DANAHER CORP /DE/
Form S-3ASR
April 05, 2018

As filed with the Securities and Exchange Commission on April 5, 2018
Registration No. 333-______

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

DANAHER CORPORATION
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation)

59-1995548
(IRS Employer Identification Number)

2200 Pennsylvania Avenue, N.W., Suite 800W
Washington, D.C. 20037-1701
(202) 828-0850
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

DH EUROPE FINANCE S.A.
(Exact name of registrant as specified in its charter)

Luxembourg
(State or other jurisdiction of incorporation)

98-1248015
(IRS Employer Identification Number)

1B Heienhaff, L-1736
Senningerberg, Luxembourg
Grand Duchy of Luxembourg
+352 27-84-80-58
(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

James F. O'Reilly
Danaher Corporation
Vice President, Associate General Counsel and Secretary
2200 Pennsylvania Avenue, N.W., Suite 800W
Washington, D.C. 20037-1701
(202) 828-0850
(Name, address, including zip code, and telephone number, including area code, of agent for service of process)

Approximate date of commencement of proposed sale to the public: From time to time after this registration statement becomes effective.
If the only securities being registered on this Form are being offered pursuant to dividend or interest reinvestment plans, please check the following box. ¨

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, other than securities offered only in connection with dividend or interest reinvestment plans, check the following box. ý

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ ________

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨ ________

If this Form is a registration statement pursuant to General Instruction I.D. or a post-effective amendment thereto that shall become effective upon filing with the Commission pursuant to Rule 462(e) under the Securities Act, check the following box. ý

If this Form is a post-effective amendment to a registration statement filed pursuant to General Instruction I.D. filed to register additional securities or additional classes of securities pursuant to Rule 413(b) under the Securities Act, check the following box. ¨

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

Large accelerated filer ý	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered/Proposed Maximum Offering Price Per Unit/Proposed Maximum Aggregate Offering Price/Amount of Registration Fee
Danaher Corporation	
Senior Debt Securities and Subordinated Debt Securities (collectively, “Debt Securities”)	(1)
Guarantees (2)	
Common Stock, $0.01 par value per share	(1)
Preferred Stock	(1)
Warrants	(1)
Depositary Shares (3)	(1)
Purchase Contracts	(1)
Units (4)	(1)
DH Europe Finance S.A. (“Danaher International”)	
Senior Debt Securities	(1)

(1) An indeterminate amount of the securities of each identified class is being registered as may from time to time be offered hereunder at indeterminate prices, along with an indeterminate number of securities that may be issued upon exercise, settlement, exchange or conversion of securities offered or sold hereunder or that are represented by depositary shares. Pursuant to Rule 416 under the Securities Act of 1933, as amended (the “Securities Act”), this registration statement also covers any additional securities that may be offered or issued in connection with any stock split, stock dividend or pursuant to anti-dilution provisions of any of the securities. Separate consideration may or may not be received for securities that are issuable upon exercise, settlement, conversion or exchange of other securities. In accordance with Rules 456(b) and 457(r) under the Securities Act, the registrant is deferring payment of all registration fees and will pay the registration fees subsequently in advance or on a “pay-as-you-go” basis. Securities registered hereunder may be sold either separately or as units comprised of more than one type of security registered hereunder.

(2)

Danaher Corporation will fully and unconditionally guarantee any series of Senior Debt Securities issued by Danaher International. Pursuant to Rule 457(n) under the Securities Act, no separate registration fee will be paid in respect of such guarantees.

(3) Each depositary share will be issued under a deposit agreement, will represent an interest in a fractional share or multiple shares of preferred stock and will be evidenced by a depositary receipt.

(4) Each unit will be issued under a unit agreement or indenture and will represent an interest in one or more securities, which may or may not be separable from one another.

PROSPECTUS

Danaher Corporation
Debt Securities
Guarantees
Common Stock
Preferred Stock
Warrants
Depositary Shares
Purchase Contracts
Units

DH Europe Finance S.A.
Senior Debt Securities
(fully and unconditionally guaranteed by Danaher Corporation)

We may offer and sell securities from time to time in one or more offerings. This prospectus describes the general terms of these securities and the general manner in which these securities will be offered. We will provide the specific terms of these securities in supplements to this prospectus. The prospectus supplements will also describe the specific manner in which these securities will be offered and may also supplement, update or amend information contained or incorporated by reference in this document. You should read this prospectus and any applicable prospectus supplement that we file with the Securities and Exchange Commission before you invest.

We may offer these securities in amounts, at prices and on terms determined at the time of offering. The securities may be sold directly to you, through agents, or through underwriters and dealers. If agents, underwriters or dealers are used to sell the securities, we will name them and describe their compensation in a prospectus supplement.

The common stock of Danaher Corporation trades on The New York Stock Exchange under the symbol “DHR”.

Investing in these securities involves certain risks. See “Risk Factors” included in any accompanying prospectus supplement and in the documents incorporated by reference in this prospectus for a discussion of the factors you should carefully consider before deciding to purchase these securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is April 5, 2018.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission, which we refer to as the "SEC," using a "shelf" registration process. Under this shelf registration process, Danaher, Danaher International and/or selling securityholders may from time to time sell any combination of the securities described in this prospectus in one or more offerings. This prospectus provides you with a general description of the securities we and/or selling securityholders may offer. Each time Danaher, Danaher International or any selling securityholder uses this prospectus to sell securities, we will provide one or more prospectus supplements that will contain specific information about the terms of the offering. The prospectus supplement and/or any related free writing prospectus may also add, update or change information contained in this prospectus. You should read this prospectus, any accompanying prospectus supplement and any other offering material that we authorize, together with the additional information described under the heading "Where You Can Find More Information."

You should rely only on the information contained or incorporated by reference in this prospectus, any accompanying prospectus supplement or in any related free writing prospectus that we file with the SEC. We have not authorized anyone to provide you with different information. This prospectus and the accompanying prospectus supplement do not constitute an offer to sell or the solicitation of an offer to buy any securities other than the securities described in the accompanying prospectus supplement or an offer to sell or the solicitation of an offer to buy such securities in any circumstances in which such offer or solicitation is unlawful.

You should assume that the information appearing in this prospectus, any prospectus supplement, the documents incorporated by reference and any related free writing prospectus is accurate only as of their respective dates. Our business, financial condition, results of operations and prospects may have changed materially since those dates.

Unless the context otherwise indicates, references in this prospectus to "we," "our" and "us" refer, collectively, to Danaher and its consolidated subsidiaries and/or, where applicable, to Danaher International as issuer of debt securities; the term "Danaher" refers to Danaher Corporation, a Delaware corporation; and the term "Danaher International" refers to DH Europe Finance S.A., a public limited liability company duly organized and existing under the laws of Luxembourg.

Pursuant to Rule 3-10(b) ("Rule 3-10(b)") of Regulation S-X, this prospectus does not contain separate financial statements for Danaher International since Danaher International is an indirect subsidiary of Danaher that is 100% owned by Danaher, and Danaher files consolidated financial information under the Exchange Act. Danaher International, which was formed on June 2, 2015, is a "finance subsidiary" of Danaher under Rule 3-10(b) with no independent function other than financing activities. Danaher will provide a full and unconditional guarantee of Danaher International's obligations under its debt securities, and no other subsidiary of Danaher will guarantee these obligations.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's website at http://www.sec.gov. Copies of certain information filed by us with the SEC are also available on our website at www.danaher.com. Our website is not a part of this prospectus and is not incorporated by reference in this prospectus. You may also read and copy any document we file at the SEC's Public Reference Room, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the Public Reference Room.

As noted above, this prospectus is part of a registration statement we filed with the SEC. This prospectus omits some information contained in the registration statement in accordance with SEC rules and regulations. You should review the information and exhibits in the registration statement for further information on us and our consolidated subsidiaries and the securities we are offering. Statements in this prospectus concerning any document we filed as an exhibit to the registration statement or that we otherwise filed with the SEC are not intended to be comprehensive and are qualified by reference to these filings. You should review the complete document to evaluate these statements.

INCORPORATION BY REFERENCE

The SEC allows us to incorporate by reference much of the information we file with the SEC, which means that we can disclose important information to you by referring you to those publicly available documents. The information that we incorporate by reference in this prospectus is considered to be part of this prospectus. Because we are incorporating by reference future filings with the SEC, this prospectus is continually updated and those future filings may modify or supersede some of the information included or incorporated in this prospectus. This means that you must look at all of the SEC filings that we incorporate by reference to determine if any of the statements in this prospectus or in any document previously incorporated by reference have been modified or superseded. This prospectus incorporates by reference the documents listed below filed by

Danaher (File No. 001-08089) and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) (in each case, other than those documents or the portions of those documents not deemed to be filed) until the offering of the securities under the registration statement is terminated or completed:

- Annual Report on Form 10-K for the fiscal year ended December 31, 2017, including the information specifically incorporated by reference into the Annual Report on Form 10-K from our definitive proxy statement for the 2018 Annual Meeting of Stockholders;
- Current Reports on Form 8-K filed with the SEC on January 30, 2018, February 20, 2018 and March 26, 2018; and
- The description of our common stock contained in our Registration Statement on Form 8-B filed on November 3, 1986, including any amendments or reports filed for the purpose of updating such description.

You may request a copy of these filings, at no cost, by writing or telephoning us at the following address or phone number:

Danaher Corporation
2200 Pennsylvania Avenue, N.W., Suite 800W
Washington, D.C. 20037-1701
Attention: Investor Relations
(202) 828-0850

Exhibits to the filings will not be sent, however, unless those exhibits have specifically been incorporated by reference into such document.

