five recreation development projects for which we had commitments to fund approximately $52.2 million and seven education development projects for which we had commitments to fund approximately $33.9 million, of which approximately $99.4 million is expected to be funded in 2018 and the remainder is expected to be funded in 2019. Development costs are advanced by us in periodic draws. If we determine that construction is not being completed in accordance with the terms of the development agreement, we can discontinue funding construction draws. We have agreed to lease the properties to the operators at pre-determined rates upon completion of construction.

Additionally, as of June 30, 2018, we had a commitment to fund approximately $201.2 million, of which $86.1 million had been funded, to complete an indoor waterpark hotel and adventure park at our casino and resort project in Sullivan County, New York. We are also responsible for the construction of the casino and resort project common infrastructure. In June 2016, the Sullivan County Infrastructure Local Development Corporation issued $110.0 million of Series 2016 Revenue Bonds which is expected to fund a substantial portion of such construction costs. We received reimbursements of $43.4 million and $23.9 million of construction costs during the year ended December 31, 2016 and 2017, respectively. During the six months ended June 30, 2018, we received an additional reimbursement of $6.9 million. Construction of infrastructure improvements is currently expected to be completed in the remainder of 2018.

We have certain commitments related to our mortgage note investments that we may be required to fund in the future. We are generally obligated to fund these commitments at the request of the borrower or upon the occurrence of events outside of its direct control. As of June 30, 2018, we had five mortgage notes receivable with commitments totaling approximately $18.6 million. If commitments are funded in the future, interest will be charged at rates consistent with the existing investments.

We have provided guarantees of the payment of certain economic development revenue bonds totaling $24.7 million related to two theatres in Louisiana for which we earn a fee at an annual rate of 4.00% over the 30-year terms of the related bonds. We have recorded $13.3 million as a deferred asset included in other assets and $13.3 million included in other liabilities in the accompanying consolidated balance sheet as of June 30, 2018 related to these guarantees. No amounts have been accrued as a loss contingency related to these guarantees because payment by us is not probable.

In connection with construction of our development projects and related infrastructure, certain public agencies require posting of surety bonds to guarantee that our obligations are satisfied. These bonds expire upon the completion of the improvements or infrastructure. As of June 30, 2018, we had six surety bonds outstanding totaling $22.8 million.

Liquidity Analysis

In analyzing our liquidity, we expect that our cash provided by operating activities will meet our normal recurring operating expenses, recurring debt service requirements and distributions to shareholders.

We have no debt payments due until 2022. Our sources of liquidity as of June 30, 2018 to pay the 2018 commitments described above include the amount available under our unsecured revolving credit facility of approximately $970.0 million at June 30, 2018, as well as unrestricted cash on hand of $3.0 million. Accordingly, while there can be no assurance, we expect that our sources of cash will exceed our existing commitments over the remainder of 2018.

We also believe that we will be able to repay, extend, refinance or otherwise settle our debt maturities as the debt comes due, and that we will be able to fund our remaining commitments as necessary. However, there can be no assurance that additional financing or capital will be available, or that terms will be acceptable or advantageous to us.

Our primary use of cash after paying operating expenses, debt service, distributions to shareholders and funding existing commitments is in growing our investment portfolio through the acquisition, development and financing of additional properties. We expect to finance these investments with borrowings under our unsecured revolving credit facility, as well as debt and equity financing alternatives or proceeds from asset dispositions. The availability and terms of any such financing or sales will depend upon market and other conditions. If we borrow the maximum amount available under our unsecured revolving credit facility, there can be no assurance that we will be able to obtain additional investment financing. We may also assume mortgage debt in connection with property acquisitions.

Capital Structure

We believe that our shareholders are best served by a conservative capital structure. Therefore, we seek to maintain a conservative debt level on our balance sheet as measured primarily by our net debt to adjusted EBITDA ratio (see "Non-GAAP Financial Measures" for definitions). We also seek to maintain conservative interest, fixed charge, debt service coverage and net debt to gross asset ratios.

We expect to maintain our net debt to adjusted EBITDA ratio between 4.6x to 5.6x. Our net debt to adjusted EBITDA ratio was 5.6x as of June 30, 2018 (see "Non-GAAP financial measures" for calculation). Because adjusted EBITDA as defined does not include the annualization of adjustments for projects put in service or acquired during the quarter and other items, and net debt includes the debt provided for build-to-suit projects under development that do not have any current EBITDA, we also look at a ratio adjusted for these items. The level of this additional ratio, along with the timing and size of our equity and debt offerings as well as dispositions, may cause us to temporarily operate outside our stated range for the net debt to adjusted EBITDA ratio of 4.6x to 5.6x.

Our net debt (see "Non-GAAP Financial Measures" for definition) to gross assets ratio (i.e. net debt to total assets plus accumulated depreciation less cash and cash equivalents) was 44% as of June 30, 2018. Our net debt as a percentage of our total market capitalization at June 30, 2018 was 37%. We calculate our total market capitalization of $8.2 billion by aggregating the following at June 30, 2018:

- Common shares outstanding of 74,347,871 multiplied by the last reported sales price of our common shares on the NYSE of $64.79 per share, or $4.8 billion;
- Aggregate liquidation value of our Series C convertible preferred shares of $135.0 million;
- Aggregate liquidation value of our Series E convertible preferred shares of $86.2 million;
- Aggregate liquidation value of our Series G redeemable preferred shares of $150.0 million; and
- Net debt of $3.0 billion.

Non-GAAP Financial Measures

Funds From Operations (FFO), Funds From Operations As Adjusted (FFOAA) and Adjusted Funds from Operations (AFFO)

The National Association of Real Estate Investment Trusts ("NAREIT") developed FFO as a relative non-GAAP financial measure of performance of an equity REIT in order to recognize that income-producing real estate historically has not depreciated on the basis determined under GAAP. Pursuant to the definition of FFO by the Board of Governors of NAREIT, we calculate FFO as net income available to common shareholders, computed in accordance with GAAP, excluding gains and losses from sales of depreciable operating properties and impairment losses of depreciable real estate, plus real estate related depreciation and amortization, and after adjustments for unconsolidated partnerships, joint ventures and other affiliates. Adjustments for unconsolidated partnerships, joint ventures and other affiliates are calculated to reflect FFO on the same basis. We have calculated FFO for all periods presented in accordance with this definition.

In addition to FFO, we present FFOAA and AFFO. FFOAA is presented by adding to FFO costs (gain) associated with loan refinancing or payoff, net, transaction costs, retirement severance expense, litigation settlement expense, preferred share redemption costs, termination fees associated with tenants' exercises of public charter school buy-out options, impairment of direct financing leases (allowance for lease loss portion) and provision for loan losses and subtracting gain on early extinguishment of debt, gain (loss) on sale of land, gain on insurance recovery and deferred income tax benefit (expense). AFFO is presented by adding to FFOAA non-real estate depreciation and amortization, deferred financing fees amortization, share-based compensation expense to management and Trustees and amortization of above market leases, net; and subtracting maintenance capital expenditures (including second generation tenant improvements and leasing commissions), straight-lined rental revenue, and the non-cash portion of mortgage and other financing income.

FFO, FFOAA and AFFO are widely used measures of the operating performance of real estate companies and are provided here as a supplemental measure to GAAP net income available to common shareholders and earnings per share, and management provides FFO, FFOAA and AFFO herein because it believes this information is useful to investors in this regard. FFO, FFOAA and AFFO are non-GAAP financial measures. FFO, FFOAA and AFFO do not represent cash flows from operations as defined by GAAP and are not indicative that cash flows are adequate to fund all cash needs and are not to be considered alternatives to net income or any other GAAP measure as a measurement of the results of our operations or our cash flows or liquidity as defined by GAAP. It should also be noted that not all REITs calculate FFO, FFOAA and AFFO the same way so comparisons with other REITs may not be meaningful.

The following table summarizes our FFO, FFOAA and AFFO including per share amounts for FFO and FFOAA, for the three and six months ended June 30, 2018 and 2017 and reconciles such measures to net income available to common shareholders, the most directly comparable GAAP measure (unaudited, in thousands, except per share information):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
FFO:				
Net income available to common shareholders of EPR Properties	$ 85,545	$ 74,583	$ 109,047	$ 122,547
Gain on sale of real estate	(473)	(25,461)	(473)	(27,465)
Impairment of rental properties	16,548	—	16,548	—
Impairment of direct financing lease - residual value portion (1)	—	2,897	—	2,897
Real estate depreciation and amortization	37,359	32,906	74,823	60,786
Allocated share of joint venture depreciation	58	54	116	108
FFO available to common shareholders of EPR Properties	$ 139,037	$ 84,979	$ 200,061	$ 158,873
FFO available to common shareholders of EPR Properties	$ 139,037	$ 84,979	$ 200,061	$ 158,873
Add: Preferred dividends for Series C preferred shares	1,940	1,941	3,880	3,882
Diluted FFO available to common shareholders of EPR Properties	$ 140,977	$ 86,920	$ 203,941	$ 162,755
FFOAA:				
FFO available to common shareholders of EPR Properties	$ 139,037	$ 84,979	$ 200,061	$ 158,873
Costs associated with loan refinancing or payoff	15	9	31,958	14
Transaction costs	405	218	1,014	275
Litigation settlement expense	2,090	—	2,090	—
Termination fee included in gain on sale	—	3,900	—	5,820
Impairment of direct financing lease - allowance for lease loss portion (1)	—	7,298	—	7,298
Gain on early extinguishment of debt	—	(977)	—	(977)
Gain on insurance recovery (included in other income)	—	(606)	—	(606)
Deferred income tax expense	235	50	663	684
FFOAA available to common shareholders of EPR Properties	$ 141,782	$ 94,871	$ 235,786	$ 171,381
FFOAA available to common shareholders of EPR Properties	$ 141,782	$ 94,871	$ 235,786	$ 171,381
Add: Preferred dividends for Series C preferred shares	1,940	1,941	3,880	3,882
Add: Preferred dividends for Series E preferred shares	1,939	—	3,878	—
Diluted FFOAA available to common shareholders of EPR Properties	$ 145,661	$ 96,812	$ 243,544	$ 175,263
AFFO:				
FFOAA available to common shareholders of EPR Properties	$ 141,782	$ 94,871	$ 235,786	$ 171,381
Non-real estate depreciation and amortization	223	242	443	439
Deferred financing fees amortization	1,439	1,525	2,837	2,981
Share-based compensation expense to management and Trustees	3,817	3,503	7,608	6,961
Amortization of above and below market leases, net and tenant allowances	(55)	(31)	(472)	14
Maintenance capital expenditures (2)	(527)	(1,590)	(1,225)	(3,191)
Straight-lined rental revenue	(2,060)	(4,009)	(3,934)	(9,060)
Non-cash portion of mortgage and other financing income	(784)	(901)	(1,440)	(1,456)
AFFO available to common shareholders of EPR Properties	$ 143,835	$ 93,610	$ 239,603	$ 168,069

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
FFO per common share:				
Basic	$ 1.87	$ 1.16	$ 2.69	$ 2.32
Diluted	1.84	1.15	2.67	2.30
FFOAA per common share:				
Basic	$ 1.91	$ 1.30	$ 3.18	$ 2.50
Diluted	1.87	1.29	3.12	2.48
Shares used for computation (in thousands):				
Basic	74,329	73,159	74,238	68,621
Diluted	74,365	73,225	74,273	68,689
Weighted average shares outstanding-diluted EPS	74,365	73,225	74,273	68,689
Effect of dilutive Series C preferred shares	2,110	2,063	2,104	2,058
Adjusted weighted average shares outstanding-diluted Series C	76,475	75,288	76,377	70,747
Effect of dilutive Series E preferred shares	1,604	—	1,601	—
Adjusted weighted average shares outstanding-diluted Series C and Series E	78,079	75,288	77,978	70,747
Other financial information:				
Dividends per common share	$ 1.08	$ 1.02	$ 2.16	$ 2.04

(1) Impairment charges recognized during the three and six months ended June 30, 2017 total $10.2 million and related to our investment in a direct financing lease, net, consisting of $2.9 million related to the residual value portion and $7.3 million related to the allowance for lease loss portion. See Note 7 to the consolidated financial statements in this Quarterly Report on Form 10-Q for further information.

(2) Includes maintenance capital expenditures and certain second generation tenant improvements and leasing commissions.

The conversion of the 5.75% Series C cumulative convertible preferred shares for the three and six months ended June 30, 2018 would be dilutive to FFO. Therefore, the additional 2.1 million common shares that would result from the conversion and the corresponding add-back of the preferred dividends declared on those shares are included in the calculation of diluted FFO per share for the three and six months ended June 30, 2018. The conversion of the 5.75% Series C cumulative convertible preferred shares and the 9.00% Series E cumulative convertible preferred shares would be dilutive to FFOAA per share for the three and six months ended June 30, 2018. Therefore, the additional 2.1 million and 1.6 million common shares that would result from the conversion and the corresponding add-back of the preferred dividends declared on those shares are included in the calculation of diluted FFOAA per share for the three and six months ended June 30, 2018.

The conversion of the 5.75% Series C cumulative convertible preferred shares would be dilutive to FFO and FFOAA per share for the three and six months ended June 30, 2017. Therefore, the additional 2.1 million common shares that would result from the conversion and the corresponding add-back of the preferred dividends declared on those shares are included in the calculation of diluted FFO and FFOAA per share for the three and six months ended June 30, 2017. The effect of the conversion of our 9.0% Series E cumulative convertible preferred shares and the additional 1.6 million common shares that would result from the conversion do not result in more dilution to per share results and are therefore not included in the calculation of diluted FFO and FFOAA per share data for the three and six months ended June 30, 2017.

Net Debt

Net Debt represents debt (reported in accordance with GAAP) adjusted to exclude deferred financing costs, net and reduced for cash and cash equivalents. By excluding deferred financing costs, net and reducing debt for cash and cash equivalents on hand, the result provides an estimate of the contractual amount of borrowed capital to be repaid, net of cash available to repay it. We believe this calculation constitutes a beneficial supplemental non-GAAP financial disclosure to investors in understanding our financial condition. Our method of calculating Net Debt may be different from methods used by other REITs and, accordingly, may not be comparable to such other REITs.

EBITDAre

NAREIT developed EBITDAre as a relative non-GAAP financial measure of REITs, independent of a company's capital structure, to provide a uniform basis to measure the enterprise value of a company. Pursuant to the definition of EBITDAre by the Board of Governors of NAREIT, we calculate EBITDAre as net income, computed in accordance with GAAP, excluding interest expense (net), income tax expense (benefit), depreciation and amortization, gains and losses from sales of depreciable operating properties, impairment losses of depreciable real estate, costs (gain) associated with loan refinancing or payoff and adjustments for unconsolidated partnerships, joint ventures and other affiliates.

Management provides EBITDAre herein because it believes this information is useful to investors as a supplemental performance measure as it can help facilitate comparisons of operating performance between periods and with other REITs. EBITDAre does not represent cash flow from operations as defined by GAAP and is not indicative that cash flows are adequate to fund all cash needs and is not to be considered an alternative to net income or any other GAAP measure as a measurement of the results of our operations or cash flows or liquidity as defined by GAAP.

Adjusted EBITDA

Management uses Adjusted EBITDA in its analysis of the performance of the business and operations of the Company. Management believes Adjusted EBITDA is useful to investors because it excludes various items that management believes are not indicative of operating performance, and that it is an informative measure to use in computing various financial ratios to evaluate the Company. We define Adjusted EBITDA as EBITDAre (defined above) excluding gain on insurance recovery, retirement severance expense, litigation settlement expense, impairment of direct financing lease (allowance for lease loss portion), the provision for loan losses, transaction costs and prepayment fees, and which is then multiplied by four to get an annual amount.

Our method of calculating Adjusted EBITDA may be different from methods used by other REITs and, accordingly, may not be comparable to such other REITs. Adjusted EBITDA is not a measure of performance under GAAP, does not represent cash generated from operations as defined by GAAP and is not indicative of cash available to fund all cash needs, including distributions. This measure should not be considered as an alternative to net income for the purpose of evaluating the Company's performance or to cash flows as a measure of liquidity.