FORWARD-LOOKING STATEMENTS

This prospectus, any applicable prospectus supplement and the information incorporated by reference in this prospectus and any applicable prospectus supplement include “forward-looking statements” within the meaning of the United States federal securities laws. All statements other than historical factual information are forward-looking statements, including without limitation statements regarding: projections of revenue, expenses, profit, profit margins, tax rates, tax provisions, cash flows, pension and benefit obligations and funding requirements, our liquidity position or other projected financial measures; management’s plans and strategies for future operations, including statements relating to anticipated operating performance, cost reductions, restructuring activities, new product and service developments, competitive strengths or market position, acquisitions and the integration thereof, divestitures, spin-offs, split-offs or other distributions, strategic opportunities, securities offerings, stock repurchases, dividends and executive compensation; growth, declines and other trends in markets we sell into; new or modified laws, regulations and accounting pronouncements; regulatory approvals; outstanding claims, legal proceedings, tax audits and assessments and other contingent liabilities; foreign currency exchange rates and fluctuations in those rates; general economic and capital markets conditions; the timing of any of the foregoing; assumptions underlying any of the foregoing; and any other statements that address events or developments that Danaher intends or believes will or may occur in the future. Terminology such as “believe,” “anticipate,” “should,” “could,” “intend,” “will,” “plan,” “expect,” “estimat “target,” “may,” “possible,” “potential,” “forecast” and “positioned” and similar references to future periods are intended to identify forward-looking statements, although not all forward-looking statements are accompanied by such words. Forward-looking statements are based on assumptions and assessments made by our management in light of their experience and perceptions of historical trends, current conditions, expected future developments and other factors they believe to be appropriate. Forward-looking statements are not guarantees of future performance and actual results may differ materially from the results, developments and business decisions contemplated by our forward-looking statements. Accordingly, you should not place undue reliance on any such forward-looking statements. Important factors that could cause actual results to differ materially from those envisaged in the forward-looking statements include the following:

- Conditions in the global economy, the markets we serve and the financial markets may adversely affect our business and financial statements.
- Our growth could suffer if the markets into which we sell our products and services (references to products and services in this report also include software) decline, do not grow as anticipated or experience cyclicality.

- We face intense competition and if we are unable to compete effectively, we may experience decreased demand and decreased market share. Even if we compete effectively, we may be required to reduce prices for our products and services.
- Our growth depends in part on the timely development and commercialization, and customer acceptance, of new and enhanced products and services based on technological innovation.

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- Our reputation, ability to do business and financial statements may be impaired by improper conduct by any of our employees, agents or business partners.
- Certain of our businesses are subject to extensive regulation by the U.S. Food and Drug Administration and by comparable agencies of other countries, as well as laws regulating fraud and abuse in the health care industry and the privacy and security of health information. Failure to comply with those regulations could adversely affect our reputation, ability to do business and financial statements.
- The health care industry and related industries that we serve have undergone, and are in the process of undergoing, significant changes in an effort to reduce costs, which could adversely affect our financial statements.
- Any inability to consummate acquisitions at our historical rate and at appropriate prices could negatively impact our growth rate and stock price.
- Our acquisition of businesses, investments, joint ventures and strategic relationships could negatively impact our financial statements.
- The indemnification provisions of acquisition agreements by which we have acquired companies may not fully protect us and as a result we may face unexpected liabilities.
- Divestitures and other dispositions could negatively impact our business, and contingent liabilities from businesses that we have disposed could adversely affect our financial statements.
- We could incur significant liability if the 2016 spin-off of Fortive or the 2015 split-off of our communications business is determined to be a taxable transaction.
- Potential indemnification liabilities related to the 2016 spin-off of Fortive and the 2015 split-off of our communications business could materially and adversely affect our business and financial statements.
- A significant disruption in, or breach in security of, our information technology systems or violation of data privacy laws could adversely affect our business, reputation and financial statements.
- Our operations, products and services expose us to the risk of environmental, health and safety liabilities, costs and violations that could adversely affect our business, reputation and financial statements.
- Our businesses are subject to extensive regulation; failure to comply with those regulations could adversely affect our financial statements and our business, including our reputation.
- Our restructuring actions could have long-term adverse effects on our business.
- We may be required to recognize impairment charges for our goodwill and other intangible assets.
- Foreign currency exchange rates may adversely affect our financial statements.
- Changes in our tax rates or exposure to additional income tax liabilities or assessments could affect our profitability. In particular, our estimate of the charges we have incurred related to the Tax Cuts and Jobs Act could differ materially from our actual liability. In addition, audits by tax authorities could result in additional tax payments for prior periods.
- Changes in tax law relating to multinational corporations could adversely affect our tax position.
- We are subject to a variety of litigation and other legal and regulatory proceedings in the course of our business that could adversely affect our business and financial statements.
- If we do not or cannot adequately protect our intellectual property, or if third-parties infringe our intellectual property rights, we may suffer competitive injury or expend significant resources enforcing our rights.
- Third parties may claim that we are infringing or misappropriating their intellectual property rights and we could suffer significant litigation expenses, losses or licensing expenses or be prevented from selling products or services.
- The United States government has certain rights to use and disclose some of the intellectual property that we license and could exclusively license it to a third-party if we fail to achieve practical application of the intellectual property.
- Defects and unanticipated use or inadequate disclosure with respect to our products or services, or allegations thereof, could adversely affect our business, reputation and financial statements.

- The manufacture of many of our products is a highly exacting and complex process, and if we directly or indirectly encounter problems manufacturing products, our reputation, business and financial statements could suffer.
- Our indebtedness may limit our operations and our use of our cash flow, and any failure to comply with the covenants that apply to our indebtedness could adversely affect our liquidity and financial statements.
- Adverse changes in our relationships with, or the financial condition, performance, purchasing patterns or inventory levels of, key distributors and other channel partners could adversely affect our financial statements.
- Certain of our businesses rely on relationships with collaborative partners and other third-parties for development, supply and marketing of certain products and potential products, and such collaborative partners or other third-parties could fail to perform sufficiently.
- Our financial results are subject to fluctuations in the cost and availability of commodities that we use in our operations.
- If we cannot adjust our manufacturing capacity or the purchases required for our manufacturing activities to reflect changes in market conditions and customer demand, our profitability may suffer. In addition, our reliance upon sole or limited sources of supply for certain materials, components and services could cause production interruptions, delays and inefficiencies.
- Changes in laws or governmental regulations may reduce demand for our products or services or increase our expenses.
- Work stoppages, union and works council campaigns and other labor disputes could adversely impact our productivity and results of operations.
- International economic, political, legal, compliance, trade and business factors could negatively affect our financial statements.
- Significant developments stemming from the current U.S. administration, including changes in trade policy, or the United Kingdom’s referendum on membership in the EU could have an adverse effect on us.
- If we suffer loss to our facilities, supply chains, distribution systems or information technology systems due to catastrophe or other events, our operations could be seriously harmed.
- Our defined benefit pension plans are subject to financial market risks that could adversely affect our financial statements.

See the risk factors included in our periodic reports filed with the Securities and Exchange Commission under the Exchange Act, and in any applicable prospectus supplement, for a further discussion regarding reasons that actual results may differ materially from the results, developments and business decisions contemplated by our forward-looking statements. Forward-looking statements speak only as of the date of the report, document, press release, webcast, call, materials or other communication in which they are made. Except to the extent required by applicable law, we do not assume any obligation to update or revise any forward-looking statement, whether as a result of new information, future events and developments or otherwise.

DANAHER CORPORATION

Danaher Corporation designs, manufactures and markets professional, medical, industrial and commercial products and services, which are typically characterized by strong brand names, innovative technology and major market positions. Danaher’s research and development, manufacturing, sales, distribution, service and administrative facilities are located in more than 60 countries. Danaher’s business consists of four segments: Life Sciences; Diagnostics; Dental; and Environmental & Applied Solutions.

Danaher Corporation was incorporated in the State of Delaware in 1986, and our principal executive offices are located at 2200 Pennsylvania Avenue, N.W., Suite 800W, Washington, D.C. 20037-1701. Our telephone number is (202) 828-0850.

For additional information concerning Danaher, please see Danaher’s most recent Annual Report on Form 10-K and our other filings with the SEC, which are incorporated by reference into this document. See “Where You Can Find More Information.”

DH EUROPE FINANCE S.A.

DH Europe Finance S.A., a public limited liability company (société anonyme), was organized on June 2, 2015 under the laws of Luxembourg, and its registered office is located at 1B Heienhaff, L-1736 Senningerberg, Grand Duchy of Luxembourg. Danaher International is registered with the Luxembourg Trade and Companies Register under number B197470, is an indirect wholly-owned finance subsidiary of Danaher Corporation, and conducts no independent operations other than its financing activities. Danaher International's telephone number is +352 27-84-80-58.

CONSOLIDATED RATIOS OF EARNINGS TO FIXED CHARGES

The following table sets forth Danaher's consolidated ratio of earnings to fixed charges for each of the periods indicated. You should read this table in conjunction with the consolidated financial statements and notes in our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC on February 21, 2018, including Exhibit 12.1 thereto, which is incorporated by reference in this prospectus.

	Fiscal Year Ended December 31				
	2017	2016	2015	2014	2013
Consolidated Ratios of Earnings to Fixed Charges	18.0	13.2	12.5	16.8	15.6

These ratios include Danaher and its consolidated subsidiaries. The ratio of earnings to fixed charges was computed by dividing earnings by fixed charges for the periods indicated, where "earnings" consist of (1) earnings from continuing operations (excluding earnings from equity investees) before income taxes plus distributed income of equity investees; plus (2) fixed charges and "fixed charges" consist of (A) interest, whether expensed or capitalized, on all indebtedness, (B) amortization of premiums, discounts and capitalized expenses related to indebtedness, and (C) an interest component representing the estimated portion of rental expense that management believes is attributable to interest. Interest on unrecognized tax benefits is included in the tax provision in Danaher's Consolidated Statements of Earnings and is excluded from the computation of fixed charges.

USE OF PROCEEDS

We intend to use the net proceeds from the sale of any securities we offer under this prospectus for general corporate purposes unless otherwise indicated in the applicable prospectus supplement. General corporate purposes may include the acquisition of companies or businesses, repayment and refinancing of debt, working capital, share repurchases, payment of dividends and capital expenditures. We have not determined the amount of net proceeds to be used specifically for such purposes. As a result, management will retain broad discretion over the allocation of net proceeds.

DESCRIPTION OF DANAHER DEBT SECURITIES

This section describes the general terms and provisions of the debt securities that Danaher may issue separately, upon exercise of a debt warrant, in connection with a purchase contract or as part of a unit from time to time in the form of one or more series of debt securities. The applicable prospectus supplement and/or free writing prospectus will describe the specific terms of the debt securities offered through that prospectus supplement as well as any general terms described in this section that will not apply to those debt securities. As used in this section, "debt securities" means the senior and subordinated debentures, notes, bonds and other evidences of indebtedness that we issue and a trustee authenticates and delivers under the applicable indenture. As used in this "Description of Danaher Debt Securities," the terms "Danaher," "we," "our" and "us" refer to Danaher Corporation and do not, unless the context otherwise indicates, include our subsidiaries.

Senior debt securities will be issued under an indenture dated December 11, 2007 between Danaher and The Bank of New York Mellon Trust Company, N.A., as trustee, that has been filed as an exhibit to the registration statement of which this prospectus is a part and is incorporated by reference into this prospectus, subject to such amendments or supplemental indentures as are adopted, from time to time. This indenture is referred to as the "senior indenture." Subordinated debt securities will be issued under a separate indenture to be entered into by us and a trustee or trustees identified in the prospectus supplement, the form of which is included as an exhibit to the registration statement of which this prospectus is a part and is incorporated by reference into this prospectus. This indenture is referred to as the “subordinated indenture.” We refer to the indentures described above as the “indentures” or the “indenture,” as applicable. The following summaries of certain provisions of the indentures and the debt securities are not complete and the summaries are subject to the detailed provisions of the applicable indenture. You should

refer to the applicable indenture for more specific information. In addition, you should consult the applicable prospectus supplement and/or free writing prospectus for particular terms of our debt securities.
The indentures will not limit the aggregate principal amount of debt securities that we may issue, and will permit us to issue securities from time to time in one or more series. The indentures do not contain any provisions that would limit our ability to incur indebtedness or that would afford holders of debt securities protection in the event of a highly leveraged or similar transaction involving us. However, the senior indenture does restrict us and our subsidiaries from granting certain security interests on certain of our or their property or assets unless the senior debt securities are equally secured. See "-Covenants in the Senior Indenture" below.
The debt securities will be unsecured obligations of Danaher. We currently conduct substantially all of our operations through subsidiaries, and the holders of debt securities (whether senior or subordinated debt securities) will be effectively subordinated to the creditors of our subsidiaries. This means that creditors of our subsidiaries will have a claim to the assets of our subsidiaries that is superior to the claim of our creditors, including holders of our debt securities.
The applicable prospectus supplement and/or free writing prospectus will describe the following terms of any series of debt securities that we may offer:

- the title and type of the debt securities;
- whether the debt securities will be senior or subordinated debt securities, and, with respect to debt securities issued under the subordinated indenture, as applicable, that the subordination provisions of the indenture shall apply to the securities of that series or that any different subordination provisions, including different definitions of the terms "senior indebtedness" or "existing subordinated indebtedness," shall apply to securities of that series;
- the initial aggregate principal amount of the debt securities and any limit on such amount;
- the person who will receive interest payments on any debt securities if other than the registered holder;
- the price or prices at which we will sell the debt securities;
- the maturity date or dates of the debt securities and the right, if any, to extend such date or dates;
- the rate or rates, which may be fixed or variable, per annum at which the debt securities will bear interest and the date from which such interest will accrue;
- the dates on which interest will be payable and the related record dates;
- whether any index, formula or other method will determine payments of principal, premium or interest and the manner of determining the amount of such payments;
- the place or places of payments on the debt securities;
- whether the debt securities are redeemable
- any redemption dates, prices, obligations and restrictions on the debt securities;
- any mandatory or optional sinking fund or purchase fund or analogous provisions;
- the denominations of the debt securities if other than $1,000 or multiples of $1,000;
- the currency of principal and interest payments if other than U.S. dollars, and the manner of determining the equivalent thereof in U.S. dollars for any purpose under the indenture;
- if the principal of or any premium or interest on any debt securities of any series is payable, at our election or the election of the holder, in one or more currencies other than that in which such debt securities are stated to be payable, the currency or currencies in which such principal, premium or interest shall be payable and other terms and conditions regarding such payment;
- the amount that we will pay the holder if the maturity of the debt securities is accelerated, if other than their principal amount;
- the amount that will be deemed to be the principal amount of the debt securities as of a particular date before maturity if the principal amount payable at the stated maturity date will not be able to be determined on that date;

- the applicability of the legal defeasance and covenant defeasance provisions in the applicable indenture;
- if the debt securities will be issued in the form of one or more book-entry securities, the name of the depositary or its nominee and the circumstances under which the book-entry security may be transferred or exchanged to someone other than the depositary or its nominee;
- any provisions granting special rights if certain events happen;
- any deletions from, changes in or additions to the events of default or the covenants specified in the indenture, or to the right of the trustee or the requisite holders of such securities to declare the principal amount of such securities due and payable;
- any trustees, authenticating or paying agents, transfer agents, registrars or other agents for the debt securities;
- any conversion or exchange features of the debt securities;
- whether we will issue the debt securities as original issue discount securities for federal income tax purposes;
- any special tax implications of the debt securities;
- the terms of payment upon acceleration; and
- any other material terms of the debt securities not inconsistent with the provisions of the indenture.

Debt securities may bear interest at fixed or floating rates. We may issue our debt securities at an original issue discount, bearing no interest or bearing interest at a rate that, at the time of issuance, is below market rate, to be sold at a substantial discount below their stated principal amount. Generally speaking, if our debt securities are issued at an original issue discount and there is an event of default or acceleration of their maturity, holders will receive an amount less than the stated principal amount of the debt securities. Tax and other special considerations applicable to any series of debt securities, including original issue discount securities, will be described in the prospectus supplement in which we offer those debt securities.

We will have the ability under each indenture to reopen a previously issued series of debt securities and issue additional debt securities of that series or establish additional terms of the series. We are also permitted to issue debt securities with the same terms as previously issued debt securities.

We will comply with Section 14(e) under the Exchange Act and any other tender offer rules under the Exchange Act that may then apply to any obligation we may have to purchase debt securities at the option of the holders. Any such obligation applicable to a series of debt securities will be described in the related prospectus supplement.

Payment and Paying Agents

Unless the applicable prospectus supplement indicates otherwise, payment of interest on a debt security (other than a bearer debt security) on any interest payment date will be made to the person in whose name such debt security is registered at the close of business on the regular record date for such interest payment.

Generally, we will pay the principal of, premium, if any, and interest on our registered debt securities either at the office of the paying agent designated by us in the applicable prospectus supplement or, if we elect, we may pay interest by mailing a check to your address as it appears on our register or by wire transfer to an account maintained by the person entitled thereto as specified in the securities register. We may at any time designate additional paying agents or rescind the designation of any paying agent or approve a change in the office through which any paying agent acts, except that we will be required to maintain a paying agent in each place of payment for the debt securities of a particular series.

All moneys paid by us to a paying agent or the trustee, or held, for the payment of the principal of or any premium or interest on any debt security which remain unclaimed at the end of two years after such principal, premium or interest has become due and payable will be repaid to us, or discharged from trust, and the holder of such debt security shall thereafter, as an unsecured general creditor, look only to us for payment thereof, subject to applicable escheat laws.

Senior Debt Securities

Senior debt securities will be issued under the senior indenture. Payment of the principal of, premium, if any, and interest on senior debt securities will rank equally with all of our other unsecured and unsubordinated debt.

Subordinated Debt Securities

Subordinated debt securities will be issued under the subordinated indenture. Subordinated debt securities of a particular series will be subordinate in right of payment, to the extent and in the manner set forth in the subordinated indenture and the prospectus supplement relating to those subordinated debt securities, to the prior payment of all of our indebtedness that is designated as senior indebtedness with respect to that series. The definition of senior indebtedness will include, among other things, senior debt securities and will be specifically set forth in that prospectus supplement.