Net Debt to Adjusted EBITDA Ratio

Net Debt to Adjusted EBITDA Ratio is a supplemental measure derived from non-GAAP financial measures that we use to evaluate our capital structure and the magnitude of our debt against our operating performance. We believe that investors commonly use versions of this ratio in a similar manner. In addition, financial institutions use versions of this ratio in connection with debt agreements to set pricing and covenant limitations. Our method of calculating Net Debt to Adjusted EBITDA may be different from methods used by other REITs and, accordingly, may not be comparable to such other REITs.

Reconciliations of debt and net income available to common shareholders (both reported in accordance with GAAP) to Net Debt, EBITDAre, Adjusted EBITDA and Net Debt to Adjusted EBITDA Ratio (each of which is a non-GAAP financial measure) are included in the following tables (unaudited, in thousands):

	June 30,	
	2018	2017
Net Debt:		
Debt	$ 2,983,975	$ 2,792,920
Deferred financing costs, net	36,020	34,086
Cash and cash equivalents	(3,017)	(70,872)
Net Debt	$ 3,016,978	$ 2,756,134

	Three Months Ended June 30,	
	2018	2017
EBITDAre and Adjusted EBITDA:		
Net income	$ 91,581	$ 80,535
Interest expense, net	34,079	32,967
Income tax expense	642	475
Depreciation and amortization	37,582	33,148
Gain on sale of real estate	(473)	(25,461)
Impairment of rental properties	16,548	—
Impairment of direct financing lease - residual value portion (1)	—	2,897
Costs associated with loan refinancing or payoff	15	9
Gain on early extinguishment of debt	—	(977)
Equity in loss (income) from joint ventures	88	(59)
EBITDAre (for the quarter)	$ 180,062	$ 123,534
Gain on insurance recovery (2)	—	(606)
Litigation settlement expense	2,090	—
Impairment of direct financing lease - allowance for lease loss portion (1)	—	7,298
Transaction costs	405	218
Prepayment fees	(47,293)	—
Adjusted EBITDA (for the quarter)	$ 135,264	$ 130,444
Adjusted EBITDA (3)	$ 541,056	$ 521,776
Net Debt/Adjusted EBITDA Ratio	5.6	5.3

(1) Impairment charges recognized during the six months ended June 30, 2017 total $10.2 million and related to our investment in a direct financing lease, net, consisting of $2.9 million related to the residual value portion and $7.3 million related to the allowance for lease loss portion. See Note 7 to the consolidated financial statements in this Quarterly Report on Form 10-Q for further information.

(2) Included in other income in the accompanying consolidated statements of income. Other income includes the following:

	Three Months Ended June 30,	
	2018	2017
Income from settlement of foreign currency swap contracts	$ 621	$ 697
Gain on insurance recovery	—	606
Miscellaneous income	25	1
Other income	$ 646	$ 1,304

(3) Adjusted EBITDA for the quarter is multiplied by four to calculate an annual amount.

Total Investments

Total investments is a non-GAAP financial measure defined as the sum of the carrying values of rental properties (before accumulated depreciation), land held for development, property under development, mortgage notes receivable (including related accrued interest receivable), investment in a direct financing leases, net, investment in joint ventures, intangible assets, gross (before accumulated amortization and included in other assets) and notes receivable and related accrued interest receivable, net (included in other assets). Total investments is a useful measure for management and investors as it illustrates across which asset categories the Company's funds have been invested. Our method of calculating total investments may be different from methods used by other REITs and, accordingly, may not be comparable to such other REITs. A reconciliation of total investments to total assets (computed in accordance with GAAP) is included in the following table (unaudited, in thousands):

	June 30, 2018	December 31, 2017
Total Investments:		
Rental properties, net of accumulated depreciation	$ 4,853,188	$ 4,604,231
Add back accumulated depreciation on rental properties	810,604	741,334
Land held for development	31,076	33,692
Property under development	268,090	257,629
Mortgage notes and related accrued interest receivable	641,428	970,749
Investment in direct financing leases, net	58,305	57,903
Investment in joint ventures	4,999	5,602
Intangible assets, gross[(1)]	46,332	35,209
Notes receivable and related accrued interest receivable, net[(1)]	5,321	5,083
Total investments	$ 6,719,343	$ 6,711,432
Total investments	$ 6,719,343	$ 6,711,432
Cash and cash equivalents	3,017	41,917
Restricted cash	11,283	17,069
Account receivable, net	97,804	93,693
Less: accumulated depreciation on rental properties	(810,604)	(741,334)
Less: accumulated amortization on intangible assets	(7,386)	(6,340)
Prepaid expenses and other current assets	90,767	75,056
Total assets	$ 6,104,224	$ 6,191,493

[(1)] Included in other assets in the accompanying consolidated balance sheet. Other assets includes the following:

	June 30, 2018	December 31, 2017
Intangible assets, gross	$ 46,332	$ 35,209
Less: accumulated amortization on intangible assets	(7,386)	(6,340)
Notes receivable and related accrued interest receivable, net	5,321	5,083
Prepaid expenses and other current assets	90,767	75,056
Total other assets	$ 135,034	$ 109,008

Impact of Recently Issued Accounting Standards

See Note 2 to the consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information on the impact of recently issued accounting standards on our business.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risks, primarily relating to potential losses due to changes in interest rates and foreign currency exchange rates. We seek to mitigate the effects of fluctuations in interest rates by matching the term of new investments with new long-term fixed rate borrowings whenever possible. As of June 30, 2018, we had a $1.0 billion unsecured revolving credit facility with a $30.0 million outstanding balance and $25.0 million in bonds, all of which bear interest at a floating rate. We also had a $400.0 million unsecured term loan facility that bears interest at a floating rate based on LIBOR. As of June 30, 2018, we had two interest rate swap agreements to fix the interest rate at 2.64% on $300.0 million of this LIBOR-based debt from July 6, 2017 to April 5, 2019. Additionally, as of June 30, 2018, we had three interest rate swap agreements to fix the interest rate at 3.15% on $50.0 million of this LIBOR-based debt from November 6, 2017 to April 5, 2019 and on $350.0 million of this LIBOR-based debt from April 6, 2019 to February 7, 2022.

We are subject to risks associated with debt financing, including the risk that existing indebtedness may not be refinanced or that the terms of such refinancing may not be as favorable as the terms of current indebtedness. The majority of our borrowings are subject to contractual agreements or mortgages which limit the amount of indebtedness we may incur. Accordingly, if we are unable to raise additional equity or borrow money due to these limitations, our ability to make additional real estate investments may be limited.

We are exposed to foreign currency risk against our functional currency, the U.S. dollar, on our four Canadian properties and the rents received from tenants of the properties are payable in CAD. To mitigate our foreign currency risk in future periods on these Canadian properties, we entered into cross currency swaps with a fixed original notional value of $100.0 million CAD and $98.1 million U.S. The net effect of these swaps was to lock in an exchange rate of $1.05 CAD per U.S. dollar on approximately $13.5 million of annual CAD denominated cash flows on the properties through June 2018. There was no initial or final exchange of the notional amounts on these swaps. These foreign currency derivatives hedged a significant portion of our expected CAD denominated FFO of these four Canadian properties through June 2018 as their impact on our reported FFO when settled moved in the opposite direction of the exchange rates used to translate revenues and expenses of these properties. Additionally, on August 30, 2017, we entered into a cross-currency swap that became effective July 1, 2018 with a fixed original notional value of $100.0 million CAD and $79.5 million U.S. The net effect of these swaps is to lock in an exchange rate of $1.26 CAD per U.S. dollar on approximately $13.5 million of annual CAD denominated cash flows on the properties through June 2020.

In order to also hedge our net investment on the four Canadian properties, we entered into a forward contract with a fixed notional amount of $100.0 million CAD and $94.3 million U.S. with a July 2018 settlement date. The exchange rate of this forward contract was approximately $1.06 CAD per U.S. dollar. Additionally, the Company entered into another forward contract with a fixed notional value of $100.0 million CAD and $88.1 million U.S. with a July 2018 settlement date. The exchange rate of this forward contract was approximately $1.13 CAD per U.S. dollar.

On June 29, 2018, we de-designated these CAD to USD currency forward agreements in conjunction with entering into new agreements, described below, effectively terminating the currency forward agreements. These contracts were previously designated as net investment hedges. Subsequent to June 30, 2018, we received $30.8 million of cash in connection with the settlement of the CAD to USD currency forward agreements. The corresponding change in value of the forward contracts for the period from inception through settlement of $30.8 million will be reported in AOCI and will be reclassified into earnings upon a sale or complete or substantially complete liquidation of our investment in our four Canadian properties.

Additionally, on June 29, 2018, we entered into two cross-currency swaps, designated as net investment hedges that became effective July 1, 2018 with a total fixed notional value of $200.0 million CAD and $151.6 million USD with a maturity date of July 1, 2023. Included in this net investment hedge, we locked in an exchange rate of $1.32 CAD per USD on approximately $4.5 million of additional annual CAD denominated cash flows on the properties through July 1, 2023.

For foreign currency derivatives designated as net investment hedges, the change in the fair value of the derivatives are reported in AOCI as part of the cumulative translation adjustment. Amounts are reclassified out of AOCI into earnings when the hedged net investment is either sold or substantially liquidated.

See Note 10 to the consolidated financial statements included in this Quarterly Report on Form 10-Q for additional information on our derivative financial instruments and hedging activities.

Item 4. Controls and Procedures

As of June 30, 2018, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as such term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon and as of the date of that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed by us in reports we file or submit under the Exchange Act is (1) recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms, and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Our disclosure controls were designed to provide reasonable assurance that the controls and procedures would meet their objectives. Our management, including the Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls will prevent all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable assurance of achieving the designed control objectives and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusions of two or more people, or by management override of the control. Because of the inherent limitations in a cost-effective, maturing control system, misstatements due to error or fraud may occur and not be detected.

Effective January 1, 2018, we adopted ASC 606 *Revenue from Contracts with Customer* and ASC 610-20 *Other Income: Gains and Losses from the Derecognition of Nonfinancial Assets*. Except for the enhancements to the Company's internal control over financial reporting in relation to our adoption of these standards, there have not been any changes in the Company’s internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter of the fiscal year to which this report relates that have materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

Resort Project in Sullivan County, New York

The Cappelli Group commenced litigation against the Company beginning in 2011 regarding matters relating to the acquisition of that property and our relationship with Empire Resorts, Inc. and certain of its subsidiaries. This litigation involved three separate cases filed in state and federal court. Two of the cases, a state and the federal case, were previously closed and resulted in no liability to the Company.

The remaining case was filed on October 20, 2011 by the Cappelli Group against the Company and two of its affiliates in the Supreme Court of the State of New York, County of Westchester (the "Westchester Action"), asserting a claim for breach of contract and the implied covenant of good faith, and seeking damages of at least $800 million, based on allegations that the Company had breached a casino development agreement dated June 18, 2010. On June 29, 2018, the Company entered into a settlement agreement with the Cappelli Group whereby each of the parties fully settled all disputes between and among them. The terms of the settlement agreement include, among other terms, the Company’s payment of $2 million to the Cappelli Group, the mutual release of all parties, and the dismissal of the Westchester Action with prejudice.

Early Childhood Education Tenant

During 2017, CLA's cash flow was negatively impacted by challenges brought on by its rapid expansion and related ramp up to stabilization and by adverse weather conditions in Texas during the third quarter of 2017. As a result, CLA initiated negotiations with the Company and other landlords regarding a potential restructuring. Although negotiations are on-going and progress has been made toward a restructuring. However, CLA did not secure the investments necessary to accomplish the restructuring. As a result, the Company sent CLA notices of lease termination on October 12, 2017 for the following CLA properties: (i) Broomfield, Colorado, (ii) Ashburn, Virginia, (iii) West Chester, Ohio, (iv) Chanhassen, Minnesota, (v) Ellisville, Missouri, (vi) Farm Road-Las Vegas, Nevada, (vii) Fishers, Indiana, (viii) Tredyffrin, Pennsylvania, and (ix) Westerville, Ohio.

On December 18, 2017, ten subsidiaries of CLA filed separate voluntary petitions for bankruptcy under Chapter 11 of the U.S. Bankruptcy Code with the United States Bankruptcy Court for the District of Arizona (Jointly Administered under Case No. 2:17-bk-14851-BMW). The CLA Debtors in those cases consist of CLA Properties SPE, LLC, CLA Maple Grove, LLC, CLA Carmel, LLC, CLA West Chester, LLC, CLA One Loudoun, LLC, LLC, CLA Fishers, LLC, CLA Chanhassen, LLC, CLA Ellisville, LLC, CLA Farm, LLC, and CLA Westerville, LLC. CLA Parent has not filed a petition for bankruptcy. The CLA Debtors include each of the Company's direct or indirect tenants on 24 out of the Company's 25 CLA properties, including 21 operating properties, two partially completed properties and one unimproved land parcel. The only CLA tenant unaffected by the bankruptcy is CLA King of Prussia, LLC, which is the CLA tenant entity for an unimproved land parcel located in Tredyffrin, Pennsylvania. It is the Company's understanding that the CLA Debtors filed bankruptcy petitions to stay the termination of the remaining CLA leases and delay the eviction process.

On January 8, 2018, the Company filed with the Court (i) motions seeking rent for the post-petition period beginning on December 18, 2017, and (ii) motions seeking relief from the automatic stay seeking the right to terminate the remaining leases and evict the CLA Debtors from the properties. On March 14, 2018, the CLA Parties and the Company entered into a Stipulation providing that (a) the CLA Parties will pay monthly rent for the months of March, April, May, June and July in the amounts of $750 thousand, $750 thousand, $750 thousand, $1.0 million and $1.0 million, respectively, (b) resolution of restructuring of the leases between the Company and the CLA Parties will be concluded no later than July 31, 2018 (the Forbearance Period), (c) relief from stay is granted with respect to the Company’s properties as needed to implement the Stipulation, (d) the parties will not commence or prosecute litigation against any other party during the Forbearance Period, and (e) the deadline for any motion by the CLA Debtors to assume or reject the leases under the U.S. Bankruptcy Code was extended to July 31, 2018. On May 7, 2018, the Court entered an order approving the Stipulation. The CLA Parties have made all of the required rent payments since entering into the Stipulation.

In July 2018, the Company entered into a new lease agreement with CLA related to the 21 operating properties which replaces the prior lease arrangements and provides for a one-month term for rent of $1.0 million expiring on August 31, 2018. The Company may agree to extend this lease, in its sole discretion, if the Company believes CLA is making adequate progress towards a satisfactory restructuring. If the new lease is not extended, CLA will be required to expeditiously vacate these properties, in which case the Company intends to lease some or all of the 21 schools to other operators. CLA also agreed to relinquish control of the four properties that were still under development as the Company no longer intends to develop these properties for CLA.

CLA continues to negotiate with third parties regarding a restructuring that would permit CLA to continue operation of the CLA properties. In addition, the Company is actively pursuing other alternatives for these properties, including replacement tenants and operators. There can be no assurances as to the ultimate outcome of such actions or the Company's pursuit of its legal remedies with respect to the CLA properties.

Item 1A. Risk Factors

There have been no material changes to the risk factors associated with our business previously disclosed in Item 1A - "Risk Factors" in 2017 Annual Report on Form 10-K for the fiscal year ended December 31, 2017, as supplemented by our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2018.

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

Issuer Purchases of Equity Securities

Period	Total Number of Shares Purchased		Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
April 1 through April 30, 2018 common stock	—		$ —	—	$ —
May 1 through May 31, 2018 common stock	—		—	—	—
June 1 through June 30, 2018 common stock	2,644	(1)	63.95	—	—
Total	2,644		$ 63.95	—	$ —

(1) The repurchase of equity securities during June 2018 was completed in conjunction with employee stock option exercises. These repurchases were not made pursuant to a publicly announced plan or program.

Item 3. Defaults Upon Senior Securities

There were no reportable events during the quarter ended June 30, 2018.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

There were no reportable events during the quarter ended June 30, 2018.

Item 6. Exhibits

3.1*	Composite of Amended and Restated Declaration of Trust of the Company (inclusive of all amendments through June 1, 2018), is attached hereto as Exhibit 3.1.
4.1	Indenture, dated April 16, 2018, between the Company and UMB Bank, n.a., as trustee, which is attached as Exhibit 4.1 to the Company's Form 8-K (Commission File No. 001-13561) filed on April 16, 2018, is hereby incorporated as Exhibit 4.1.
4.2	Form of 4.950% Senior Note due 2028 (included as Exhibit A to Exhibit 4.1 above).
10.1*	EPR Properties Employee Severance Plan (as amended June 1, 2018), is attached hereto as Exhibit 10.1.
12.1*	Computation of Ratio of Earnings to Fixed Charges is attached hereto as Exhibit 12.1.
12.2*	Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Dividends is attached hereto as Exhibit 12.2.
31.1*	Certification of Gregory K. Silvers pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, is attached hereto as Exhibit 31.1.
31.2*	Certification of Mark A. Peterson pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, is attached hereto as Exhibit 31.2.
32.1*	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, is attached hereto as Exhibit 32.1.
32.2*	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, is attached hereto as Exhibit 32.2.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Filed herewith.

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.

		EPR Properties
Dated: July 31, 2018	By	/s/ Gregory K. Silvers
		Gregory K. Silvers, President and Chief Executive Officer (Principal Executive Officer)
Dated: July 31, 2018	By	/s/ Tonya L. Mater
		Tonya L. Mater, Vice President and Chief Accounting Officer (Principal Accounting Officer)

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Section 2: EX-3.1 (EXHIBIT 3.1)

Exhibit 3.1

COMPOSITE COPY OF

**AMENDED AND RESTATED
DECLARATION OF TRUST
OF
EPR PROPERTIES**

(*As Amended Through June 1, 2018*)

EPR Properties, a Maryland real estate investment trust (the "Trust") under Title 8 of the Corporations and Associations Article of the Annotated Code of Maryland ("Title 8"), desires to amend and restate its Declaration of Trust as currently in effect and as hereinafter amended.

The following provisions are all of the provisions of the Declaration of Trust currently in effect as hereinafter amended:

FIRST: The name of the real estate investment trust (the "Trust") is: EPR Properties. Under circumstances in which the Board of Trustees of the Trust (the "Board of Trustees" or "Board") determines that the use of the name of the Trust is not practicable or advisable, the Trust may use any other designation or name for the Trust.

SECOND: The Trust is a real estate investment trust within the meaning of Title 8. The Trust shall not be deemed to be a general partnership, limited partnership, joint venture, joint stock company or a corporation (but nothing herein shall preclude the Trust from being treated for tax purposes as an association under the Internal Revenue Code of 1986, as amended (the "Code")).

THIRD: The purposes for which the Trust is formed is to engage in any lawful act or activity for which real estate investment trusts may be formed under the laws of the State of Maryland.

FOURTH: The current address of the principal office of the Trust is 1221 Baltimore Avenue, Kansas City, Missouri 64105. The post office address of the principal office of the Trust in the State of Maryland is c/o The Prentice-Hall Corporation System, Maryland, 11 East Chase Street, Baltimore, Maryland 21202. The name and address of the resident agent of the Trust in the State of Maryland is The Prentice-Hall Corporation System, Maryland, 11 East Chase Street, Baltimore, Maryland 21202. The resident agent is a corporation located in the State of Maryland.

FIFTH:

Section 1. The number of Trustees of the Trust shall initially be five (5), which number may be increased or decreased from time to time by the vote of a majority of the entire Board of Trustees, but such number shall in no case be less than three. Any such determination shall be by the Board of Trustees and shall continue in effect unless and until changed by the Board of Trustees, but no such changes shall affect the term of any Trustee then serving. A majority of the entire Board of Trustees shall constitute a quorum for the transaction of business.

Section 2. Each person elected as a Trustee of the Trust after the 2018 annual meeting of shareholders, whether to succeed a person whose term of office as a Trustee has expired (including the expiration of such person’s term) or to fill any vacancy, shall be elected for a term expiring at the next annual meeting. Each Trustee elected at or prior to the 2018 annual meeting of shareholders shall be deemed to serve as a member of the class of Trustees to which he or she was so elected for the term elected. At and after the 2021 annual meeting of shareholders, the Trustees shall no longer be classified with respect to the time for which they hold office. Notwithstanding the foregoing, each Trustee shall hold office until a successor has been elected or qualified or until his or her earlier death, resignation or removal.

Section 3.(a) A Trustee shall perform his or her duties as a trustee, including his or her duties as a member of a committee of the Board of Trustees on which he or she serves:

(i) in good faith;

(ii) in a manner he or she reasonably believes to be in the best interest of the Trust; and

(iii) with the care that an ordinarily prudent person in a like position would use under similar circumstances.

(b) In performing his or her duties, a Trustee is entitled to rely on any information, opinion, report or statement, including any financial statement or other financial data, prepared or presented by:

(i) an officer or employee of the Trust whom the Trustee reasonably believes to be reliable and competent in the matters presented;

(ii) a lawyer, certified public accountant, investment banker or other person, as to the matter which the Trustee reasonably believes to be within the person's professional or expert competence; or

(iii) a committee of the Board of Trustees on which the Trustee does not serve, as to a matter within its designated authority, if the Trustee reasonably believes the committee to merit confidence.

Section 4. Any Trustee may resign by written notice to the Board, effective upon execution and delivery to the Trust of such written notice or upon any future date specified in the notice. Subject to the rights of holders of one or more classes or series of Preferred Shares to elect or remove one or more Trustees, a Trustee may be removed at any time, for cause, at a meeting of the shareholders, by the affirmative vote of two thirds of all the votes entitled to be cast generally in the election of Trustees.

For purposes of this Section 4, "cause" shall mean and be limited to any one of the following:

(a) A Trustee is guilty of gross negligence or willful misconduct in the performance of his or her services on behalf of the Trust; or

(b) A Trustee is guilty of a material act or omission in the performance of his or her services on behalf of the Trust:

(i) which was committed in bad faith; or
(ii) which was the result of active and deliberate dishonesty; or
(iii) from which the Trustee actually received an improper personal benefit in money,

property or services; or

(c) A Trustee is guilty of a criminal act in the performance of his or her services on behalf of the Trust in which the Trustee had reasonable cause to believe his or her act was unlawful.

SIXTH: In furtherance and not in limitation of the powers conferred by statute, the Board of Trustees is expressly authorized to make, alter, amend or repeal the Bylaws of the Trust. The Declaration of Trust shall be construed with the presumption in favor of the grant of power and authority to the Board. Any construction of the Declaration of Trust or determination made in good faith by the Board concerning its powers and authority hereunder shall be conclusive.

SEVENTH:

Section 1. Indemnification. The Trust shall, to the maximum extent permitted by Maryland law in effect from time to time, indemnify (a) any individual who is a present or former trustee or officer of the Trust or (b) any individual who, while a trustee or officer of the Trust and at the request of the Trust, serves or has served as a director, officer, shareholder, partner, trustee, employee or agent of any real estate investment trust, corporation, partnership, joint venture, trust, employee benefit plan or any other enterprise, from and against any claim, liability, judgment, penalty, fine or amount paid in settlement, together with reasonable expenses actually incurred in advance of final disposition of a proceeding, to which such person may become subject or which such person may incur by reason of his or her status as such. The Trust shall have the power, with the approval of its Board of Trustees, to provide such indemnification and advancement of expenses to a person who served a predecessor of the Trust in any of the capacities described in (a) or (b) above and to any employee or agent of the Trust or a predecessor of the Trust.

Section 2. Insurance. The Trust may purchase and maintain insurance on behalf of any person who is or was a trustee, officer, employee or agent of the Trust or who, while a trustee, officer, employee or agent of the Trust is or was serving at the request of the Trust as a director, officer, shareholder, partner, trustee, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, against liability asserted against or incurred by such person in that capacity or arising from such person's status as such, whether or not the Trust would have the power to indemnify such person against the same liability under Section 1 of this Article SEVENTH.

EIGHTH:

Section 1. Authorized Shares. The beneficial interest of the Trust shall be divided into shares of beneficial interest (the "Shares"). The Trust has authority to issue 100,000,000 common shares of beneficial interest, $0.01 par value per share ("Common Shares"), and 25,000,000 preferred shares of beneficial interest, $0.01 par value per share ("Preferred Shares"). The Board of Trustees, without any action by the shareholders of the Trust, may amend the Declaration of Trust from time to time to increase or decrease the aggregate number of Shares or the number of Shares of any class that the Trust has authority to issue. If shares of one class of beneficial interest are classified or reclassified into shares of another class of beneficial interest pursuant to Sections 2, 3 or 4 of this Article EIGHTH, the number of authorized shares of the former class shall be automatically decreased and the number of authorized shares of the latter class shall be automatically increased, in each case by the number of shares so classified or reclassified, so that the aggregate number of shares of beneficial interest of all classes that the Trust has authority to issue shall not be more than the total number of shares of beneficial interest set forth in the second sentence of this paragraph.

Section 2. Common Shares. Subject to the provisions of Article NINTH, each Common Share shall entitle the holder thereof to one vote on each matter upon which holders of Common Shares are entitled to vote. The Board of Trustees may reclassify any unissued Common Shares from time to time in one or more classes or series of Shares.

Section 3. Preferred Shares. The Board of Trustees may classify any unissued Preferred Shares and reclassify any previous classified but unissued Preferred Shares of any series from time to time in one or more series of Shares.

Section 4. Classified or Reclassified Shares. Prior to issuance of classified or reclassified Shares of any class or series, the Board of Trustees by resolution shall (a) designate that class or series to distinguish it from all other classes and series of Shares; (b) specify the number of Shares to be included in the class or series; (c) set, subject to the provisions of Article NINTH and subject to the express terms of any class or series of Shares outstanding at the time, the preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends or other distributions, qualifications and terms and conditions of redemption for each class or series; and (d) cause the Trust to file articles supplementary with the State Department of Assessments and Taxation of Maryland (the "SDAT"). Any of the terms of any class or series of Shares set pursuant to clause (c) of this Section 4 may be made dependent upon facts ascertainable outside the Declaration of Trust (including the occurrence of any event, including a determination or action by the Trust or any other person or body) and may vary among holders thereof, provided that the manner in which such facts or variations shall operate upon the terms of such class or series of Shares is clearly and expressly set forth in the articles supplementary filed with the SDAT.

Section 5. Authorization by Board of Share Issuance. The Board of Trustees may authorize the issuance from time to time of Shares of any class or series, whether now or hereafter authorized, or securities or rights convertible into Shares of any class or series, whether now or hereafter authorized, for such consideration (whether in cash, property, past or future services, obligation for future payment or otherwise) as the Board of Trustees may deem advisable (or without consideration in the case of a Share split or Share dividend), subject to such restrictions or limitations, if any, as may be set forth in the Declaration of Trust or the Bylaws of the Trust.

Section 6. Dividends and Distributions. The Board of Trustees may from time to time authorize and declare to shareholders such dividends or distributions, in cash or other assets of the Trust or in securities of the Trust or from any other source as the Board of Trustees in its discretion shall determine. The Board of Trustees shall endeavor to authorize and declare such dividends and distributions as shall be necessary for the Trust to qualify as a real estate investment trust under the Code; however, shareholders shall have no right to any dividend or distribution unless and until authorized and declared by the Board. The exercise of the powers and rights of the Board of Trustees pursuant to this Section 6 shall be subject to provisions of any class or series of Shares at the time outstanding. Notwithstanding any other provision in the Declaration of Trust, no determination shall be made by the Board of Trustees nor shall any transaction be entered into by the Trust which would cause any Shares or other beneficial interest in the Trust not to constitute "transferable shares" or "transferable certificates of beneficial interest" under Section 856(a)(2) of the Code or which would cause any distribution to constitute a preferential dividend as described in Section 562(c) of the Code.

Section 7. General Nature of Shares. All Shares shall be personal property entitling the shareholders only to those rights provided in the Declaration of Trust. The shareholders shall have no interest in the property of the Trust and shall have no right to compel any partition, division, dividend or distribution of the Trust or of the property of the Trust. The death of a shareholder shall not terminate the Trust. The Trust is entitled to treat as shareholders only those persons in whose names Shares are registered as holders of Shares on the beneficial interest ledger of the Trust.

Section 8. Fractional Shares. The Trust may, without the consent or approval of any shareholder, issue fractional Shares, eliminate a fraction of a Share by rounding up or down to a full Share, arrange for the disposition of a fraction of a Share by the person entitled to it, or pay cash for the fair value of a fraction of a Share.

Section 9. Declaration and Bylaws. All shareholders are subject to the provisions of the Declaration of Trust and the Bylaws of the Trust.

Section 10. Declaration and Combinations of Shares. Subject to an express provision to the contrary in the terms of any class or series of beneficial interest hereafter authorized, the Board of Trustees shall have the power to divide or combine the outstanding shares of any class or series of beneficial interest, without a vote of shareholders, so long as the number of shares combined into one share in any such combination or series of combinations within any period of twelve months is not greater than 100.

NINTH:

Section 1. Definitions. For the purposes of this Article NINTH, the following terms shall have the following meanings:

"Beneficial Ownership" shall mean ownership of Shares by a Person who (i) would be treated as an owner of such Shares under section 542(a)(2) of the Code either directly or constructively through the application of Section 544 of the Code, as modified by Section 856(h)(1)(B) of the Code or (ii) would be treated as an owner of such Shares under Section 318(a) of the Code, as modified by Section 856(d)(5) of the Code. The terms "Beneficial Owner," "Beneficially Owns," "Beneficially Own" and "Beneficially Owned" shall have the correlative meanings.

"Charitable Beneficiary" shall mean an organization or organizations described in Sections 170(b)(1)(A) and 170(c) of the Code and identified by the Board of Trustees as the beneficiary or beneficiaries of the Excess Share Trust.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

"Excess Shares" shall mean Shares resulting from an event described in Section 3 of this Article NINTH.

"Excess Share Trust" shall mean the trust created pursuant to Section 3 and Section 14 of this Article NINTH.

"Excess Share Trustee" shall mean a person, who shall be unaffiliated with the Trust, any Purported Beneficial Transferee and any Purported Record Transferee, identified by the Board of Trustees as the trustee of the Excess Share Trust.

"Fair Market Value" shall mean the last reported sales price reported on the New York Stock Exchange for Shares on the trading day immediately preceding the relevant date, or if not then traded on the New York Stock Exchange, the last reported sales price for Shares on the trading day immediately preceding the relevant date as reported on any exchange or quotation system over or through which such Shares may be traded, or if not then traded over or through any exchange or quotation system, then the market price of such Shares on the relevant date as determined in good faith by the Board of Trustees.

"Initial Public Offering" shall mean the sale of Shares to the public pursuant to the Trust's first effective registration statement for such Shares under the Securities Act of 1933, as amended.

"Ownership Limit" shall initially mean 9.8%, in number of Shares or value, of the outstanding Shares of any class or series of Common Stock or Preferred Stock of the Trust. The number and value of the outstanding Shares of any class or series of Common Stock or Preferred Stock of the Trust shall be determined by the Board of Trustees in good faith, which determination shall be conclusive for all purposes hereof.

"Person" shall mean an individual, corporation, partnership, estate, trust (including a trust qualified under Section 401(a) or 501(c)(17) of the Code), portion of a trust permanently set aside for or to be used exclusively for the purposes described in Section 642(c) of the Code, association, private foundation within the meaning of Section 509(a) of the Code, joint stock company or other entity and also includes a group as that term is used for purposes of Section 13(d)(3) of the Securities Exchange Act of 1934, as amended.

"Purported Beneficial Transferee" shall mean, with respect to any purported Transfer which results in Excess Shares, as defined below in Section 3 of this Article NINTH, the Person who would have been the beneficial holder of the Shares, if such Transfer had been valid under Section 2 of this Article NINTH.

"Purported Record Transferee" shall mean, with respect to any purported Transfer which results in Excess Shares, as defined below in Section 3 of this Article NINTH, the Person who would have been the record holder of the Shares, if such Transfer had been valid under Section 2 of this Article NINTH.

"REIT" shall mean a real estate investment trust under Section 856 of the Code.

"REIT Provisions of the Code" means Sections 856 through 860 of the Code and any successor or other provisions of the Code relating to real estate investment trusts (including provisions as to the attribution of ownership of beneficial interests therein) and the regulations promulgated thereunder.

"Restriction Termination Date" shall mean the first day after the date of the Initial Public Offering on which the Board of Trustees determines that it is no longer in the best interests of the Trust to attempt to, or continue to, qualify as a REIT.

"Shares" shall mean the shares of the Trust as may be authorized and issued from time to time pursuant to Article EIGHTH.