Upon any payment or distribution of our assets to creditors or upon our total or partial liquidation or dissolution or in a bankruptcy, receivership, or similar proceeding relating to us or our property, holders of senior indebtedness will be entitled to receive payment in full of the senior indebtedness before holders of subordinated debt securities will be entitled to receive any payment with respect to the subordinated debt securities and, until the senior indebtedness is paid in full, any distribution to which holders of subordinated debt securities would otherwise be entitled (other than securities of Danaher or any other corporation provided for by a plan of reorganization or readjustment the payment of which is subordinate, at the least to the extent provided pursuant to these subordination provisions, to the payment of all senior indebtedness then outstanding and to any securities issued in respect thereof under any such plan of reorganization or readjustment) will be made to the holders of senior indebtedness, all as described in the applicable prospectus supplement. In the event of any such proceeding, after payment in full of all sums owing with respect to senior indebtedness, the holders of subordinated debt securities, together with the holders of any of our obligations ranking in parity with the subordinated debt securities, will be entitled to be paid from our remaining assets the amounts then due and owing with respect to such subordinated debt securities and other obligations, before any payments or distributions will be made on account of any of our capital stock or other obligations ranking junior to such subordinated debt securities and other obligations.

If we default in the payment of any principal of, premium, if any, or interest on any senior indebtedness, whether at maturity or at a date fixed for prepayment or by declaration of acceleration or otherwise, then, upon written notice of such default to us by the holders of senior indebtedness or any trustee therefor, unless and until such default shall have been cured or waived or shall have ceased to exist, no direct or indirect payment shall be made or agreed to be made on account of the principal, premium, if any, or interest on any of the subordinated debt securities, or in respect of any redemption, repayment, retirement, purchase or other acquisition of any of the subordinated debt securities.

By reason of this subordination, in the event of insolvency, our creditors who are holders of senior indebtedness or holders of any indebtedness or preferred stock of our subsidiaries, as well as certain of our general creditors, may recover more, ratably, than the holders of the subordinated debt securities.

Events of Default

Except as may be provided otherwise in a prospectus supplement, any of the following events will constitute an event of default for a series of debt securities under the indenture:

- failure to pay interest on our debt securities of that series for 30 days past the applicable due date;
- failure to pay principal of, or premium, if any, on our debt securities of that series when due (whether at maturity, upon acceleration or otherwise);
- failure to deposit any sinking fund payment on debt securities of that series when due;
- failure to perform, or breach of, any other covenant, agreement or warranty for the benefit of the holders of the debt securities in the indenture, other than a covenant, agreement or warranty a default in whose performance or breach is dealt with elsewhere in the indenture, or which is included in the indenture solely for the benefit of a different series of our debt securities, which continues for 90 days after written notice from the trustee or holders of 25% of the outstanding principal amount of the debt securities of that series as provided in the indenture;
- specified events relating to our bankruptcy, insolvency or reorganization; and
- any other event of default with respect to debt securities of that series established pursuant to the applicable supplemental indenture.

An event of default with respect to one series of debt securities is not necessarily an event of default for another series. If there is an event of default with respect to a series of our debt securities, which continues for the requisite amount of time, either the trustee or holders of at least 25% of the aggregate principal amount outstanding of that series may declare the principal amount of all of the debt securities of that series to be due and payable immediately, except that if an event of default

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occurs due to bankruptcy, insolvency or reorganization as provided in the applicable indenture, then the principal of and interest on the debt securities shall become due and payable immediately without any act by the trustee or any holder of debt securities. If the securities were issued at an original issue discount, less than the stated principal amount may become payable. However, at any time after an acceleration with respect to debt securities of any series has occurred, but before a judgment or decree based on such acceleration has been obtained, the holders of a majority in principal amount of the outstanding debt securities of that series may, under certain circumstances, rescind and annul such acceleration.

The holders of a majority in aggregate principal amount of the outstanding debt securities of a series may, on behalf of the holders of all debt securities of that series, waive any past default or event of default and its consequences for that series, except (1) a default in the payment of the principal, premium, or interest with respect to those debt securities or (2) a default with respect to a provision of the applicable indenture that cannot be amended without the consent of each holder affected by the amendment. In case of a waiver of a default, that default shall cease to exist, and any event of default arising from that default shall be deemed to have been cured for all purposes. The holders of a majority in aggregate principal amount outstanding of the debt securities of any series may also, on behalf of the holders of all debt securities of that series, waive, with respect to that series, our compliance with certain restrictive covenants in the applicable indenture.

If any event which is, or after notice or lapse of time or both would become, an event of default (collectively referred to in this paragraph as a default) occurs and is continuing with respect to debt securities of a particular series and if it is known to any specified responsible officer of the trustee, the trustee will mail to each holder of such debt securities notice of such default within 90 days after it occurs or, if later, after the trustee obtains knowledge of such default. Except in the case of default in the payment of principal, premium, or interest with respect to the debt securities of that series or in the making of any sinking fund payment with respect to the debt securities of that series, the trustee may withhold such notice if and so long as the corporate trust committee or a committee of specified responsible officers of the trustee in good faith determines that withholding the notice is in the interests of the holders of such debt securities.

A holder may institute a suit against us for enforcement of such holder's rights under the applicable indenture, for the appointment of a receiver or trustee, or for any other remedy only if the following conditions are satisfied:

- the holder gives the trustee written notice of a continuing event of default with respect to a series of our debt securities held by that holder;
- holders of at least 25% of the aggregate principal amount of the outstanding debt securities of that series make a request, in writing, and offer reasonable indemnity, to the trustee for the trustee to institute the requested proceeding;
- the trustee does not receive direction contrary to the holder's request from holders of a majority in aggregate principal amount of the outstanding debt securities of that series within 60 days following such notice, request and offer of indemnity under the terms of the applicable indenture; and
- the trustee does not institute the requested proceeding within 60 days following such notice.

The indentures will require us to annually deliver to the trustee a statement as to performance of our obligations under the indentures and as to any defaults.

A default in the payment of any of our debt securities, or a default with respect to our debt securities that causes them to be accelerated, may give rise to a cross-default under our other indebtedness.

Satisfaction and Discharge of the Indentures

An indenture will generally cease to be of any further effect with respect to a series of debt securities if:

- we have delivered to the applicable trustee for cancellation all debt securities of that series (with certain limited exceptions); or
- all debt securities of that series not previously delivered to the trustee for cancellation have become due and payable, will become due and payable within one year, or are to be called for redemption within one year under arrangements satisfactory to the trustee, and in any such case we have deposited with the trustee as trust funds the entire amount sufficient to pay at maturity or upon redemption all of the principal, premium and interest due with respect to those debt securities;

and if, in either case, we also pay or cause to be paid all other sums payable under the applicable indenture by us and deliver to the trustee an officers' certificate and opinion of counsel stating that all conditions precedent to the satisfaction and discharge of the indenture have been complied with.

Legal Defeasance and Covenant Defeasance

Any series of our debt securities will be subject to the defeasance and discharge provisions of the applicable indenture unless otherwise specified in the applicable prospectus supplement. If those provisions are applicable, we may elect either:

- legal defeasance, which will permit us to defease and be discharged from, subject to limitations, all of our obligations with respect to those debt securities, including any subordination provisions; or
- covenant defeasance, which will permit us to be released from our obligations to comply with certain covenants relating to those debt securities as described in the applicable prospectus supplement, which may include obligations concerning subordination of our subordinated debt securities.

If we exercise our legal defeasance option with respect to a series of debt securities, payment of those debt securities may not be accelerated because of an event of default. If we exercise our covenant defeasance option with respect to a series of debt securities, payment of those debt securities may not be accelerated because of an event of default related to the specified covenants.

Unless otherwise provided in the applicable prospectus supplement, we may invoke legal defeasance or covenant defeasance with respect to any series of our debt securities only if: with respect to debt securities denominated in U.S. dollars, we irrevocably deposit with the trustee, in trust, an amount in U.S. dollars, U.S. government obligations (taking into account payment of principal and interest thereon in accordance with their terms) or a combination thereof which will provide money in an amount sufficient to pay, when due upon maturity or redemption, as the case may be, the principal of, premium, if any, and interest on those debt securities;

- with respect to debt securities denominated in a currency other than U.S. dollars, we irrevocably deposit with the trustee, in trust, an amount in such currency, obligations of the foreign government that issued such currency (taking into account payment of principal, premium and interest thereon in accordance with their terms) or a combination thereof which will provide money in an amount sufficient to pay, when due upon maturity or redemption, as the case may be, the principal of, premium, if any, and interest on those debt securities;
- we deliver to the trustee a certificate from a nationally recognized firm of independent accountants expressing their opinion that the payments of principal, premium and interest when due on the deposited U.S. government obligations or foreign government obligations, as applicable, plus any deposited money will provide cash at such times and in such amounts as will be sufficient to pay the principal, premium, and interest when due with respect to all the debt securities of that series to maturity or redemption, as the case may be;
- no event which is, or after notice or lapse of time would become, an event of default under the indenture shall have occurred and be continuing at the time of such deposit or, with regard to any default relating to our bankruptcy, insolvency or reorganization, at any time on or prior to the 90th day after such deposit;
- the deposit does not cause the trustee to have a conflicting interest within the meaning of the Trust Indenture Act (assuming all securities under the indenture are in default within the meaning of such Act);
- the deposit is not a default under any other agreement binding on us;
- such deposit will not result in the trust arising from such deposit constituting an investment company under the Investment Company Act of 1940, as amended, unless such trust is registered under, or exempt from, such Act;
- we deliver to the trustee an opinion of counsel addressing certain federal income tax matters relating to the defeasance;
- if the securities are to be redeemed prior to the stated maturity (other than from mandatory sinking fund payments or analogous payments), notice of such redemption shall have been duly given or provision for such notice satisfactory to the trustee shall have been made;
- with respect to any series of subordinated debt securities, at the time of such deposit, (1) no default in the payment of principal, premium or interest with respect to any senior indebtedness shall have occurred and be continuing, (2) no event of default shall have resulted in any senior indebtedness becoming, and continuing to be, due and payable prior to the date it would otherwise have become due and payable (unless payment of such senior indebtedness has been provided for), and (3) no other event of default shall have occurred and be continuing which permits the holders thereof to declare such indebtedness due and payable prior to the date it would otherwise have become due and payable; and

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- we deliver to the trustee an officers' certificate and an opinion of counsel, each stating that all conditions precedent to the defeasance and discharge of the debt securities of that series as contemplated by the applicable indenture have been complied with.