"Transfer" shall mean any sale, transfer, gift, assignment, devise or other disposition of Shares (including (a) the granting of any option or entering into any agreement for the sale, transfer or other disposition of Shares, (b) the sale, transfer, assignment or other disposition of any securities or rights convertible into or exchangeable for Shares and (c) any transfer or other disposition of any interest in Shares as a result of a change in the marital status of the holder thereof), whether voluntary or involuntary, whether of record, constructively or beneficially and whether by operation of law or otherwise. The terms "Transfers" and "Transferred" shall have the correlative meanings.

Section 2. Ownership Limitation.

(A) Except as provided in Section 11 and Section 19 of this Article NINTH and subject to clause (E) of this Section 2, from the date of the Initial Public Offering until the Restriction Termination Date, no Person, or Persons acting as a group, shall Beneficially Own Shares in excess of the Ownership Limit.

(B) Except as provided in Section 11 and Section 19 of this Article NINTH and subject to clause (E) of this Section 2, from the date of the Initial Public Offering until the Restriction Termination Date, any Transfer that, if effective, would result in any Person Beneficially Owning Shares in excess of the Ownership Limit shall be void ab initio as to the Transfer of such Shares which would be otherwise Beneficially Owned by such Person in excess of the Ownership Limit; and the intended transferee shall acquire no rights in such Shares.

(C) Except as provided in Section 11 and Section 19 of this Article NINTH and subject to clause (E) of this Section 2, from the date of the Initial Public Offering until the Restriction Termination Date, any Transfer that, if effective, would result in the Shares being beneficially owned (as provided in Section 856(a) of the Code) by less than 100 Persons (determined without reference to any rules of attribution) shall be void ab initio as to the Transfer of such Shares which would be otherwise beneficially owned (as provided in Section 856(a) of the Code) by the transferee; and the intended transferee shall acquire no rights in such Shares.

(D) Except as provided in Section 11 and Section 19 of this Article NINTH and subject to clause (E) of this Section 2, from the date of the Initial Public Offering until the Restriction Termination Date, any Transfer that, if effective, would result in the Trust being "closely held" within the meaning of Section 856(h) of the Code shall be void ab initio as to the Transfer of the Shares which would cause the Trust to be "closely held" within the meaning of Section 856(h) of the Code; and the intended transferee shall acquire no rights in such Shares.

(E) Nothing contained in this Article NINTH shall preclude the settlement of any transaction entered into through the facilities of the New York Stock Exchange. The fact that the settlement of any transaction occurs or takes place shall not negate the effect of any other provision of this Article NINTH and any transferee in such a transaction shall be subject to all of the provisions and limitations set forth in this Article NINTH.

Section 3. Excess Shares.

(A) If, notwithstanding the other provisions contained in this Article NINTH, at any time after the date of the Initial Public Offering until the Restriction Termination Date, there is a purported Transfer such that any Person would Beneficially Own Shares in excess of the applicable Ownership Limit, then, except as otherwise provided in Section 11 of this Article NINTH, Shares directly owned by such Person in excess of the Ownership Limit shall be automatically designated as Excess Shares (without reclassification) until such Person does not own Shares in excess of the applicable Ownership Limit. The designation of such Shares as Excess Shares shall be effective as of the close of business on the business day prior to the date of the purported Transfer. If, after designation of such Shares owned directly by a Person as Excess Shares, such Person still owns Shares in excess of the applicable Ownership Limit, Shares Beneficially Owned by such Person constructively in excess of the Ownership Limit shall be designated as Excess Shares until such Person does not own Shares in excess of the applicable Ownership Limit. Where such Person owns Shares constructively through one or more Persons and the Shares held by such other Persons must be designated as Excess Shares, the designation of Shares as Excess Shares held by such other Persons shall be pro rata.

(B) If, notwithstanding the other provisions contained in this Article NINTH, at any time after the date of the Initial Public Offering until the Restriction Termination Date, there is a purported Transfer of Shares or any sale, transfer, gift, assignment, devise or other disposition of shares or other interests of a direct or indirect shareholder of the Trust which, if effective, would cause the Trust to become "closely held" within the meaning of Section 856(h) of the Code, then any Shares being Transferred which would cause the Trust to be "closely held" within the meaning of Section 856(h) of the Code (rounded up to the nearest whole Share) shall be automatically designated as Excess Shares and be treated as provided in this Article NINTH. Such designation and treatment shall be effective as of the close of business on the business day prior to the date of the purported Transfer. If, after the designation of any such Shares as Excess Shares, the Trust is still "closely held" within the meaning of Section 856(h) of the Code, an amount of Shares owned directly by any individual whose Beneficial Ownership of Shares in the Trust increased as a result of the sale, transfer, gift, assignment, devise or other disposition of shares or other interests of a direct or indirect shareholder of the Trust and is one of the five individuals who caused the Trust to be "closely held" within the meaning of Section 856(h) of the Code, shall be automatically designated as Excess Shares until the Trust is not "closely held" within the meaning of Section 856(h) of the Code. Where several similarly situated individuals exist, the designation of Shares as Excess Shares shall be pro rata. If, after applying the foregoing provisions the Trust is still "closely held" within the meaning of Section 856(h) of the Code, any Shares constructively owned by such individuals shall be designated as Excess Shares, on a pro rata basis among similarly situated individuals, until the Trust is not "closely held" within the meaning of Section 856(h) of the Code.

(C) If, at any time after the date of the Initial Public Offering until the Restriction Termination Date, an event other than a purported Transfer (an "Event") occurs which would cause any Person to Beneficially Own Shares in excess of the Ownership Limit, then, except as otherwise provided in Section 11 of this Article NINTH, Shares Beneficially Owned by such Person in excess of the Ownership Limit shall be automatically designated as Excess Shares to the extent necessary to eliminate such excess ownership. The designation of Shares as Excess Shares shall be effective as of the close of business on the business day prior to the date of the Event. In determining which Shares are designated as Excess Shares, Shares Beneficially Owned by any Person who caused the Event to occur shall be designated as Excess Shares before any Shares not so held are designated. Where several similarly situated Persons exist, the designation of Shares as Excess Shares shall be pro rata. If any Person is required to designate Shares as Excess Shares pursuant to this Clause (C) of this Section 3 of this Article NINTH, such Person shall first designate Shares directly held by such Person before designating Shares Beneficially Owned constructively. Where such Person owns Shares constructively through one or more Persons and the Shares held by such other Persons must be designated as Excess Shares, the designation of Shares by such other Persons shall be pro rata.

Section 4. Prevention of Transfer. If the Board of Trustees or its designee shall at any time determine in good faith that a Transfer has taken place in violation of Section 2 of this Article NINTH or that a Person intends to acquire or has attempted to acquire Beneficial Ownership (determined without reference to any rules of attribution) of any Shares in violation of Section 2 of this Article NINTH, the Board of Trustees or its designee shall take such action as it deems advisable to refuse to give effect to or to prevent such Transfer, including, but not limited to, refusing to give effect to such Transfer on the books of the Trust or instituting proceedings to enjoin such Transfer; provided, however, that any Transfers or attempted Transfers in violation of Section 2 of this Article NINTH shall automatically result in the designation and treatment described in Section 3 of this Article NINTH, irrespective of any action (or non-action) by the Board of Trustees.

Section 5. Notice to Trust. Any Person who acquires or attempts to acquire Shares in violation of Section 2 of this Article NINTH, or any Person who is a transferee such that Excess Shares result under Section 3 of this Article NINTH, shall immediately give written notice or, in the event of a proposed or attempted Transfer, give at least 15 days prior written notice to the Trust of such event. Such person shall also provide to the Trust such other information as the Trust may request in order to determine the effect, if any, of such Transfer or attempted Transfer on the Trust's status as a REIT and shall execute and deliver such instruments and provide such further cooperation and assistance as the Board of Trustees deems advisable to preserve the status of the Trust as a REIT.

Section 6. Information for Trust. From the date of the Initial Public Offering until the Restriction Termination Date:

(A) every Beneficial Owner of more than 5% (or such other lower percentages as required pursuant to regulations under the Code) of the number or value of any class or series of Common Stock or Preferred Stock of the Trust shall, within 30 days after January 1 of each year, give written notice to the Trust stating the name and address of such Beneficial Owner, the number of Shares of such class or series of Common Stock or Preferred Stock Beneficially Owned, and a description of how such Shares are held. Each such Beneficial Owner shall provide to the Trust such additional information as the Trust may reasonably request in order to determine the effect, if any, of such Beneficial Ownership on the Trust's status as a REIT and to ensure compliance with the Ownership Limit.

(B) each Person who is a Beneficial Owner of Shares and each Person (including the shareholder of record) who is holding Shares for a Beneficial Owner shall provide to the Trust in writing such information with respect to direct, indirect and constructive ownership of Shares as the Board of Trustees deems reasonably necessary to comply with the provisions of the Code applicable to a REIT, to determine the Trust's status as a REIT, to comply with the requirements of any taxing authority or governmental agency or to determine any such compliance.

Section 7. Other Actions by Board. Subject to Section 2 of this Article NINTH, nothing contained in this Article NINTH shall limit the authority of the Board of Trustees to take such other action as it deems necessary or advisable to protect the Trust and the interests of its shareholders by preservation of the Trust's status as a REIT, provided, however, that no provision of this Section 7 shall preclude the settlement of any transaction entered into through the facilities of the New York Stock Exchange.

Section 8. Ambiguities. In the case of an ambiguity in the application of any of the provisions of this Article NINTH, including any definition contained in Section 1, the Board of Trustees shall have the power to determine the application of the provisions of this Article NINTH with respect to any situation based on the facts known to it. In the event this Article NINTH requires or permits an action by the Board of Trustees and the Declaration of Trust fails to provide specific guidance with respect to such action, the Board of Trustees shall have the power to determine the action to be taken so long as such action is not contrary to the provisions of Article NINTH.

Section 9. Increase or Decrease in Ownership Limits. Subject to the limitations provided in Section 10 of this Article NINTH, the Board of Trustees may from time to time increase or decrease the Ownership Limit; provided, however, that any decrease may only be made prospectively as to subsequent holders (other than a decrease as a result of a retroactive change in existing law that would require a decrease to retain REIT status, in which case such decrease shall be effective immediately).

Section 10. Limitations on Changes in Ownership Limits.

(A) The Ownership Limit may not be increased if, after giving effect to such increase, five individual Beneficial Owners of Shares could Beneficially Own, in the aggregate, more than 49.9% in number or value of the outstanding Shares.

(B) Prior to the modification of any Ownership Limit pursuant to Section 9 of this Article NINTH, the Board of Trustees may require such opinions of counsel, affidavits, undertakings or agreements as it may deem necessary or advisable in order to determine or ensure the Trust's status as a REIT.

(C) No Ownership Limit may be increased to a percentage which is greater than 9.9%.

Section 11. Waivers by the Board. The Board of Trustees with a ruling from the Internal Revenue Service, an opinion of counsel to the effect that such exemption will not result in the Trust being "closely held" within the meaning of Section 856(h) of the Code, or such other evidence as the Board of Trustees deems necessary in its sole discretion may exempt, on such conditions and terms as the Board of Trustees deems necessary in its sole discretion, a Person from the Ownership Limit if the Board of Trustees obtains such representations and undertakings from such Person as the Board of Trustees may deem appropriate and such Person agrees that any violation of the terms of such exemption or attempted violation of the same will result in, to the extent necessary, the designation of Shares held by such Person as Excess Shares in accordance with Section 3 of this Article NINTH.

Section 12. Legend. Each certificate for Shares shall bear substantially the following legend:

> The securities represented by this certificate are subject to restrictions on ownership and transfer for the purpose of the Trust's maintenance of its status as a real estate investment trust under the Internal Revenue Code of 1986, as amended. Except as otherwise provided pursuant to the Declaration of Trust of the Trust, no Person may Beneficially Own Shares in excess of 9.8% (or such greater percentage as may be determined by the Board of Trustees of the Trust) of the number or value of the outstanding Shares of any class or series of the Common Stock or Preferred Stock of the Trust. Any Person who attempts or proposes to Beneficially Own Shares in excess of the above limitations must notify the Trust in writing at least 15 days prior to such proposed or attempted Transfer. All capitalized terms in this legend have the meanings defined in the Declaration of Trust of the Trust, a copy of which, including the restrictions on transfer, will be furnished to each shareholder on request and without charge. If the restrictions on transfer are violated, the securities represented hereby which are in excess of the above limitations will be designated and treated as Excess Shares which will be held in trust by the Excess Share Trustee for the benefit of the Charitable Beneficiary.

Instead of the foregoing legend, the certificate may state that the Trust will furnish a full statement about certain restrictions on transferability to a shareholder on request and without charge.

Section 13. Severability. If any provision of this Article NINTH or any application of any such provision is determined to be void, invalid or unenforceable by any court having jurisdiction over the issue, the validity and enforceability of the remaining provisions shall be affected only to the extent necessary to comply with the determination of such court.

Section 14. Transfer of Excess Shares. Upon any purported Transfer that results in Excess Shares pursuant to Section 3 of this Article NINTH, such Excess Shares shall be deemed to have been transferred to the Excess Share Trustee, as trustee of a special trust for the exclusive benefit of the Charitable

Beneficiary. The Trust shall name a Charitable Beneficiary, if one does not already exist, within five days of the discovery of any designation of any Excess Shares; however, the failure to so name a Charitable Beneficiary shall not affect the designation of Shares as Excess Shares or the transfer thereof to the Excess Share Trustee. Excess Shares so held in trust shall be issued and outstanding Shares of the Trust. The Purported Record Transferee or Purported Record Holder shall have no rights in such Excess Shares except as provided in Section 17 of this Article NINTH.

Section 15. Distributions on Excess Shares. Any dividends (whether taxable as a dividend, return of capital or otherwise) on Excess Shares shall be paid to the Excess Share Trust for the benefit of the Charitable Beneficiary. Upon liquidation, dissolution or winding up, the Purported Record Transferee shall receive, for each Excess Share, the lesser of (1) the amount per share of any distribution made upon liquidation, dissolution or winding up or (2) the price paid by the Purported Record Transferee for the Excess Shares, or if the Purported Record Transferee did not give value for the Excess Shares, the Fair Market Value of the Excess Shares on the day of the event causing the Excess Shares to be held in trust. Any such dividend paid or distribution paid to the Purported Record Transferee in excess of the amount provided in the preceding sentence prior to the discovery by the Trust that the Shares with respect to which the dividend or distribution was made had been designated as Excess Shares shall be repaid, upon demand, to the Excess Share Trust for the benefit of the Charitable Beneficiary.

Section 16. Voting of Excess Shares. The Excess Share Trustee shall be entitled to vote the Excess Shares on behalf of the Charitable Beneficiary on any matter. Subject to Maryland law, any vote cast by a Purported Record Transferee with respect to the Excess Shares prior to the discovery by the Trust that the Excess Shares were held in trust will be rescinded ab initio; provided, however, that if the Trust has already taken irreversible action with respect to a merger, reorganization, sale of all or substantially all the assets, dissolution of the Trust or other action by the Trust, then the vote cast by the Purported Record Transferee shall not be rescinded. The owner of the Excess Shares will be deemed to have given an irrevocable proxy to the Excess Share Trustee to vote the Excess Shares for the benefit of the Charitable Beneficiary.

Notwithstanding the provisions of this Article NINTH, until the Trust has received notification that Excess Shares have been transferred into an Excess Share Trust, the Trust shall be entitled to rely on its share transfer and other shareholder records for purposes of preparing lists of shareholders entitled to vote at meetings, determining the validity and authority of proxies and otherwise conducting votes of shareholders.

Section 17. Non-Transferability of Excess Shares. Excess Shares shall be transferable only as provided in this Section 17. At the direction of the Board of Trustees, the Excess Share Trustee shall transfer the Shares held in the Excess Share Trust to a Person or Persons whose ownership of such Shares will not violate the Ownership Limit. If such a transfer is made to such a Person or Persons, the interest of the Charitable Beneficiary shall terminate and proceeds of the sale shall be payable to the Purported Record Transferee and to the Charitable Beneficiary. The Purported Record Transferee shall receive the lesser of (1) the price paid by the Purported Record Transferee for the Shares or, if the Purported Record Transferee did not give value for the Shares, the Fair Market Value of the Shares on the day of the event causing the Shares to be held in trust, or (2) the price received by the Excess Share Trust from the sale or other disposition of the Shares. Any proceeds in excess of the amount payable to the Purported Record Transferee will be paid to the Charitable Beneficiary. The Excess Share Trustee shall be under no obligation to obtain the highest possible price for the Excess Shares. Prior to any transfer of any Excess Shares by the Excess Share Trustee, the Trust must have waived in writing its purchase rights under Section 18. It is expressly understood that the Purported Record Transferee may enforce the provisions of this Section against the Charitable Beneficiary.

If any of the foregoing restrictions on transfer of Excess Shares is determined to be void, invalid or unenforceable by any court of competent jurisdiction, then the Purported Record Transferee may be deemed, at the option of the Trust, to have acted as an agent of the Trust in acquiring such Excess Shares in trust and to hold such Excess Shares on behalf of the Trust.

Section 18. Call by Trust on Excess Shares. Excess Shares shall be deemed to have been offered for sale to the Trust, or its designee, at a price per Share equal to the lesser of (a) the price per Share in the transaction that created such Excess Shares (or, in the case of a devise, gift or other transaction in which no value was given for such Excess Shares, the Fair Market Value at the time of such devise, gift or other transaction) and (b) the Fair Market Value of the Excess Shares on the date the Trust, or its designee, accepts such offer (the "Redemption Price"). The Trust shall have the right to accept such offer for a period of ninety days after the later of (x) the date of the Purported Transfer which resulted in such Excess Shares and (y) the date the Board of Trustees determines in good faith that a Transfer resulting in Excess Shares has occurred, if the Trust does not receive a notice of such Transfer pursuant to Section 5 of this Article NINTH but in no event later than a permitted Transfer pursuant to and in compliance with the terms of Section 17 of this Article NINTH. Unless the Board of Trustees determines that it is in the interests of the Trust to make earlier payments of all of the amount determined as the Redemption Price per Share in accordance with the preceding sentence, the Redemption Price may be payable at the option of the Board of Trustees at any time up to but not later than the five years after the date the Trust accepts the offer to purchase the Excess Shares. In no event shall the Trust have an obligation to pay interest to the Purported Record Transferee.

Section 19. Underwritten Offerings. The Ownership Limit shall not apply to the acquisition of Shares or rights, options or warrants for, or securities convertible into, Shares by an underwriter in a public offering, provided that the underwriter makes a timely distribution of such Shares or rights, options or warrants for, or securities convertible into, Shares.

Section 20. Enforcement. The Trust is authorized specifically to seek equitable relief, including injunctive relief, to enforce the provisions of this Article NINTH.

Section 21. Non-Waiver. No delay or failure on the part of the Trust or the Board of Trustees in exercising any right hereunder shall operate as a waiver of any right of the Trust or the Board of Trustees, as the case may be, except to the extent specifically waived in writing.

TENTH:

Section 1. Meetings. There shall be an annual meeting of the shareholders, to be held on such notice and at such time (after the delivery of the annual report) and location, within or without the State of Maryland, as shall be determined by or in the manner prescribed in the Bylaws, for the election of the Trustees, if required, and for the transaction of any other business within the powers of the Trust. Except as otherwise provided in the Declaration of Trust, special meetings of shareholders may be called in the manner provided in the Bylaws. If there are no Trustees, the officers of the Trust shall promptly call a special meeting of the shareholders entitled to vote for the election of successor Trustees. Any meeting may be adjourned and reconvened as the Trustees determine or as provided in the Bylaws.

Section 2. Voting Rights. Subject to the provisions of any class or series of Shares then outstanding, the shareholders shall be entitled to vote only on the following matters: (a) election of Trustees as provided in ARTICLE FIFTH and the removal of Trustees as provided in ARTICLE FIFTH; (b) amendment of the Declaration of Trust as provided in ARTICLE TWELFTH; (c) termination of the

Trust as provided in ARTICLE FIFTEENTH; (d) merger or consolidation of the Trust, or the sale or disposition of substantially all of the Trust Property, as provided in ARTICLE FOURTEENTH; and (e) such other matters with respect to which the Board of Trustees has adopted a resolution declaring that a proposed action is advisable and directing that the matter be submitted to the shareholders for approval or ratification. Except with respect to the foregoing matters, no action taken by the shareholders at any meeting shall in any way bind the Board of Trustees. Elections of Trustees need not be by written ballot unless the Bylaws of the Trust so provide.

Section 3. Preemptive and Appraisal Rights. Except as may be provided by the Board of Trustees in setting the terms of classified or reclassified Shares pursuant to ARTICLE EIGHTH or as may be otherwise agreed by contract, no holder of Shares shall, as such holder, (a) have any preemptive right to purchase or subscribe for any additional Shares of the Trust or any other security of the Trust which it may issue or sell or (b) except as expressly required by Title 8, have any right to require the Trust to pay him the fair value of his Shares in an appraisal or similar proceeding.

Section 4. Shareholder Vote. Except as specifically provided in ARTICLE FIFTH, notwithstanding any provision of law permitting or requiring any action to be taken or authorized by the affirmative vote of the holders of a greater number of votes, any such action shall be effective and valid if taken or authorized by a majority of the number of votes entitled to be cast on the matter.

Section 5. Board Approval. The submission of any action to the shareholders for their consideration shall first be approved by the Board of Trustees.

Section 6. Actions by Shareholders without a Meeting. The Bylaws of the Trust may provide that any action required or permitted to be taken by the shareholders may be taken without a meeting by the written consent of the shareholders entitled to cast a sufficient number of votes to approve the matter as required by statute, the Declaration of Trust or the Bylaws of the Trust, as the case may be.

Section 7. Books. The books of the Trust may be kept (subject to applicable law) outside the State of Maryland at such place or places as may be designated from time to time by the Board of Trustees or in the Bylaws of the Trust.

ELEVENTH: The Trust reserves the right to amend, alter, change or repeal any provision contained in this Declaration of Trust (including the contract rights of any outstanding Shares) in the manner now or hereafter prescribed or permitted by statute. All rights at any time conferred upon the shareholders of the Trust by this Declaration of Trust are granted subject to the reservations in this Article ELEVENTH.

TWELFTH: Except as otherwise specifically provided herein, any amendment to this Declaration of Trust shall be approved by the affirmative vote of a majority of all the votes entitled to be cast on the matter. The Board of Trustees may amend this Declaration of Trust from time to time to qualify the Trust as a REIT under the Code or Title 8 by the affirmative vote of not less than two thirds of the Trustees, without the consent of any shareholders.

THIRTEENTH: To the maximum extent that Maryland law in effect from time to time permits limitation of the liability of trustees and officers, no trustee or officer of the Trust shall be liable to the Trust or its shareholders for money damages. Neither the amendment nor repeal of this Article THIRTEENTH, nor the adoption or amendment of any other provision of the Declaration of Trust or Bylaws of the Trust inconsistent with this Article THIRTEENTH, shall apply to or affect in any respect the applicability of the preceding sentence with respect to any act or failure to act which occurred prior to such amendment, repeal or adoption. In the absence of any Maryland statute limiting the liability of trustees and officers of a

Maryland real estate investment trust for money damages in a suit by or on behalf of the Trust or by any shareholder, no Trustee or officer of the Trust shall be liable to the Trust or to any shareholder for money damages except to the extent that (a) the Trustee or officer actually received an improper benefit or profit in money, property, or services, in which event such Trustee or officer shall be liable for the amount of the benefit or profit in money, property, or services actually received; or (b) a judgment or other final adjudication adverse to the Trustee or officer is entered in a proceeding based on a finding in the proceeding that the Trustee's or officer's action or failure to act was the result of active and deliberate dishonesty and was material to the cause of action adjudicated in the proceeding.

FOURTEENTH: Subject to the provisions of any class or series of Shares at the time outstanding, the Trust may (a) merge the Trust with or into another entity, (b) consolidate the Trust with one or more other entities into a new entity or (c) sell, lease, exchange or otherwise transfer all or substantially all of the Trust Property. Any such action must be approved by the Board of Trustees in the manner provided in Title 8 and, after notice to all shareholders entitled to vote on the matter, by the affirmative vote of a majority of all the votes entitled to be cast on the matter.

FIFTEENTH:

Section 1. Duration. The Trust shall continue perpetually unless terminated pursuant to Section 2 of this ARTICLE FIFTEENTH or any applicable provision of Title 8.

Section 2. Termination.

(a) Subject to the provisions of any class or series of Shares at the time outstanding, the Trust may be terminated at any meeting of shareholders, by the affirmative vote of a majority of all the votes entitled to be cast on the matter. Upon the termination of the Trust:

(i) The Trust shall carry on no business except for the purpose of winding up its affairs.

(ii) The Trustees shall proceed to wind up the affairs of the Trust and all of the powers of the Trustees under the Declaration of Trust shall continue, including the powers to fulfill or discharge the Trust's contracts, collect its assets, sell, convey, assign, exchange, transfer or otherwise dispose of all or any part of the remaining property of the Trust to one or more persons at public or private sale for consideration which may consist in whole or in part of cash, securities or other property of any kind, discharge or pay its liabilities and do all other acts appropriate to liquidate its business.

(iii) After paying or adequately providing for the payment of all liabilities, and upon receipt of such releases, indemnities and agreements as the Board of Trustees deem necessary for their protection, the Trust may distribute the remaining property of the Trust among the shareholders so that after payment in full or the setting apart for payment of such preferential amounts, if any, to which the holders of any Shares at the time outstanding shall be entitled, the remaining property of the Trust shall, subject to any participating or similar rights of Shares at the time outstanding, be distributed ratably among the holders of Common Shares at the time outstanding.

(b) After termination of the Trust, the liquidation of its business and the distribution to the shareholders as herein provided, a majority of the Trustees shall execute and file with the Trust's records a document certifying that the Trust has been duly terminated, and the Trustees shall be discharged from all liabilities and duties hereunder, and the rights and interests of all shareholders shall cease.

SIXTEENTH: The undersigned Chairman acknowledges this Declaration of Trust to be the act of the Trust and as to all matters or facts required to be verified under oath, the undersigned Chairman acknowledges that to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

SEVENTEENTH: This Declaration of Trust is executed by the undersigned Trustee and delivered in the State of Maryland with reference to the laws thereof, and the rights of all parties and the validity, construction and effect of every provision hereof shall be subject to and construed according to the laws of the State of Maryland without regard to conflicts of laws provisions thereof.

EIGHTEENTH: Any certificate shall be final and conclusive as to any person dealing with the Trust if executed by the Secretary or an Assistant Secretary of the Trust or a Trustee, and if certifying to: (a) the number or identity of Trustees, officers of the Trust or shareholders; (b) the due authorization of the execution of any document; (c) the action or vote taken, and the existence of a quorum, at a meeting of the Board of Trustees or shareholders; (d) a copy of the Declaration of Trust or of the Bylaws as a true and complete copy as then in force; (e) an amendment to the Declaration of Trust; (f) the termination of the Trust; or (g) the existence of any fact relating to the affairs of the Trust. No purchaser, lender, transfer agent or other person shall be bound to make any inquiry concerning the validity of any transaction purporting to be made by the Trust on its behalf or by any officer, employee or agent of the Trust.

NINETEENTH: In this Declaration of Trust, unless the context otherwise requires, words used in the singular or in the plural include both the plural and singular and words denoting any gender include all genders. The title and headings of different parts are inserted for convenience and shall not affect the meaning, construction or effect of this Declaration of Trust. In defining or interpreting the powers and duties of the Trust and its Trustees and officers, reference may be made by the Trustees or officers, to the extent appropriate and not inconsistent with the Code or Title 8, to Titles 1 through 3 of the Corporations and Associations Article of the Annotated Code of Maryland. In furtherance and not in limitation of the foregoing, in accordance with the provisions of Title 3, Subtitles 6 and 7, of the Corporations and Associations Article of the Annotated Code of Maryland, the Trust shall be included within the definition of "corporation" for purposes of such provisions.

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Section 3: EX-10.1 (EXHIBIT 10.1)

Exhibit 10.1

EPR PROPERTIES

EMPLOYEE SEVERANCE PLAN

(Effective as of May 13, 2015 and amended as of June 1, 2018)

1. **Purpose**.

EPR Properties, a Maryland real estate investment trust, hereby adopts the EPR Properties Employee Severance Pay Plan for eligible employees of the Company, effective as of May 13, 2015. The Plan is intended to offer severance pay to eligible employees in the event of certain involuntary terminations of employment from the Company. The Plan, as a "severance pay arrangement" within the meaning of Section 3(2)(B)(i) of ERISA is intended to be and shall be administered and maintained as an unfunded welfare benefit plan under Section 3(1) of ERISA.

2. **Definitions.**

As used herein, the terms identified below shall have the meanings indicated:

"Administrator" means the Company; provided however, with respect to any interpretation or action taken under this Plan and relating to or involving an Officer of the Company, Administrator means the Committee.

"**Board**" means the Board of Trustees of the Company.

"**Cause**" means (a) an Eligible Employee's willful and continued failure or refusal to perform his or her duties with the Company (other than as a result of his or her Disability or incapacity due to mental or physical illness) which is not remedied in the reasonable good faith determination of the Administrator within 30 days after Employee's receipt of written notice from the Administrator specifying the nature of such failure or refusal, (b) the willful engagement by an Eligible Employee in misconduct which is materially and demonstrably injurious to the Company, or (c) an Eligible Employee's indictment of, or plea of nolo contendere with respect to, a felony, or conviction of, or plea of nolo contendere with respect to, any other crime involving theft or, in the sole discretion of the Company, moral turpitude.

"**Change in Control**" has the meaning ascribed to it in the Equity Plan.

"**CIC Period**" means the period commencing on the CIC Period Beginning Date and ending on the CIC Period End Date.

"**CIC Period Beginning Date**" means the date on which the first occurrence of any one of the following occurs: (i) the Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control; (ii) the Company or any Person publicly announces an intention to take or to consider taking actions which, if consummated, would constitute a Change in Control; (iii) a Change in Control has occurred; or (iv) the Board adopts a resolution to the effect that the CIC Period Beginning Date has occurred.

"**CIC Period End Date**" means the second anniversary of the consummation of a Change in Control or, if no Change in Control has occurred, the earlier of (i) the date the Company makes a public announcement; (y) that it has terminated the agreement, the consummation of which would have resulted in the occurrence of a Change in Control; or (z) that the circumstances giving rise to a potential Change in Control will not result in an actual Change in Control and (ii) the date the Board declares in good faith that the circumstances giving rise to a potential Change in Control will not result in an actual Change in Control.

"**CIC Protection Period**" means (i) the six-month period immediately preceding a Change in Control and (ii) the period following a Change in Control until the first anniversary of the Change in Control.

"**Code**" means the Internal Revenue Code of 1986, as amended, and the regulations and other guidance promulgated by the Treasury Department and the Internal Revenue Service thereunder.

"Committee" means the Compensation and Human Capital Committee of the Board.

"Company" means EPR Properties, a Maryland real estate investment trust.

"Disability" means (a) the adjudication of incompetence of the Eligible Employee or (b) the failure of the Eligible Employee to perform his or her duties with the Company on a full-time basis for a period of time until the Company's long-term disability plan then in place commences payment of benefits as a result of incapacity due to mental or physical illness which is determined to be permanent by a physician selected by the Company or its insurers and acceptable to the Eligible Employee or his or her legal representative, which acceptance shall not be unreasonably withheld.

"Effective Date" means May 13, 2015.

"Eligible Employee" means any employee of the Company who (a)(i) is an Officer, or (ii) is not an Officer and has been employed with the Company for a minimum of 6 months, and (b) has signed and returned to the Company the Acknowledgment and Acceptance of the Terms and Conditions of the Plan.

"**Equity Award Value**" means (a) with respect to restricted shares or restricted share units, the value of the unvested shares representing such award determined using the closing price of the Company's shares on the Termination Date, and (b) with respect to unvested share options, the value of the underlying shares that may be acquired upon exercise of the options determined using the closing price of the Company's shares on the Termination Date, less the aggregate exercise price for such shares.

"**Equity Plan**" means the Company's 2007 Equity Incentive Plan, as amended and restated (or the equity incentive plan most recently approved by the Company's stockholders and in use by the Company).