Modification and Waiver

We and the trustee may enter into supplemental indentures for the purpose of modifying or amending an indenture with the consent of holders of at least a majority in aggregate principal amount of each series of our outstanding debt securities affected. However, unless otherwise provided in the applicable prospectus supplement, the consent of all of the holders of our debt securities that are affected thereby is required for any of the following modifications or amendments:

- to reduce the percentage in principal amount of debt securities of any series whose holders must consent to a supplemental indenture, or consent to any waiver of compliance with certain provisions of the indenture, or consent to certain defaults under the indenture, in each case as provided for in the indenture;
- to reduce the rate of, or change the stated maturity of any installment of, interest on any debt security;
- to reduce the principal of or change the stated maturity of principal of, or any installment of principal of or interest on, any debt security or reduce the amount of principal of any original issue discount security that would be due and payable upon declaration of acceleration of maturity;
- to reduce the premium payable upon the redemption of any debt security;
- to make any debt security, or any premium or interest thereon, payable in a currency other than that stated in that debt security;
- to change any place of payment where any debt security or any premium or interest thereon is payable;
- to change the right to convert any debt security in accordance with its terms;
- to impair the right to bring a lawsuit for the enforcement of any payment on or after the stated maturity of any debt security (or in the case of redemption, on or after the date fixed for redemption);
- to modify the provisions of the indenture with respect to subordination of debt securities in a manner adverse to any registered holder of a debt security; or
- generally, to modify any of the above provisions of the indenture or any provisions providing for the waiver of past defaults or waiver of compliance with certain covenants, except to increase the percentage in principal amount of debt securities of any series whose holders must consent to an amendment or waiver, as applicable, or to provide that certain other provisions of the indenture cannot be modified or waived without the consent of the holder of each outstanding debt security affected by the modification or waiver.

In addition, we and the trustee with respect to an indenture may enter into supplemental indentures without the consent of the holders of debt securities for one or more of the following purposes (in addition to any other purposes specified in an applicable prospectus supplement):

- to evidence that another person has become our successor and that the successor assumes our covenants, agreements, and obligations in the indenture and in the debt securities;
- to surrender any of our rights or powers under the indenture, or to add to our covenants further covenants for the protection of the holders of all or any series of debt securities;
- to add any additional events of default for the benefit of the holders of all or any series of debt securities;
- to cure any ambiguity, to correct or supplement any provision in the indenture that may be defective or inconsistent with any other provision in the indenture, or to make other provisions in regard to matters or questions arising under the indenture;
- to add to or change any of the provisions of the indenture as necessary to permit or facilitate the issuance of debt securities in bearer form, registrable or not registrable as to principal, and with or without interest coupons, or to permit or facilitate the issuance of debt securities in uncertificated form;
- to secure the debt securities;

- to add to, change, or eliminate any of the provisions of the indenture with respect to one or more series of debt securities, so long as the addition, change, or elimination not otherwise permitted under the indenture will (1) neither apply to any debt security of any series created before the execution of the supplemental indenture and entitled to the benefit of that provision nor modify the rights of the holders of that debt security with respect to that provision or (2) become effective only when there are no debt securities of that series outstanding;
- to evidence and provide for the acceptance of appointment by a successor or separate trustee with respect to the debt securities of one or more series and to add to or change any of the provisions of the indenture as necessary to provide for the administration of the indenture by more than one trustee;
- with respect to the subordinated indenture, to add to, change or eliminate any of the subordination provisions in the indenture or change the definition of "senior indebtedness" in respect of one or more series of debt securities, provided that any such addition, change or elimination does not adversely affect the interests of the holders of outstanding debt securities in any material respect;
- to establish the form or terms of debt securities of any series; and
- to make provisions with respect to the conversion rights of holders, including providing for the conversion of debt securities of any series into any security or securities of ours.

Certain Covenants

In addition to such other covenants, if any, as may be described in the accompanying prospectus supplement and/or free writing prospectus and except as may be otherwise set forth in the accompanying prospectus supplement and/or free writing prospectus, the indenture will require us, subject to certain limitations described therein, to, among other things, do the following:

- deliver to the trustee all information, documents and reports required to be filed by us with the SEC under Section 13 or 15(d) of the Exchange Act, within 15 days after the same is filed with the SEC;
- deliver to the trustee annual officers' certificates with respect to our compliance with our obligations under the indenture;
- maintain the existence, rights and franchises of us and our significant subsidiaries (as defined in Rule 1-02 of Regulation S-X under the Securities Act), except to the extent our board of directors determines that the preservation thereof is no longer desirable in the conduct of our business and that the loss thereof is not adverse in any material respect to the holders of the debt securities; and
- pay, and cause our significant subsidiaries to pay, our and their taxes, assessments and government levies when due, except to the extent the same is being contested in good faith by appropriate proceedings.

Covenants in the Senior Indenture

You can find the definitions of certain terms used in this description under the subheading "Certain Definitions."

Limitation on Secured Debt

Unless otherwise provided in the applicable prospectus supplement and/or free writing prospectus, we will not, and will not permit any Subsidiary to, create, assume, or guarantee any Secured Debt without making effective provision for securing the senior debt securities equally and ratably with such Secured Debt. This covenant does not apply to debt secured by:

- purchase money mortgages created to secure payment for the acquisition or construction of any property including, but not limited to, any indebtedness incurred by us or a Subsidiary prior to, at the time of, or within 180 days after the later of the acquisition, the completion of construction (including any improvements on an existing property) or the commencement of commercial operation of such property, which indebtedness is incurred for the purpose of financing all or any part of the purchase price of such property or construction or improvements on such property;
- mortgages, pledges, liens, security interest or encumbrances (collectively referred to as security interests) on property, or any conditional sales agreement or any title retention with respect to property, existing at the time of acquisition thereof, whether or not assumed by us or a Subsidiary;
- security interests on property or shares of capital stock or indebtedness of any corporation or firm existing at the time such corporation or firm becomes a Subsidiary;

- security interests in property or shares of capital stock or indebtedness of a corporation existing at the time such corporation is merged into or consolidated with us or a Subsidiary or at the time of a sale, lease, or other disposition of the properties of a corporation or firm as an entirety or substantially as an entirety to us or a Subsidiary, provided that no such security interests shall extend to any other Principal Property of ours or such Subsidiary prior to such acquisition or to other Principal Property thereafter acquired other than additions or improvements to the acquired property;
- security interests on our property or property of a Subsidiary in favor of the United States of America or any state thereof, or in favor of any other country, or any department, agency, instrumentality or political subdivision thereof (including, without limitation, security interests to secure indebtedness of the pollution control or industrial revenue type) in order to permit us or any Subsidiary to perform a contract or to secure indebtedness incurred for the purpose of financing all or any part of the purchase price for the cost of constructing or improving the property subject to such security interests or which is required by law or regulation as a condition to the transaction of any business or the exercise of any privilege, franchise or license;
- security interests on any property or assets of any Subsidiary to secure indebtedness owing by it to us or to another Subsidiary;
- any mechanics', materialmen's, carriers' or other similar lien arising in the ordinary course of business, including construction of facilities, in respect of obligations that are not yet due or that are being contested in good faith;
- any security interest for taxes, assessments or government charges or levies not yet delinquent, or already delinquent, but the validity of which is being contested in good faith;
- any security interest arising in connection with legal proceedings being contested in good faith, including any judgment lien so long as execution thereof is being stayed;
- landlords' liens on fixtures located on premises leased by us or a Subsidiary in the ordinary course of business; or
- any extension, renewal or replacement, or successive extensions, renewals or replacements, in whole or in part, of any security interest referred to in the foregoing bullets.

Limitation on Sale and Leaseback Transactions

Unless otherwise provided in the applicable prospectus supplement and/or free writing prospectus, the senior indenture provides that we will not, and will not permit any Subsidiary to, enter any lease longer than three years (excluding leases of newly acquired, improved or constructed property) covering any Principal Property of ours or any Subsidiary that is sold to any other person in connection with such lease (a "Sale and Leaseback Transaction"), unless either:

- we or such Subsidiary would be entitled, without equally and ratably securing the senior debt securities, to incur Indebtedness secured by a mortgage on the Principal Property leased pursuant to any of the bullets referenced above under "-Limitation on Secured Debt," or
- an amount equal to the value of the Principal Property so leased is applied to the retirement, within 120 days of the effective date of such arrangement, of indebtedness for borrowed money incurred or assumed by us or a Subsidiary which is recorded as Funded Debt as shown on our most recent consolidated balance sheet and which in the case of such Indebtedness of ours, is not subordinate and junior in right of payment to the prior payment of the senior debt securities.