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Good Reason" means any of the following, unless consented to by the Eligible Employee:

(a) Solely with respect to an Officer, the assignment to the Officer of duties materially and adversely inconsistent with Officer's current position;

(b) A reduction of (i) the Eligible Employee's base compensation, (ii) the Eligible Employee's eligible bonus opportunity under the Company's annual incentive program, or (iii) discontinued eligibility for long-term incentive awards under the Company's long-term incentive plan (which can only occur if originally eligible for such awards), if the reduction of (i), (ii) or (iii), in the aggregate, results in a material reduction in the Eligible Employee's total direct compensation from the Company; provided, however, that a change in severance benefits resulting from an Eligible Employee being deemed a Probationary Employee shall not be considered a reduction in the Eligible Employee's total direct compensation from the Company; or

(c) Any requirement that the Eligible Employee be based at any office outside of a 50-mile radius of his or her or her assigned primary work location with the Company on the Effective Date, as such assigned primary work location may be changed with the consent of the Eligible Employee.

Notwithstanding the foregoing, "Good Reason" shall exist only if the Eligible Employee shall have provided the Administrator with written notice within 90 days of the initial occurrence of any of the foregoing events or conditions which specifically identifies the circumstances constituting Good Reason (provided such circumstances are capable of correction), and the Company fails to eliminate the conditions constituting Good Reason within 30 days after receipt of written notice of such event or condition from Eligible Employee. The Eligible Employee's resignation from employment with the Company for Good Reason must occur within one year following the initial existence of the event or condition constituting Good Reason.

"**Monthly Base Compensation**" means one-twelfth (1/12th) of the sum of (i) the Eligible Employee's annual base salary or wage in effect at the time of a Qualifying Termination and (ii) the amount of the Eligible Employee's annual incentive bonus opportunity (not including for this purpose any incentive bonus opportunity under any Company long-term incentive plan) for the year in which the Qualifying Termination occurs, assuming an "at target" level of performance.

"**Monthly Welfare Compensation**" means the amount equal to the Company-paid portion of the monthly premium cost to cover the Eligible Employee and his or her eligible dependents, if any, under the Company's health, vision and dental plans in effect as of the date of the Qualifying Termination. Such amount will include the Company-paid portion of the cost of the premiums for coverage of the Eligible Employee's dependents if, and only to the extent that, such dependents were enrolled in a health, vision or dental plan sponsored by the Company at the time of the Qualifying Termination.

"**Officer**" means (i) the Company's President and Chief Executive Officer, (ii) any Company Executive Vice President, (iii) any Company Senior Vice President or (iv) the Company's Chief Accounting Officer.

"**Person**" means any individual, sole proprietorship, corporation, partnership, joint venture, limited liability company, association, joint stock company, trust, unincorporated organization, institution, public benefit corporation, entity or government instrumentality, division, agency, body or department.

"**Probationary Employee**" means an Eligible Employee who, prior to a Change in Control received a performance rating of "2" or below, which is the Company's "below expectations" level, until such time as the individual receives a performance rating above a "2."

"**Qualifying CIC Termination**" means a Qualifying Termination during the CIC Protection Period. Notwithstanding the foregoing, an Eligible Employee does not experience a Qualifying CIC Termination in connection with a Qualifying Departure.

"**Qualifying Departure**" means an Eligible Employee's employment with the Company is terminated solely as a result of or in connection with a sale or other divestiture by the Company of a division, subsidiary or other business segment (including, without limitation, by sale of shares of stock or of assets) or transfer of the Eligible Employee's employment to a subsidiary pursuant to which the Eligible Employee's employer ceases to be the Company, but the Eligible Employee was offered continued employment by the acquirer or transferee employer in such sale or divesture or transfer on terms such that, if accepted by the Eligible Employee, such continued employment (i) would not materially diminish the Eligible Employee's authority, duties or responsibilities immediately before the sale or divesture or transfer of employment; (ii) would not result in the Eligible Employee working at a location more than fifty (50) miles from Eligible Employee's current place of employment; or (iii) would not result in a material reduction in the Eligible Employee's compensation immediately before such sale, divestiture or transfer of employment; and (iv) would entitle, for a two-year period immediately following such sale or divesture or transfer, the Eligible Employee to participate in a severance plan or agreement providing substantially similar severance rights and benefits as the Eligible Employee was eligible to receive pursuant to this Plan.

"**Qualifying Termination**" means the occurrence during the General Term (as defined in Section 7(c)) of an involuntary termination of an Eligible Employee's employment with the Company without Cause or with Good Reason and other than as a result of the Eligible Employee's death. Notwithstanding the foregoing, an Eligible Employee does not experience a Qualifying Termination in connection with a Qualifying Departure.

"**Specified Employee**" means any employee of the Company that the Company determines is a Specified Employee within the meaning of Section 409A of the Code.

"**Termination Date**" means the date on which an Eligible Employee has a "separation from service," within the meaning of Section 409A of the Code, from the Company.

3. **Eligibility**.

a) **Eligible Employees**. Only Eligible Employees shall be eligible to receive benefits under this Plan. Eligible Employee does not include any individual that the Company does not treat as an employee (including independent contractors and outsourced employees) for Federal income tax withholding purposes under Code §3401(a) despite any a binding determination made by a court, the Internal Revenue Service, the Department of Labor or other regulatory body that the individual is or should be classified by the Company as a common law employee of the Company.

b) **Qualifying Termination**. Subject to the conditions described herein, including, without limitation, the requirements of Section 6 (Code § 280G potential carve-back) and 9(a) (Release requirements) of this Plan, the Company will pay severance benefits pursuant to Section 4 of this Plan to an Eligible Employee who is eligible to receive severance benefits upon a Qualifying Termination and who incurs a Qualifying Termination.

c) **Qualifying CIC Termination.** Subject to the conditions described herein, including, without limitation, the requirements of Section 6 (Code § 280G potential carve-back) and 9(a) (Release requirements) of this Plan, the Company will pay the additional severance benefits (in addition to the severance benefits provided upon a Qualifying Termination under Section 4) pursuant to Section 5 of this Plan to an Eligible Employee listed in Section 5(a) upon a Qualifying CIC Termination.

d) **Non-Qualifying Termination**. Notwithstanding any other provision of this Plan to the contrary, nothing in this Plan shall be construed to require the Company to pay any of the severance benefits under this Plan to an Eligible Employee if the Eligible Employee terminates employment with the Company under any circumstances that do not constitute a Qualifying Termination.

4. **Amount and Payment of Benefits upon a Qualifying Termination.**

Subject to Sections 6 (Code § 280G potential carve-back) and 9(a) (Release requirements) of this Plan, an Eligible Employee who incurs a Qualifying Termination shall be entitled to receive the following severance benefits described in this Section 4:

a) **Payment and Benefits**. Unless otherwise provided herein, an Eligible Employee, other than a Probationary Employee, who incurs a Qualifying Termination shall receive a severance payment in an amount determined under Appendix A to this Plan. The severance payment pursuant to this Section 4(a) shall be paid in a single lump-sum cash payment, less all applicable withholding taxes, within the sixty (60)-day period following the Eligible Employee's Termination Date. Notwithstanding any other provision of this Plan, if the Eligible Employee is a Specified Employee on his or her Termination Date, any portion of the severance payment under this Section 4(a) which may constitute non-exempt "nonqualified deferred compensation" subject to Code Section 409A shall be delayed until the earlier of (i) the first day after six-months following such Termination Date, as determined by the Company for the avoidance of penalties and/or excise taxes under Code Section 409A; or (ii) the date the Eligible Employee dies following such Termination Date.

b) **Additional Payment.** In addition to the severance payment pursuant to Section 4(a), an Eligible Employee who incurs a Qualifying Termination shall also be entitled to receive:

(i) any earned and accrued, but not yet paid, base salary through the Eligible Employee's Termination Date,

(ii) a payment in accordance with the Company's vacation policy for all earned and accrued, but not yet used, credited vacation,

(iii) a pro rata portion of the annual incentive bonus that the Eligible Employee would have received under the Company's annual incentive program for the performance year during which his or her Termination Date occurs if the Eligible Employee had remained employed through the end of such performance year and assuming achievement of an "at Target" level of performance, and

(iv) a pro rata portion of the long term incentive plan award that the Eligible Employee would have received under the Company's long term incentive plan for the performance year during which his or her Termination Date occurs if the Eligible Employee had remained employed through the end of such performance year and assuming achievement of an "at Target" level of performance. This amount will be paid in cash, in lieu of an equity grant.

The pro rata portion of the annual incentive bonus and long term incentive plan award that the Eligible Employee is entitled to receive under clauses (iii) and (iv) of Section 4(b) shall be equal to the amounts that the Eligible Employee would have received if the Eligible Employee had remained employed through the end of the applicable performance year, divided by three hundred sixty five (365), multiplied by the number of days between the first day of the performance year and the Eligible Employee's Termination Date. The severance payment eligible to be paid pursuant to this Section 4(b), if any, shall be paid in a single lump-sum cash payment, less all applicable withholding taxes, at the same time as provided above in Section 4(a) except that any payment made to an Officer who experiences a Qualifying Termination that is not a Qualifying CIC Termination under clauses (iii) and (iv) of Section 4(b) shall be paid at the same time that annual bonus payments and long term incentive plan awards are paid to other active annual incentive plan and long term incentive plan participants, and in no event later than the end of the calendar year in which the level of performance goal achievement is determined and certified by the Committee.

c) **Outplacement Services**. The Company shall provide the Eligible Employee with outplacement counseling services during the period set forth in Appendix A following the Eligible Employee's Qualifying Termination. The Company shall select the organization that will provide the outplacement counseling and the level of services eligible to be provided.

d) **Equity Award Vesting**. Notwithstanding the terms of any award agreements to the contrary, whether executed on or before the Effective Date or thereafter, an Eligible Employee, other than a Probationary Employee, who incurs a Qualifying Termination shall vest, in any and all previously granted stock options, stock appreciation rights, restricted stock, restricted stock units, performance shares, performance units, deferred cash or any other form of equity awards issued by the Company and held by the Eligible Employee on his or her Termination Date (collectively, "**Equity Awards**"), and all share options shall become immediately exercisable on the Termination Date and shall remain exercisable until the earlier of the fifth (5^{th}) anniversary of the Termination Date or the expiration date of the share option.

e) **Probationary Period.** Notwithstanding the terms of any award agreements to the contrary, whether executed on or before the Effective Date or thereafter, a Probationary Employee who incurs a Qualifying Termination shall not be entitled to the severance benefits set forth in Section 4(a), but shall receive either (i) a severance benefit of two (2) times the Monthly Base Compensation and Monthly Welfare Compensation, plus one (1) times such amounts if the Probationary Employee has at least a full 12 months of service with the Company, or (ii) if the Equity Award Value exceeds the amount payable under clause (i), above, all Equity Awards held by the Probationary Employee shall vest and all share options shall become immediately exercisable on the Termination Date and shall remain exercisable until the earlier of the fifth (5^{th}) anniversary of the Termination Date or the expiration date of the share option. The severance payment pursuant to this clause (i) of this Section 4(e) shall be paid in a single lump-sum cash payment, less all applicable withholding taxes, within the sixty (60) day period following the Probationary Employee's Termination Date. Notwithstanding any other provision of this Plan, if the Probationary Employee is a Specified Employee on his or her Termination Date, any portion of the severance payment under clause (i) of this Section 4(e) which may constitute non-exempt "nonqualified deferred compensation" subject to Code Section 409A shall be delayed until the earlier of (x) the first day after six-months following such Termination Date, as determined by the Company for the avoidance of penalties and/or excise taxes under Code Section 409A; or (y) the date the Probationary Employee dies following such Termination Date.

5. Amount and Payment of Benefits upon a Qualifying CIC Termination.

Subject to Sections 6 (Code § 280G potential carve-back) and 9(a) (Release requirements) of this Plan, an Eligible Employee who incurs a Qualifying CIC Termination and is eligible to receive the severance benefits on account thereof, shall be entitled to receive the additional severance benefits described in this Section 5 in addition to the severance benefits that the Eligible Employee is eligible to receive pursuant to Section 4 of this Plan:

a) **Eligibility**. Only those Officers listed on Appendix B are potentially eligible for severance benefits under this Section 5.

b) **Additional Payment.** Unless otherwise provided herein, an Eligible Employee who incurs a Qualifying CIC Termination and is eligible for severance benefits under this Section 5 shall receive an additional severance payment (in addition to the severance payment and benefits under Section 4 upon the Qualifying Termination) in an amount determined under Appendix B to this Plan. The additional severance payment pursuant to this Section 5(b) shall be paid in a single lump-sum cash payment, less all applicable withholding taxes, at the same time the payment is made to the Eligible Employee under Section 4(a); provided, however, if the Eligible Employee's Termination occurs during the six-month period immediately preceding the Change in Control, the additional severance payment under this Section 5(b) shall be paid within 60 days of the Change in Control.

6. IRC § 280G: Best Net Protection.

In the event that the severance payments, distributions or benefits to be made by the Company to or for the benefit of the Eligible Employee (whether paid, payable, distributed, distributable or provided pursuant to the terms of this Plan, under some other plan, agreement, or arrangement, or otherwise) ("**Payments**") (i) constitute "parachute payments" within the meaning of Code Section 280G and (ii) but for this Section 6 would be subject to the excise tax imposed by Code Section 4999 (the "**Excise Tax**"), then the Payments to the Eligible Employee shall be either: (a) delivered in full, or (b) delivered after reducing the Payments $1 below the safe harbor limit (as described in Code Section 280G(b)(2)(A)(ii)) which would result in no portion of the Payments being subject to the Excise Tax. The choice between (a) and (b) shall depend upon whichever of the foregoing amounts, taking into account the applicable federal, state, and local income taxes and the Excise Tax, results in the receipt by the Eligible Employee, on an after-tax basis, of the greater amount, notwithstanding that all or some portion of the Payments may be taxable under Code Section 4999. In the event that the Payments are required to be reduced by this paragraph, any amount payable pursuant to Sections 4 or 5 shall be reduced, first by reducing all Payments being made pursuant to Sections 4(a) through (b) or 5(b) that do not constitute "nonqualified deferred compensation" within the meaning of Code Section 409A (in the order designated by the Eligible Employee), second, by reducing all Payments other than those made pursuant to Sections 4(a) through (b) or 5(b) that do not constitute "nonqualified deferred compensation" within the meaning of Code Section 409A (in the order designated by the Eligible Employee), and third, reducing all Payments that constitute "nonqualified deferred compensation" within the meaning of Code Section 409A, with the latest of such scheduled payments being reduced first. The Company's accounting firm shall make all determinations required by this paragraph, and the Company and the Eligible Employee shall cooperate with each other and the accounting firm and shall provide necessary information so that the accounting firm may make all such determinations. The Company shall pay all of the fees of the accounting firm for services performed by the accounting firm as contemplated in this Section 6.

7. Administration/Amendment/Termination.

a) **Administrator**. The Administrator has the sole discretionary authority to construe and interpret this Plan and to make any and all determinations related to administration of this Plan, including all questions of eligibility for participation and benefits, to the maximum extent permitted by law. The decisions, actions and interpretations of the Administrator are final and binding on all parties.

b) **Amendment**. The Administrator expressly reserves the right to amend this Plan, in whole or in part, at any time and in any way it determines to be advisable; provided that if the amendment will become effective during either the General Term or the CIC Period (as applicable to an Eligible Employee) then in progress (which, for this purpose, shall not include any renewal terms) and will materially and adversely affect the rights of any Eligible Employee under the Plan, the Company must obtain the Eligible Employee's written consent to the amendment. Notwithstanding the foregoing, any amendment to the definition of "Change in Control" made to the Equity Plan before a Change in Control has occurred will not be deemed to adversely affect the rights of any Eligible Employees. Further, in no event shall a notification to an Eligible Employee notifying him or her that his or her participation in the Plan will terminate at the end of the General Term or CIC Period (as applicable) then in progress constitute an amendment to the Plan requiring such Eligible Employee's prior written consent.

c) **Termination.** An Eligible Employee's right under this Plan to receive severance benefits upon a Qualifying Termination shall commence upon the Effective Date and shall continue in effect for 180 days from the Effective Date (the "**Initial Term**"). The Initial Term shall be automatically extended by one additional day on each day during the Initial Term until notification is provided to all Eligible Employees (the Initial Term as extended shall be the "**General Term**") that no additional extensions of the Plan will occur and that the Plan is being discontinued effective as of the last day of the 180-day General Term then in effect. The Administrator reserves the right to terminate this Plan at any time by providing written notice to each Eligible Employee at least 180 days prior to the end of the General Term then in effect that such term will not be extended, and if such notice is timely given, the Plan will terminate with respect to the General Term at the end of General Term then in effect. Notwithstanding the foregoing, in no event may the General Term expire during the CIC Period during which the Plan shall continue in full force. If notice is provided to Eligible Employees during a General Term and during a CIC Period that the Plan is being terminated, the Plan shall terminate on the later of the end of the General Term or the last day of the CIC Period. If notice is provided to Eligible Employees during a General Term that the Plan is being terminated, but the last day of such General Term falls during a CIC Period (i.e., notice of Plan termination is provided before the commencement of a CIC Period), the Plan shall terminate on the later of the last day of the General Term or the CIC Period. A proper termination of this Plan automatically shall effect a termination of all the Eligible Employees' rights and benefits hereunder without further action or notice; provided, however, no termination shall reduce or terminate any Eligible Employee's right to receive, or continue to receive, any benefits that became payable in respect of a Qualifying Termination that occurred prior to the date of such termination.

8. Claims for Benefits.

a) **Initial Claims**. In order to file a claim to receive benefits under the Plan, the Eligible Employee or his or her authorized representative must submit a written claim for benefits under the Plan within 60 days after the Eligible Employee's termination of employment. Claims should be addressed and sent to:

Vice President - Human Resources and Administration
EPR Properties
909 Walnut Street, Suite 200
Kansas City, Missouri 64106
(the "**Claims Administrator**")

If the Eligible Employee's claim is denied, in whole or in part, the Eligible Employee will be furnished with written notice of the denial within 90 days after the Claims Administrator's receipt of the Eligible Employee's written claim, unless special circumstances require an extension of time for processing the claim, in which case a period not to exceed 180 days will apply. If such an extension of time is required, written notice of the extension will be furnished to the Eligible Employee before the termination of the initial 90 day period and will describe the special circumstances requiring the extension, and the date on which a decision is expected to be rendered. Written notice of the denial of the Eligible Employee's claim will contain the following information:

i. the specific reason or reasons for the denial of the Eligible Employee's claim;

ii. references to the specific Plan provisions on which the denial of the Eligible Employee's claim was based;

iii. a description of any additional information or material required by the Claims Administrator to reconsider the Eligible Employee's claim (to the extent applicable) and an explanation of why such material or information is necessary; and

iv. a description of the Plan's review procedure and time limits applicable to such procedures, including a statement of the Eligible Employee's right to bring a civil action under Section 502(a) of ERISA following a benefit claim denial on review.

b) **Appeal of Denied Claims**. If the Eligible Employee's claim is denied and he or she wishes to submit a request for a review of the denied claim, the Eligible Employee or his or her authorized representative must follow the procedures described below:

i. Upon receipt of the denied claim, the Eligible Employee (or his or her authorized representative) may file a request for review of the claim in writing with the Claims Administrator. This request for review must be filed no later than 60 days after the Eligible Employee has received written notification of the denial.

ii. The Eligible Employee has the right to submit in writing to the Claims Administrator any comments, documents, records or other information relating to his or her claim for benefits.

iii. The Eligible Employee has the right to be provided with, upon request and free of charge, reasonable access to and copies of all pertinent documents, records and other information that is relevant to his or her claim for benefits.

iv. The review of the denied claim will take into account all comments, documents, records and other information that the Eligible Employee submitted relating to his or her claim, without regard to whether such information was submitted or considered in the initial denial of his or her claim.

c) **Claims Administrator's Response to Appeal**. The Claims Administrator will provide the Eligible Employee with written notice of its decision within 60 days after the Claims Administrator's receipt of the Eligible Employee's written claim for review. There may be special circumstances which require an extension of this 60-day period. In any such case, the Claims Administrator will notify the Eligible Employee in writing within the 60 day period, and the final decision will be made no later than 120 days after the Claims Administrator's receipt of the Eligible Employee's written claim for review. The Claims Administrator's decision on the Eligible Employee's claim for review will be communicated to the Eligible Employee in writing and, if denied, will clearly state:

i. the specific reason or reasons for the denial of the Eligible Employee's claim;

ii. reference to the specific Plan provisions on which the denial of the Eligible Employee's claim is based;

iii. a statement that the Eligible Employee is entitled to receive, upon request and free of charge, reasonable access to, and copies of, the Plan and all documents, records and other information relevant to his or her claim for benefits; and

iv. a statement describing the Eligible Employee's right to bring an action under Section 502(a) of ERISA.

d) **Deadline to File Claim**. To be considered timely under these claims procedures, a claim must be filed under Sections 8(a) within 60 days following the Eligible Employee's termination of employment.

e) **Exhaustion of Administrative Remedies**. The exhaustion of these claims procedures is mandatory for resolving every claim and dispute arising under this Plan. As to such claims and disputes: (i) no claimant shall be permitted to commence any legal action to recover benefits or to enforce or clarify rights under the Plan under Section 502 or Section 510 of ERISA or under any other provision of law, whether or not statutory, until these claims procedures have been exhausted in their entirety; and (ii) in any such legal action, all explicit and all implicit determinations by the Claims Administrator (including, but not limited to, determinations as to whether the claim, or a request for a review of a denied claim, was timely filed) shall be afforded the maximum deference permitted by law.

f) **Deadline to File Action**. No legal action to recover benefits under this Plan or to enforce or clarify rights under the Plan under Section 502 or Section 510 of ERISA or under any other provision of law, whether or not statutory, may be brought by any claimant on any matter pertaining to this Plan unless the legal action is commenced in the proper forum before the earlier of: (i) 18 months after the claimant knew or reasonably should have known of the principal facts on which the claim is based; or (ii) six months after the claimant has exhausted the claims procedure under this Plan. Knowledge of all facts that the claimant knew or reasonably should have known shall be imputed to every claimant who is or claims to be a Beneficiary of an Eligible Employee or otherwise claims to derive an entitlement by reference to the Eligible Employee for the purpose of applying the previously-specified periods.

g) **Plan Claims Administrator Discretion; Court Review.** The Claims Administrator and all persons determining or reviewing claims have full discretion to determine benefit claims under this Plan. Any interpretation, determination or other action of such persons shall be subject to review only if it is arbitrary or capricious or otherwise an abuse of discretion. Any review of a final decision or action of the persons reviewing a claim shall be based only on such evidence presented to or considered by such persons at the time they made the decision that is the subject of review.

h) **Arbitration**. Subject to Section 8(e), any dispute, claim or controversy arising out of or relating to this Agreement, including, without limitation, any dispute, claim or controversy concerning the validity, enforceability, breach or termination hereof, if not resolved by the parties, shall be finally settled by arbitration in accordance with the then-prevailing Employment Arbitration Rules of the American Arbitration Association ("**AAA**"), as modified herein ("**Rules**"). There shall be one arbitrator who shall be jointly selected by the parties. If the parties have not jointly agreed upon an arbitrator within twenty (20) calendar days of respondent's receipt of claimant's notice of intention to arbitrate, either party may request the AAA to furnish the parties with a list of names from which the parties shall jointly select an arbitrator. If the parties have not agreed upon an arbitrator within ten (10) calendar days of the transmittal date of such list, then each party shall have an additional five (5) calendar days in which to strike any names objected to, number the remaining names in order of preference, and return the list to the AAA, which shall then select an arbitrator in accordance with Rule 13 of the Rules. The place of arbitration shall be Kansas City, Missouri. The arbitration shall be governed by the Federal Arbitration Act, 9 U.S.C. §§ 1-16. Judgment upon the award of the arbitrator may be entered in any court of competent jurisdiction. Eligible Employee shall pay AAA's employee filing fee for disputes arising out of employer-promulgated plans provided by the Rules (not to exceed the amount of the filing fee for a civil action filed in the Circuit Court of Jackson County, Missouri), but Company shall be solely responsible for paying all other AAA and arbitrator fees. Notwithstanding the arbitration procedures set forth herein, either party may, in its sole discretion, seek and obtain an injunction restraining the other party hereto from breaching or enforcing the provisions of Appendix C of this Agreement.

9. Miscellaneous Provisions.

a) **Release**. In consideration of the covenants under this Plan and as a condition precedent to receiving any payments under this Plan, an Eligible Employee or the Eligible Employee's Beneficiary (as defined in paragraph (c) of this Section 9) shall (i) execute and deliver to the Company a release of all claims in such form as requested by the Company within twenty-two (22) days following the Eligible Employee's Termination Date (or any such longer period if required by applicable law and communicated to the Eligible Employee) and (ii) not revoke the release during the seven (7) day period following the date that the Eligible Employee executed the release. The Company shall supply a form of such release to the Eligible Employee no later than the Termination Date. Such release will include the restrictive covenants described in Appendix C, each of which will apply during the Eligible Employee's employment and for a period of time after the termination of the Eligible Employee's employment as described therein.

b) **Waiver**. The failure of the Company to enforce at any time any of the provisions of this Plan, or to require at any time performance of any of the provisions of this Plan, shall in no way be construed to be a waiver of these provisions, nor in any way to affect the validity of this Plan or any part thereof, or the right of the Company thereafter to enforce every provision.

c) **Benefits Not Transferable**. Except as may be required by law, no benefit eligible to be payable under this Plan to any Eligible Employee shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any attempt to alienate, sell, transfer, assign, pledge, encumber or charge all or any part of the benefit shall be void; provided, however, that if a terminated Eligible Employee dies before the end of the period over which such Eligible Employee is entitled to receive severance benefits under this Plan, the severance benefits payable hereunder shall be paid to the estate of such Eligible Employee or to the Person who acquired the rights to such benefits by bequest or inheritance (the "**Beneficiary**"), provided such Beneficiary satisfies the release requirements in Section 9(a). Except as may be provided by law, no benefit shall in any manner be subject to the debts, contracts, liabilities, engagements or torts of any Eligible Employee, nor shall it be subject to attachment or legal process for, or against, the Eligible Employee and the same shall not be recognized under this Plan.

d) **Successors of the Company**. This Plan shall bind any successor of the Company, its assets or its businesses (whether direct or indirect, by purchase, merger, consolidation or otherwise), in the same manner and to the same extent that the Company would be obligated under this Plan if no succession had taken place. In the case of any transaction in which a successor would not by the foregoing provision or by operation of law be bound by this Plan, the Company shall require such successor expressly and unconditionally to assume and agree to perform the Company's obligations under this Plan, in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place. The term "Company," as used in this Plan, shall mean the Company as heretofore defined and any successor or assignee to the business or assets which by reason hereof becomes bound by this Plan.

e) **No Contract of Employment**. The definitions and criteria set forth herein are solely for the purpose of defining Plan eligibility. No legal rights to employment are created or implied by this Plan, nor are any conditions or restrictions hereby placed on termination of employment. Unless the employee has a written employment agreement binding on the Company that provides otherwise, employment with the Company is employment-at-will. As such, termination of employment may be initiated by the Eligible Employee or by the Company at any time for any reason that is not unlawful, with or without Cause.

f) **Governing Law**. To the extent not pre-empted by federal law, this Plan shall be construed, administered and governed in accordance with and governed by the laws of the State of Missouri, without regard to any conflict of law principles. Subject to Section 8(h), any action concerning this Plan shall be brought in a court of competent jurisdiction in Jackson County, Missouri, and each party consents to the venue and jurisdiction of such court.

g) **Entire Plan**. This Plan constitutes the Company's entire employee severance plan for the Eligible Employees and, except as provided in Section 9(h) and Section 10 of this Plan, supersedes any and all previous representations, understandings and plans with respect to general severance for the Eligible Employees, and any such representations, understandings and plans with respect to Eligible Employee severance are hereby canceled and terminated in all respects.

h) **Severability and Interpretation.** Whenever possible, each provision of this Plan and any portion hereof shall be interpreted in such a manner as to be effective and valid under applicable law, rules and regulations. If any covenant or other provision of this Plan (or portion thereof) shall be held to be invalid, illegal, or incapable of being enforced, by reason of any rule of law, rule, regulation, administrative order, judicial decision or public policy, all other conditions and provisions of this Plan shall, nevertheless, remain in full force and effect, and no covenant or provision shall be deemed dependent upon any other covenant or provision (or portion) unless so expressed herein. The parties hereto desire and consent that the court or other body making such determination shall, to the extent necessary to avoid any unenforceability, so reform such covenant or other provision or portion of this Plan to the minimum extent necessary so as to render the same enforceable in accordance with the intent herein expressed.

i) **No Mitigation Required**. Except as required by law or any other agreement with the Company, the Eligible Employee shall not be required to mitigate the amount provided for in Sections 4 or 5 of this Plan by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in Section 4 of this Plan be reduced by any compensation earned by the Eligible Employee as the result of employment by another employer after the date of termination, or otherwise.

j) **Validity**. If any provision of this Plan is held invalid, void or unenforceable, the same shall not affect, in any respect whatsoever, the validity of any other provision of this Plan.

k) **Captions and Titles**. Captions and titles have been used in this Plan only for convenience, and in no way define, limit or describe the meaning of this Plan or any part thereof.

l) **Section 409A Savings Clause**. This Plan is intended to comply with the provisions of Section 409A of the Code, including the exceptions for short-term deferrals, separation pay arrangements, reimbursements and in-kind distributions, and shall be administered and interpreted in accordance with such intent. Without limiting the generality of the foregoing, any term or provision that is determined by the Administrator to have an ambiguous definition shall be interpreted, to the extent reasonable, to comply with Section 409A of the Code. Any reference in this Plan to a “termination of employment” or similar term or phrase shall be interpreted as a “separation from service” within the meaning of Section 409A of the Code. Each payment under this Plan shall be treated as a separate payment for purposes of Section 409A of the Code. In no event may an Eligible Employee, directly or indirectly, designate the calendar year of any payment to be made under this Plan. All reimbursements and in-kind benefits, including any taxable health, dental and vision benefits provided under this Plan that constitute deferred compensation within the meaning of Section 409A of the Code shall be made or provided in accordance with the requirements of Section 409A of the Code, including, without limitation, that (i) in no event shall reimbursements by the Company under this Plan be made later than the end of the calendar year next following the calendar year in which the applicable fees and expenses were incurred, provided that the Eligible Employee shall have submitted an invoice for such fees and expenses at least ten (10) days before the end of the calendar year next following the calendar year in which such fees and expenses were incurred; (ii) the amount of in-kind benefits that the Company is obligated to pay or provide in any given calendar year (other than medical reimbursements described in Treas. Reg. Section 1.409A-3(i)(1)(iv)(B)) shall not affect the in-kind benefits that the Company is obligated to pay or provide in any other calendar year; (iii) the Eligible Employee's right to have the Company pay or provide such reimbursements and in-kind benefits may not be liquidated or exchanged for any other benefit; and (iv) in no event shall the Company's obligations to make such reimbursements or to provide such in-kind benefits apply later than the end of the third year following the year in which the Eligible Employee's Termination Date occurred.

10. **No Duplication of Benefits.**

Notwithstanding the foregoing, any benefits received by an Eligible Employee pursuant to this Plan shall be in lieu of any general severance policy or other change in control severance plan maintained by the Company except to the extent any such substitution in severance benefits or payment timing would result in a violation of Code Section 409A.