Exempted Indebtedness

Notwithstanding the limitations on Secured Debt and Sale and Leaseback Transactions described above, we and any one or more Subsidiaries may, without securing the senior debt securities, issue, assume, or guarantee Secured Debt or enter into any Sale and Leaseback Transaction which would otherwise be subject to the foregoing restrictions, provided that, after giving effect thereto, the aggregate amount of such Secured Debt then outstanding (not including Secured Debt permitted under the foregoing exceptions) and the Attributable Debt of Sale and Leaseback Transactions, other than Sale and Leaseback Transactions described in either bullet of the preceding paragraph, at such time does not exceed 15% of Consolidated Net Assets.

Certain Definitions

Set forth below are certain defined terms used in the senior indenture. Reference is made to the senior indenture for a complete definition of these terms, as well as any other capitalized terms used herein for which no definition is provided. Unless otherwise provided in the applicable prospectus supplement, the following terms will mean as follows for purposes of covenants that may be applicable to any particular series of senior debt securities.

The term “Attributable Debt,” in respect of a Sale and Leaseback Transaction, means, as of any particular time, the present value (discounted at the rate of interest implicit in the lease involved in such Sale and Leaseback Transaction, as determined in good faith by us) of the obligation of the lessee thereunder for rental payments (excluding, however, any amounts required to be paid by such lessee, whether or not designated as rent or additional rent, on account of maintenance and repairs, insurance, taxes, assessments, water rates or similar charges or any amounts required to be paid by such lessee thereunder contingent upon the amount of sales, maintenance and repairs, insurance, taxes, assessments, water rates or similar charges) during the remaining term of such lease (including any period for which such lease has been extended or may, at the option of the lessor, be extended).

The term “Consolidated Assets” means the aggregate of all assets of us and our Subsidiaries (including the value of all existing Sale and Leaseback Transactions and any assets resulting from the capitalization of other long-term lease obligations in accordance with generally accepted accounting principles in the United States (GAAP)), appearing on the most recent available consolidated balance sheet of us and our Subsidiaries at their net book values, after deducting related depreciation, amortization and other valuation reserves, all prepared in accordance with GAAP.

The term “Consolidated Current Liabilities” means the aggregate of the current liabilities of us and our Subsidiaries appearing on the most recent available consolidated balance sheet of us and our Subsidiaries, all in accordance with GAAP. In no event shall Consolidated Current Liabilities include any obligation of us and our Subsidiaries issued under a revolving credit or similar agreement if the obligation issued under such agreement matures by its terms within twelve months from the date thereof but by the terms of such agreement such obligation may be renewed or extended or the amount thereof reborrowed or refunded at our option or the option of any Subsidiary for a term in excess of twelve months from the date of determination.

The term “Consolidated Net Assets” means Consolidated Assets after deduction of Consolidated Current Liabilities.

The term “Funded Debt” means all indebtedness for money borrowed having a maturity of more than twelve months from the date of the most recent consolidated balance sheet of us and our Subsidiaries or renewable and extendable beyond twelve months at the option of the borrower and all obligations in respect of lease rentals which under GAAP would be shown on our consolidated balance sheet as a liability item other than a current liability; provided, however, that Funded Debt shall not include any of the foregoing to the extent that such indebtedness or obligations are not required by GAAP to be shown on our balance sheet.

The term “Principal Property” means any manufacturing plant, warehouse, office building or parcel of real property (including fixtures but excluding leases and other contract rights which might otherwise be deemed real property) owned by us or any Subsidiary, whether owned on the date of the indenture or thereafter, provided each such plant, warehouse, office building or parcel of real property has a gross book value (without deduction for any depreciation reserves) at the date as of which the determination is being made of in excess of two percent of the Consolidated Net Assets of us and our Subsidiaries, other than any such plant, warehouse, office building or parcel of real property or portion thereof which, in the opinion of our board of directors (evidenced by a certified board resolution delivered to the trustee), is not of material importance to the business conducted by us and our Subsidiaries taken as a whole.

The term “Secured Debt” means Indebtedness for borrowed money and any Funded Debt which, in each case, is secured by a security interest in:

- any Principal Property, or
- any shares of capital stock or Indebtedness of any Subsidiary.

The term “Subsidiary” means any corporation or other entity (including, without limitation, partnerships, joint ventures and associations) of which at least a majority of the outstanding stock having by the terms thereof ordinary voting power for the election of directors of such corporation or other entity (irrespective of whether or not at the time the stock of any other class or classes of such corporation shall have or might have voting power by reason of the happening of any such contingency) is at the time directly or indirectly owned by Danaher, or by one or more

Subsidiaries of Danaher, or by Danaher and one or more other Subsidiaries.

Consolidation, Merger and Sale of Assets

Unless otherwise provided in the applicable prospectus supplement, our indentures prohibit us from consolidating with or merging into another business entity, or conveying, transferring or leasing our properties and assets substantially as an entirety to any business entity, unless:

- the surviving or acquiring entity is a U.S. corporation, limited liability company, partnership or trust, and it expressly assumes our obligations with respect to outstanding debt securities by executing a supplemental indenture;
- immediately after giving effect to the transaction, no event of default, or event which, after notice or lapse of time or both, would become an event of default, shall have happened and be continuing; and
- we have delivered to the trustee an officers' certificate and an opinion of counsel, each stating that the consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture, comply with the indenture and all conditions precedent relating to such transaction have been complied with.

Conversion Rights

We will describe the terms upon which debt securities may be convertible into our common stock or other securities in a prospectus supplement. These terms will include the type of securities the debt securities are convertible into, the conversion price or manner of calculation thereof, the conversion period, provisions as to whether conversion will be at our option or the option of the holders, the events requiring an adjustment of the conversion price and provisions affecting conversion in the event of the redemption of the debt securities and any restrictions on conversion. They may also include provisions adjusting the number of shares of our common stock or other securities issuable upon conversion.

Denomination

Normally, we will denominate and make payments on debt securities in U.S. dollars. If we issue debt securities denominated, or with payments, in a foreign or composite currency, a prospectus supplement will specify the currency or composite currency. Except as may be provided otherwise in the applicable prospectus supplement and/or free writing prospectus, we will issue registered securities in denominations of $1,000 or integral multiples of $1,000.

Our Trustee

Unless stated in the applicable prospectus supplement, (i) the trustee may also be the trustee under any other indenture for debt securities and (ii) any trustee or its affiliates may lend money to us and/or may from time to time have other business arrangements with us. If and when the trustee becomes a creditor of ours, the trustee will be subject to the provisions of the Trust Indenture Act regarding the collection of claims against us.

Governing Law

The indentures and the debt securities will be governed by the laws of the State of New York.

DESCRIPTION OF DANAHER INTERNATIONAL DEBT SECURITIES

This section describes the general terms and provisions of the debt securities that Danaher International may offer from time to time in the form of one or more series of debt securities. The applicable prospectus supplement and/or free writing prospectus will describe the specific terms of the debt securities offered through that prospectus supplement, as well as any general terms described in this section that will not apply to those debt securities. As used in this section, "debt securities" means the senior debentures, notes, bonds and other evidences of indebtedness that Danaher International issues and a trustee authenticates and delivers under the indenture. As used in this "Description of Danaher International Debt Securities," the terms "Danaher International," "we," "our" and "us" refer to DH Europe Finance S.A., and references to "Danaher" refer to Danaher Corporation and do not, unless the context otherwise indicates, include Danaher's subsidiaries.

Debt securities will be issued under an indenture dated July 8, 2015 by and among Danaher Corporation, as guarantor, DH Europe Finance S.A., as issuer, and the Bank of New York Mellon Trust Company, N.A., as trustee, that has been filed as an exhibit to the registration statement of which this prospectus is a part and is incorporated by reference into this prospectus, subject to such amendments or supplemental indentures as are adopted, from time to time. This indenture is referred to in this section as the "indenture." The following summaries of certain provisions of the indenture and the debt securities are not complete and the summaries are subject to the detailed provisions of the indenture. You should refer to the indenture for more

specific information. In addition, you should consult the applicable prospectus supplement and/or free writing prospectus for particular terms of the debt securities.

The indenture will not limit the aggregate principal amount of debt securities that we may issue, and will permit us to issue securities from time to time in one or more series. The indenture does not contain any provisions that would limit Danaher's or our ability to incur indebtedness or that would afford holders of debt securities protection in the event of a highly leveraged or similar transaction involving Danaher and/or us. However, the indenture does restrict Danaher and its subsidiaries, including us, from granting certain security interests on certain property or assets of Danaher and/or its subsidiaries unless the debt securities are equally secured. See "-Covenants in the Indenture" below.

The debt securities will be unsecured obligations of Danaher International and will be fully and unconditionally guaranteed by Danaher. Payment of the principal of, premium, if any, and interest on debt securities will rank equally with all of Danaher International's other unsecured and unsubordinated debt. Danaher International is a finance subsidiary of Danaher that conducts no independent operations of its own other than financing activities, and Danaher is a holding company that conducts substantially all of its operations through its subsidiaries, and, as a result, the holders of debt securities will be effectively subordinated to the creditors of Danaher's subsidiaries. This means that all claims of creditors (including trade creditors) of Danaher's other subsidiaries will have priority with respect to the assets of such subsidiaries over Danaher's claims (and therefore the claims of its creditors, including holders of debt securities guaranteed by Danaher).