Appendix A

Amount of Benefits Upon Qualifying Termination

Position / Salary Level	Amount of Severance Benefit Payment	Maximum	Outplacement Assistance
Officer	24 times Monthly Base Compensation; plus 18 times Monthly Welfare Compensation	24 times Monthly Base Compensation; plus 18 times Monthly Welfare Compensation	12 months of assistance
Non-Officer with annual Base Salary equal to or in excess of $135,000	9 times Monthly Base Compensation and Monthly Welfare Compensation; plus 2 times Monthly Base Compensation and Monthly Welfare Compensation for each full 12 months of service Eligible Employee has with Company	18 times Monthly Base Compensation; plus 18 times Monthly Welfare Compensation	9 months of assistance
Non-Officer with annual Base Salary equal to or in excess of $64,000 and less than $135,000	6 times Monthly Base Compensation and Monthly Welfare Compensation; plus 1.5 times Monthly Base Compensation and Monthly Welfare Compensation for each full 12 months of service Eligible Employee has with Company	15 times Monthly Base Compensation; plus 15 times Monthly Welfare Compensation	6 months of assistance
Non-Officer with annual Base Salary less than $64,000	2 times Monthly Base Compensation and Monthly Welfare Compensation; plus 1 times Monthly Base Compensation and Monthly Welfare Compensation for each full 12 months of service Eligible Employee has with Company	12 times Monthly Base Compensation; plus 12 times Monthly Welfare Compensation	3 months of assistance

Appendix B

Amount of Additional Benefits Upon CIC Qualifying Termination

Position / Salary Level	Amount of Additional Severance Benefit Payment
Officer: President and CEO	12 times Monthly Base Compensation
Officer: Executive Vice President: CFO	6 times Monthly Base Compensation

Appendix C

Restrictive Covenants Under the EPR Properties Employee Severance Plan

As consideration for being eligible to participate in the Plan and potentially receive the payments and benefits thereunder in connection with a Qualifying Termination, Eligible Employees are, commencing on the later of the Effective Date or the Eligible Employee's date of hire with the Company, subject to all of the restrictive covenants set forth in this Appendix C, all of which shall apply during the Eligible Employee's employment and for that period of time thereafter (as described below and which will also be contained in the release agreement) pursuant to the terms of Section 9(a) (Release requirements) of the Plan. Subject to the conditions and limitations of the Plan, an Eligible Employee who experiences a Qualifying Termination shall be entitled to receive severance benefits as set forth in Section 4 (and, potentially, Section 5 of the Plan), only if the Eligible Employee executes a comprehensive release agreement and waiver of claims against the Company, its affiliates and certain other released parties as set forth in the release provided by the Company. All capitalized terms used herein and not otherwise defined shall have the definitions ascribed to them in the Plan.

C.1. Noncompetition and Nonsolicitation

(a) Restrictions. While employed with the Company and during that period of months following the Eligible Employee's Termination Date equal to one-half (1/2) of applicable multiple of Monthly Base Compensation the Eligible Employee is receiving as severance pay under Section 4(a) and, if applicable, Section 5(b), (e.g., if the Eligible Employee's severance pay is 18 times Monthly Base Compensation, for 9 months after the Eligible Employee's Termination Date) Employee shall not, directly or indirectly, unless for the Company or its affiliates or otherwise with the express written consent of the Company:

(i) with respect to everyone not labeled as a Specified Individual, own or have any interest in, or act as an officer, director, partner, member, manager, principal, employee, agent, representative, consultant, independent contractor or other capacity of or for, or in any way assist, any Competitive Enterprise within the Restricted Area, whether paid or unpaid;

(ii) with respect to Specified Individuals, own or have any interest in, or act as an officer, director, partner, member, manager, principal, employee, agent, representative, consultant, independent contractor or other capacity of or for, or in any way assist, any Specified Business within the entire United States, whether paid or unpaid;

(ii) divert or attempt to divert clients, customers or accounts of the Company or of its affiliates (whether or not the applicable parties have done business with the Company or any of its affiliates once or more than once), regardless of their location; or

(iii) induce, attempt to induce, hire or employ (on behalf Eligible Employee or any other person or entity) any employee of the Company who has been employed or otherwise retained by the Company at any time during the twelve months immediately preceding such action by such Eligible Employee to leave the employ of the Company or in any way interfere with the relationship between the Company and any employee.

(b) Definitions.

(i) "**Restricted Area**" means, for any Eligible Employee other than an Officer or a Specified Individual, 100 miles of the Eligible Employee's assigned primary work location and, for any Officer or Specified Individual, the entire United States.

(ii) "**Competitive Enterprise**" means any business that is primarily engaged in the business of owning, developing, acquiring and financing real estate and related improvements operated for the same purpose as the properties owned or financed by the Company as of the Effective Date or at any time in the future up to the Termination Date, excluding any business that is in the primary business of operating such properties, such as movie exhibition, ski operations or entertainment retail center operations.

(iii) "**Specified Individuals**" means the Vice President - Entertainment/Retail Investments, Vice President - Recreation Investments, Vice Presidents - Education Investment Group and Eligible Employees from time to time identified as Specified Individuals by the Chief Executive Officer of the Company.

(iv) "**Specified Business**" means, with respect to any Specified Individual, any business that is primarily engaged in the business of owning, developing, acquiring and financing real estate and related improvements operated for the same purpose as the properties owned or financed by the Company as of the Effective Date or at any time in the future up to the Termination Date, but only to the extent such properties owned or financed by the Company are in the investment area (i.e., currently Entertainment, Education and Recreation) in which the Specified Individual is or has been significantly engaged prior to the Termination Date, excluding any business that is in the primary business of operating such properties, such as movie exhibition, ski operations or entertainment retail center operations.

C.2. Ownership and Confidentiality of Proprietary Information

The Eligible Employee shall retain in confidence and shall not disclose to any party (other than officers, trustees or representatives of the Company as required for the conduct of the Company's business), nor use for any purpose (other than in the performance of his or her duties hereunder) any confidential or proprietary information of or with respect to the Company, its business, financial condition or performance, existing or potential properties, existing or potential transactions, negotiations, relationships, plans, strategies, projections, existing or potential tenants or any other information of a confidential or proprietary nature, whether in written, oral or electronic format and whether disclosed prior to or after the date of this Agreement ("**Confidential Information**"). Notwithstanding the foregoing, Confidential Information shall not include (i) information which is publicly disclosed or otherwise generally available through no fault of the Eligible Employee, or (ii) information required to be disclosed by the Eligible Employee or the Company under the federal securities laws and regulations or any subpoena or order of a court or governmental agency.

C.3. Other Agreements.

The Eligible Employee hereby represents that the Eligible Employee's employment with Company will not breach the terms of any agreement with any previous employer or other third party including, without limitation, any requirement to refrain from directly or indirectly competing with the business or soliciting the customers of such previous employer or any other party. The Eligible Employee further represents that the Eligible Employee's performance as an employee of Company does not and will not breach any agreement to keep in confidence proprietary information, knowledge or data acquired by the Eligible Employee in confidence or in trust before the Eligible Employee's employment with Company. The Eligible Employee agrees not to disclose to Company or induce Company to use any confidential proprietary information or material belonging to any previous employers or others.

C.4. Remedies.

The Eligible Employee acknowledges that any breach of the covenants in this Appendix C would cause irreparable injury to the Company which would not be fully compensable in damages. Accordingly, and subject to the provisions of Section 8(h) of this Agreement, the Company shall be entitled to injunctive or specific relief from a court of competent jurisdiction against any breach or threatened breach by Employee, his or her agents or persons acting through him, of the covenants in this Appendix C without the necessity of posting bond or proving lack of an adequate remedy at law, and without limitation of other remedies that may be available to the Company at law or in equity.

EPR PROPERTIES EMPLOYEE SEVERANCE PLAN

ACKNOWLEDGMENT AND ACCEPTANCE OF
THE TERMS AND CONDITIONS OF THE PLAN

EPR Properties (the "**Company**") has established the EPR Properties Employee Severance Plan (the "**Plan**"). The Plan provides severance payments and benefits to certain Eligible Employees in the event of a Qualifying Termination (and, potentially, a Qualifying CIC Termination) (as defined in the Plan). You are eligible to participate in the Plan.

By the signatures below of the representative of the Company and the Eligible Employee named herein, the Company and the Eligible Employee agree that the Company hereby designates the Eligible Employee as eligible to participate in the Plan, and the Eligible Employee hereby acknowledges and accepts such participation, subject to the terms and conditions of the Plan, and agrees to the terms of the Plan, which is attached hereto and made a part hereof.

Name of Eligible Employee: «FirstName» «LastName»
Date of Eligibility and Participation: «Date»

At Will Employment. Nothing in this Acknowledgment and Acceptance or in the Plan confers upon the Eligible Employee any right to continue in employment for any period of specific duration or interfere with or otherwise restrict in any way the rights of the Company or of the Eligible Employee, which rights are hereby expressly reserved by each, to terminate the Eligible Employee's employment at any time for any reason.

Immediate Application of Restricted Covenants. Employee acknowledges and agrees that the Restricted Covenants set forth in Appendix C to the Plan are immediately applicable to the Eligible Employee and in effect at all times during the Eligible Employee's employment with the Company and for that period of time following the Eligible Employee's termination of the employment with the Company as described in Appendix C.

Amendment and Termination of Plan. The Company reserves the right, on a case-by-case basis or on a general basis, to amend the Plan in accordance with Section 7(b) and Section 7(c). No amendment or termination shall eliminate or reduce any benefit with respect to any Eligible Employee who experiences a Qualifying Termination or Qualifying CIC Termination that occurs on or before such amendment or termination becomes effective.

☐ Check here, if the Eligible Employee is a Specified Individual under the Plan.

Eligible Employee:	EPR Properties
By:__________________________	By:______________________
Name:_______________________	Name:____________________
	Title:____________________

Attachment:
EPR Properties Employee Severance Plan

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Section 4: EX-12.1 (EXHIBIT 12.1)

EXHIBIT 12.1

EPR PROPERTIES
COMPUTATION OF RATIO OF EARNINGS TO FIXED CHARGES
(Dollars in thousands)

	Six Months Ended June 30, 2018	2017	Year Ended December 31, 2016	2015	2014	2013
Earnings:						
Income before equity in income from joint ventures and other items (1)	$ 122,345	$ 223,353	$ 219,601	$ 170,017	$ 177,278	$ 152,193
Fixed charges	73,280	143,532	108,068	98,672	88,996	83,988
Distributions from equity investments	567	442	816	540	810	985
Capitalized interest	(4,538)	(9,879)	(10,697)	(18,547)	(7,525)	(2,763)
Adjusted Earnings	$ 191,654	$ 357,448	$ 317,788	$ 250,682	$ 259,559	$ 234,403
Fixed Charges:						
Interest expense, net (including amortization of deferred financing fees)	$ 68,416	$ 133,124	$ 97,144	$ 79,915	$ 81,270	$ 81,056
Interest within rental expense (2)	166	337	227	185	174	145
Interest income	160	192	—	25	27	24
Capitalized interest	4,538	9,879	10,697	18,547	7,525	2,763
Total Fixed Charges	$ 73,280	$ 143,532	$ 108,068	$ 98,672	$ 88,996	$ 83,988
Ratio of Earnings to Fixed Charges	2.6x	2.5x	2.9x	2.5x	2.9x	2.8x

(1) Earnings before equity in income from joint ventures for the six months ended June 30, 2018 includes $16.5 million in impairment charges and $32.0 million in costs associated with loan refinancing or payoff. Earnings before equity in income from joint ventures for the year ended December 31, 2017 includes $10.2 million in impairment charges, $1.5 million in costs associated with loan refinancing or payoff, and a $1.0 million gain on early extinguishment of debt. Earnings before equity in income from joint ventures for the year ended December 31, 2016 includes $0.9 million in costs associated with loan refinancing or payoff. Earnings before equity in income from joint ventures and other items for the year ended December 31, 2015 includes $18.6 million of retirement severance expense and $0.3 million in costs associated with loan refinancing or payoff. Earnings before equity in income from joint ventures and other items for the year ended December 31, 2014 includes $3.8 million in provision for loan losses and $0.3 million in costs associated with loan refinancing or payoff. Earnings before equity in income from joint ventures and other items for the year ended December 31, 2013 includes $6.2 million in costs associated with loan refinancing or payoff and a $4.5 million gain on early extinguishment of debt.

(2) Interest within rental expense represents one-third of rental expense (the approximate portion of rental expense representing interest).

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Section 5: EX-12.2 (EXHIBIT 12.2)

EXHIBIT 12.2

EPR PROPERTIES

COMPUTATION OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED DIVIDENDS

(Dollars in thousands)

	Six Months Ended June 30, 2018	2017	Year Ended December 31, 2016	2015	2014	2013
Earnings:						

Income before equity in income from joint ventures and other items (1)	$ 122,345	$ 223,353	$ 219,601	$ 170,017	$ 177,278	$ 152,193
Fixed charges before preferred dividends	73,280	143,532	108,068	98,672	88,996	83,988
Distributions from equity investments	567	442	816	540	810	985
Capitalized interest	(4,538)	(9,879)	(10,697)	(18,547)	(7,525)	(2,763)
Adjusted Earnings	$ 191,654	$ 357,448	$ 317,788	$ 250,682	$ 259,559	$ 234,403
Fixed Charges:						
Interest expense, net (including amortization of deferred financing fees)	$ 68,416	$ 133,124	$ 97,144	$ 79,915	$ 81,270	$ 81,056
Interest within rental expense (2)	166	337	227	185	174	145
Interest income	160	192	—	25	27	24
Capitalized interest	4,538	9,879	10,697	18,547	7,525	2,763
Preferred dividends	12,072	24,293	23,806	23,806	23,807	23,806
Combined Fixed Charges and Preferred Dividends	$ 85,352	$ 167,825	$ 131,874	$ 122,478	$ 112,803	$ 107,794
Ratio of Earnings to Combined Fixed Charges and Preferred Dividends	2.2x	2.1x	2.4x	2.0x	2.3x	2.2x

(1) Earnings before equity in income from joint ventures for the six months ended June 30, 2018 includes $16.5 million in impairment charges and $32.0 million in costs associated with loan refinancing or payoff. Earnings before equity in income from joint ventures for the year ended December 31, 2017 includes $10.2 million in impairment charges, $1.5 million in costs associated with loan refinancing or payoff, and a $1.0 million gain on early extinguishment of debt. Earnings before equity in income from joint ventures for the year ended December 31, 2016 includes $0.9 million in costs associated with loan refinancing or payoff. Earnings before equity in income from joint ventures and other items for the year ended December 31, 2015 includes $18.6 million of retirement severance expense and $0.3 million in costs associated with loan refinancing or payoff. Earnings before equity in income from joint ventures and other items for the year ended December 31, 2014 includes $3.8 million in provision for loan losses and $0.3 million in costs associated with loan refinancing or payoff. Earnings before equity in income from joint ventures and other items for the year ended December 31, 2013 includes $6.2 million in costs associated with loan refinancing or payoff and a $4.5 million gain on early extinguishment of debt.

(2) Interest within rental expense represents one-third of rental expense (the approximate portion of rental expense representing interest).

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Section 6: EX-31.1 (EXHIBIT 31.1)

EXHIBIT 31.1

CERTIFICATION

PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.

I, Gregory K. Silvers, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of EPR Properties;

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(s) 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(s) 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: July 31, 2018

/s/ Gregory K. Silvers

Gregory K. Silvers
President and Chief Executive Officer
(Principal Executive Officer)

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Section 7: EX-31.2 (EXHIBIT 31.2)

EXHIBIT 31.2

CERTIFICATION

PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002.

I, Mark A. Peterson, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of EPR Properties;

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(s) 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(s) 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: July 31, 2018	/s/ Mark A. Peterson
	Mark A. Peterson
	Executive Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)

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Section 8: EX-32.1 (EXHIBIT 32.1)

EXHIBIT 32.1

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER

PURSUANT TO 18 U.S.C. SECTION 1350 AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT

I, Gregory K. Silvers, President and Chief Executive Officer of EPR Properties (the "Issuer"), have executed this certification for furnishing to the Securities and Exchange Commission in connection with the filing with the Commission of the registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2018 (the "Report"). I hereby certify that, to the best of my knowledge and belief:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of

the Issuer.

/s/ Gregory K. Silvers

Gregory K. Silvers
President and Chief Executive Officer
(Principal Executive Officer)

Date: July 31, 2018

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Section 9: EX-32.2 (EXHIBIT 32.2)

EXHIBIT 32.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350 AS
ADOPTED PURSUANT TO SECTION 906 OF THE
SARBANES-OXLEY ACT

I, Mark A. Peterson, Executive Vice President and Chief Financial Officer of EPR Properties (the "Issuer"), have executed this certification for furnishing to the Securities and Exchange Commission in connection with the filing with the Commission of the registrant's Quarterly Report on Form 10-Q for the period ended June 30, 2018 (the "Report"). I hereby certify that, to the best of my knowledge and belief:

(1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Issuer.

/s/ Mark A. Peterson

Mark A. Peterson
Executive Vice President, Chief Financial Officer
and Treasurer (Principal Financial
Officer)

Date: July 31, 2018

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