The applicable prospectus supplement and/or free writing prospectus will describe the following terms of any series of debt securities that we may offer:

- the title and type of the debt securities;
- any limit on the aggregate principal amount of the debt securities;
- the person who will receive interest payments on any debt securities if other than the registered holder;
- the price or prices at which we will sell the debt securities;
- the maturity date or dates of the debt securities;
- the rate or rates, which may be fixed or variable, per annum at which the debt securities will bear interest and the date from which such interest will accrue;
- the dates on which interest will be payable and the related record dates;
- whether any index, formula or other method will determine payments of principal, premium or interest and the manner of determining the amount of such payments;
- whether the debt securities will be guaranteed by any person other than Danaher and, if so, the identity of the person and the terms and conditions upon which the debt securities will be guaranteed;
- the place or places of payments on the debt securities;
- whether the debt securities are redeemable;
- any redemption dates, prices, obligations and restrictions on the debt securities;
- any mandatory or optional sinking fund or purchase fund or analogous provisions;
- the denominations of the debt securities if other than $1,000 or multiples of $1,000;
- the currency of principal and interest payments if other than U.S. dollars, and the manner of determining the equivalent thereof in U.S. dollars for any purpose under the indenture;
- if the principal of or any premium or interest on any debt securities of any series is payable, at our election or the election of the holder, in one or more currencies other than that in which such debt securities are stated to be payable, the currency or currencies in which such principal, premium or interest shall be payable and other terms and conditions regarding such payment;
- the amount that we will pay the holder if the maturity of the debt securities is accelerated, if other than their principal amount;

- the amount that will be deemed to be the principal amount of the debt securities as of a particular date before maturity if the principal amount payable at the stated maturity date will not be able to be determined on that date;
- the applicability of the legal defeasance and covenant defeasance provisions in the indenture;
- if the debt securities will be issued in the form of one or more book-entry securities, the name of the depositary or its nominee and the circumstances under which the book-entry security may be transferred or exchanged to someone other than the depositary or its nominee;
- any provisions granting special rights if certain events happen;
- any deletions from, changes in or additions to the events of default or the covenants specified in the indenture, or to the right of the trustee or the requisite holders of such securities to declare the principal amount of such securities due and payable;
- any trustees, authenticating or paying agents, transfer agents, registrars or other agents for the debt securities;
- any conversion or exchange features of the debt securities;
- whether we will issue the debt securities as original issue discount securities for federal income tax purposes;
- any special tax implications of the debt securities;
- the terms of payment upon acceleration; and
- any other material terms of the debt securities not inconsistent with the provisions of the indenture.

Debt securities may bear interest at fixed or floating rates. We may issue our debt securities at an original issue discount, bearing no interest or bearing interest at a rate that, at the time of issuance, is below market rate, to be sold at a substantial discount below their stated principal amount. Generally speaking, if our debt securities are issued at an original issue discount and there is an event of default or acceleration of their maturity, holders will receive an amount less than the stated principal amount of the debt securities. Tax and other special considerations applicable to any series of debt securities, including original issue discount securities, will be described in the prospectus supplement in which we offer those debt securities.

We will have the ability under the indenture to reopen a previously issued series of debt securities and issue additional debt securities of that series or establish additional terms of the series. We are also permitted to issue debt securities with the same terms as previously issued debt securities.

We will comply with Section 14(e) under the Exchange Act and any other tender offer rules under the Exchange Act that may then apply to any obligation we may have to purchase debt securities at the option of the holders. Any such obligation applicable to a series of debt securities will be described in the related prospectus supplement.

Guarantee

Danaher will fully and unconditionally guarantee the due and punctual payment of principal of and premium, if any, and interest on the debt securities on a senior unsecured basis, when and as the same become due and payable, whether on a maturity date, by declaration of acceleration, upon redemption, repurchase or otherwise, and all other obligations of Danaher International under the indenture.

Redemption Upon Changes in Withholding Taxes

Unless otherwise provided in the applicable prospectus supplement, Danaher International may redeem all, but not less than all, of the debt securities of any series under the following conditions:

- If there is an amendment to, or change in, the laws, regulations or rulings of Luxembourg or the United States, as applicable, or any political subdivision thereof or therein having the power to tax (a “Taxing Jurisdiction”), or any change in the application or official interpretation of such laws, including any action taken by, or a change in published administrative practice of, a taxing authority or a holding by a court of competent jurisdiction, regardless of whether such action, change or holding is with respect to Danaher International or Danaher;
- As a result of such amendment or change, Danaher International or Danaher becomes, or there is a material probability that Danaher International or Danaher will become, obligated to pay Additional Amounts as defined below in “Payment of Additional Amounts,” on the next payment date with respect to the debt securities of such series;

- The obligation to pay Additional Amounts cannot be avoided through Danaher International's or Danaher's commercially reasonable measures;
- Danaher International delivers to the trustee:

	(5,873)	13,006
Net income (loss) attributable to Seritage	$10,328	$(19,838)
Preferred dividends	(1,228)	—
Net income (loss) attributable to Seritage common shareholders	$9,100	$(19,838)
Net income (loss) per share attributable to Seritage Class A and Class C common shareholders - Basic	$0.26	$(0.59)
Net income (loss) per share attributable to Seritage Class A and Class C common shareholders - Diluted	$0.26	$(0.59)
Weighted average Class A and Class C common shares outstanding - Basic	35,414	33,510
Weighted average Class A and Class C common shares outstanding - Diluted	35,501	33,510

The accompanying notes are an integral part of these condensed consolidated financial statements.

SERITAGE GROWTH PROPERTIES

CONDENSED CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited, amounts in thousands)

	Class A Common Shares	Amount	Class B Common Shares	Amount	Class C Common Shares	Amount	Series A Preferred Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Non-Controlling Interests	Total Equity
Balance at January 1, 2017	25,843	$258	1,589	$16	5,755	$58	—	$—	$925,563	$(121,338)	$619,754	$1,424,311
Net loss	—	—	—	—	—	—	—	—	—	(19,838)	(13,006)	(32,844)
Dividends and distributions declared ($0.25 per share and unit)	—	—	—	—	—	—	—	—	—	(8,492)	(5,477)	(13,969)
Vesting of restricted share units	4	0	—	—	—	—	—	—	(0)	—	—	—
Stock-based compensation	—	—	—	—	—	—	—	—	390	—	—	390
Share class exchanges, net (24,200 common shares)	(24)	(0)	—	—	24	0	—	—	—	—	—	—
Share class surrenders (149,053 common shares)	—	—	(149)	(2)	—	—	—	—	2	—	—	—
OP Unit exchanges (2,267,821 units)	2,268	23	—	—	—	—	—	—	67,059	—	(67,082)	—
Balance at March 31, 2017	28,091	$281	1,440	$14	5,779	$58	—	$—	$993,014	$(149,668)	$534,189	$1,377,888

Balance at January 1, 2018	32,416	$324	1,329	$13	3,151	$31	2,800	$28	$1,116,060	$(229,760)	$434,164	$1,320,860
Net income	—	—	—	—	—	—	—	—	—	10,328	5,873	16,201
Common dividends and distributions declared ($0.25 per share and unit)	—	—	—	—	—	—	—	—	—	(8,992)	(5,054)	(14,046)
Preferred dividends declared ($0.4375 per share)	—	—	—	—	—	—	—	—	—	(1,228)	—	(1,228)
Vesting of restricted share units	14	0	—	—	—	—	—	—	(0)	—	—	—
Stock-based compensation	—	—	—	—	—	—	—	—	869	—	—	869
Preferred stock offering costs	—	—	—	—	—	—	—	—	(88)	—	—	(88)
Share class exchanges, net (2,779,121 common shares)	2,779	28	—	—	(2,779)	(27)	—	—	—	—	—	1
Balance at March 31, 2018	35,209	$352	1,329	$13	372	$4	2,800	$28	$1,116,841	$(229,652)	$434,983	$1,322,569

The accompanying notes are an integral part of these condensed consolidated financial statements.

SERITAGE GROWTH PROPERTIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited, amounts in thousands)

	Three Months Ended March 31, 2018	2017
CASH FLOW FROM OPERATING ACTIVITIES		
Net income (loss)	$16,201	$(32,844)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Equity in loss (income) of unconsolidated joint ventures	2,582	(1,002)
Gain on sale of real estate	(41,831)	—
Unrealized (gain) loss on interest rate cap	(165)	471
Stock-based compensation	869	390
Depreciation and amortization	34,667	58,663
Amortization of deferred financing costs	1,720	1,582
Amortization of above and below market leases, net	(234)	(195)
Straight-line rent adjustment	(2,453)	(1,534)
Change in operating assets and liabilities		
Tenants and other receivables	1,034	419
Prepaid expenses, deferred expenses and other assets	(4,229)	(687)
Accounts payable, accrued expenses and other liabilities	(502)	9,039
Net cash provided by operating activities	7,659	34,302
CASH FLOW FROM INVESTING ACTIVITIES		
Investment in unconsolidated joint ventures	(1,616)	(5,943)
Distributions from unconsolidated joint ventures	2,110	3,623
Net proceeds from sale of real estate	60,435	—
Development of real estate	(85,983)	(22,848)
Net cash used in investing activities	(25,054)	(25,168)
CASH FLOW FROM FINANCING ACTIVITIES		
Repayment of mortgage loans payable	(73,034)	—
Proceeds from Future Funding Facility	—	7,011
Payment of deferred financing costs	(363)	(1,446)
Common dividends paid	(8,877)	(8,447)
Non-controlling interests distributions paid	(5,055)	(5,477)
Net cash used in financing activities	(87,329)	(8,359)
Net increase (decrease) in cash, cash equivalents, and restricted cash	(104,724)	775
Cash, cash equivalents, and restricted cash, beginning of period	417,234	139,642
Cash, cash equivalents, and restricted cash, end of period	$312,510	$140,417

SERITAGE GROWTH PROPERTIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(Unaudited, amounts in thousands)

	Three Months Ended March 31,	
	2018	2017
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for interest	$21,105	$16,052
Capitalized interest	6,862	1,177
Income taxes paid	104	119
SUPPLEMENTAL DISCLOSURE OF NON-CASH INVESTING AND FINANCING ACTIVITIES		
Development of real estate financed with accounts payable	$19,964	$5,899
Dividends and distribution declared and unpaid	14,046	13,969
Decrease in real estate, net resulting from deconsolidated properties	(58,190)	—
RECONCILIATION OF CASH AND CASH EQUIVALENTS AND RESTRICTED CASH		
Cash and cash equivalents	$135,091	$26,542
Restricted cash	177,419	113,875
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	312,510	140,417

The accompanying notes are an integral part of these condensed consolidated financial statements.

SERITAGE GROWTH PROPERTIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1 – Organization

Seritage Growth Properties ("Seritage") was organized in Maryland on June 3, 2015 and was initially capitalized with 100 shares of Class A common shares. The Company conducts its operations through Seritage Growth Properties, L.P. (the "Operating Partnership"), a Delaware limited partnership that was formed on April 22, 2015. Unless the context otherwise requires, "Seritage" and the "Company" refer to Seritage, the Operating Partnership, and its subsidiaries.

On June 11, 2015, Sears Holdings Corporation ("Sears Holdings") effected a rights offering (the "Rights Offering") to Sears Holdings stockholders to purchase common shares of Seritage in order to fund, in part, the $2.7 billion acquisition of (i) 234 of Sears Holdings' owned properties and one of its ground leased properties, and (ii) its 50% interests in three joint ventures that collectively owned 28 properties, ground leased one property and leased two properties (the "Transaction"). The Rights Offering ended on July 2, 2015, and the Company's Class A common shares were listed on the New York Stock Exchange ("NYSE") on July 6, 2015.

On July 7, 2015, the Company completed the Transaction with Sears Holdings and commenced operations. The Company did not have any operations prior to the completion of the Rights Offering and the Transaction.

Seritage is a fully-integrated, self-administered, self-managed real estate investment trust ("REIT") primarily engaged in the real property business through the Company's investment in the Operating Partnership. As of March 31, 2018, the Company's portfolio consisted of interests in 249 properties totaling approximately 38.9 million square feet of gross leasable area ("GLA"), including 225 wholly owned properties totaling approximately 34.6 million square feet of GLA across 49 states and Puerto Rico (the "Wholly Owned Properties), and interests in 24 joint venture properties totaling over 4.3 million square feet of GLA across 13 states (the "JV Properties").

As of March 31, 2018, we leased space at 145 Wholly Owned Properties to Sears Holdings pursuant to a master lease agreement (the "Master Lease"), including 81 properties leased only to Sears Holdings and 64 properties leased to both Sears Holdings and one or more third-party tenants. The remaining 80 Wholly Owned Properties include 54 properties that are leased solely to third-party tenants and do not have any space leased to Sears Holdings, and 26 vacant properties. As of March 31, 2018, space at 22 JV Properties is also leased to Sears Holdings pursuant to lease agreements similar to the Master Lease (the "JV Master Leases"). Sears Holdings is the sole tenant at nine JV Properties and 13 JV properties are leased to both Sears Holdings and one or more third-party tenants. One JV Property is leased solely third-party tenants and one JV Property was vacant as of March 31, 2018.

The Master Lease and the JV Master Leases provide the Company and the JVs with the right to recapture certain space from Sears Holdings at each property for retenanting or redevelopment purposes.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation and Principles of Consolidation

These condensed consolidated financial statements have been prepared in accordance with the instructions to Form 10-Q of the Securities and Exchange Commission (“SEC”) and should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K, as amended, (the “Annual Report”), for the year ended December 31, 2017. Certain footnote disclosures which would substantially duplicate those contained in our Annual Report have been condensed or omitted from this quarterly report. In the opinion of management, all adjustments necessary for a fair presentation (which include only normal recurring adjustments) have been included in this quarterly report. Operating results of three months ended March 31, 2018 may not be indicative of the results that may be expected for any other interim period or for the year ending December 31, 2018. Capitalized terms used, but not defined in this quarterly report, have the same meanings as set forth in our Annual Report.

The accompanying condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). The condensed consolidated financial statements include the accounts of the Company, the Operating Partnership, each of their wholly-owned subsidiaries, and all other entities in which they have a controlling financial interest or entities that meet the definition of a variable interest entity (“VIE”) in which the Company has, as a result of ownership, contractual interests or other financial interests, both the power to direct activities that most significantly impact the economic performance of the VIE and the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE. All intercompany accounts and transactions have been eliminated.

If the Company has an interest in a VIE but it is not determined to be the primary beneficiary, the Company accounts for its interest under the equity method of accounting. Similarly, for those entities which are not VIEs and over which the Company has the ability to exercise significant influence, but does not have a controlling financial interest, the Company accounts for its interests under the equity method of accounting. The Company continually reconsiders its determination of whether an entity is a VIE and whether the Company qualifies as its primary beneficiary.

To the extent such variable interests are in entities that cannot be evaluated under the VIE model, the Company evaluates its interests using the voting interest entity model. As of March 31, 2018, the Company holds a 63.8% interest in the Operating Partnership and is the sole general partner which gives the Company exclusive and complete responsibility for the day-to-day management, authority to make decisions, and control of the Operating Partnership. Through consideration of consolidation guidance effective for the Company as of January 1, 2016, it has been concluded that the Operating Partnership is a VIE as the limited partners in the Operating Partnership, although entitled to vote on certain matters, do not possess kick-out rights or substantive participating rights. Accordingly, the Company consolidates its interest in the Operating Partnership. However, as the Company holds what is deemed a majority voting interest in the Operating Partnership, it qualifies for the exemption from providing certain of the disclosure requirements associated with investments in VIEs.

The portions of consolidated entities not owned by the Company and the Operating Partnership are presented as non-controlling interests as of and during the periods presented.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. The most significant assumptions and estimates relate to fair values of acquired assets and liabilities assumed for purposes of applying the acquisition method of accounting, the useful lives of tangible and intangible assets, real estate impairment assessments, and assessing the recoverability of accounts receivables. These estimates are based on historical experience and other assumptions which management believes are reasonable under the circumstances. Management evaluates its estimates on an ongoing basis and makes revisions to these estimates and related disclosures as experience develops or new information becomes known. Actual results could differ from these estimates.

Segment Reporting

The Company currently operates in a single reportable segment which includes the acquisition, ownership, development, redevelopment, management, and leasing of retail properties. The Company’s chief operating decision maker, its Chief Executive Officer, assesses and measures the operating and financial results for each property on an individual basis and does not distinguish or group properties based on geography, size, or type. The Company, therefore, aggregates all properties into one reportable segment due to their similarities with regard to the nature and economics of the properties, tenants, and operations.

Accounting for Real Estate Acquisitions

Upon the acquisition of real estate, the Company assesses the fair value of acquired assets and liabilities assumed, including land, buildings, improvements and identified intangibles such as above-market and below-market leases, in-place leases and other items, as applicable, and allocates the purchase price based on these assessments. In making estimates of fair values, the Company may use a number of sources, including data provided by third parties, as well as information obtained by the Company as a result of its due diligence, including expected future cash flows of the property and various characteristics of the markets where the property is located.

The fair values of tangible assets are determined on an "if vacant" basis. The "if vacant" fair value allocated to land is generally estimated via a market or sales comparison approach with the subject site being compared to similar properties that have sold or are currently listed for sale. The comparable properties are adjusted for dissimilar characteristics such as market conditions, location, access/frontage, size, shape/topography, or intended use, including the impact of any encumbrances on such use. The "if vacant" value allocated to buildings and site improvements is generally estimated using an income approach and a cost approach that utilizes published guidelines for current replacement cost or actual construction costs for similar, recently developed properties. Assumptions used in the income approach include capitalization and discount rates, lease-up time, market rents, make-ready costs, land value, and site improvement value.

The estimated fair value of in-place tenant leases includes lease origination costs (the costs the Company would have incurred to lease the property to the current occupancy level) and the lost revenues during the period necessary to lease-up from vacant to the current occupancy level. Such estimates include the fair value of leasing commissions, legal costs and tenant coordination costs that would be incurred to lease the property to this occupancy level. Additionally, the Company evaluates the time period over which such occupancy level would be achieved and includes an estimate of the net operating costs (primarily real estate taxes, insurance and utilities) incurred during the lease-up period, which generally ranges up to one year. The fair value of acquired in-place tenant leases is included in lease intangible assets on the condensed consolidated balance sheets and amortized over the remaining lease term for each tenant.

Identifiable intangible assets and liabilities are calculated for above-market and below-market tenant and ground leases where the Company is either the lessor or the lessee. The difference between the contractual rental rates and the Company's estimate of market rental rates is measured over a period equal to the remaining non-cancelable term of the leases, including significantly below-market renewal options for which exercise of the renewal option appears to be reasonably assured. Above-market tenant leases and below-market ground leases are included in lease intangible assets on the condensed consolidated balance sheets; below-market tenant leases and above-market ground leases are included in accounts payable, accrued expenses and other liabilities on the condensed consolidated balance sheets. The values assigned to above-market and below-market tenant leases are amortized as reductions and increases, respectively, to base rental revenue over the remaining term of the respective leases. The values assigned to below-market and above-market ground leases are amortized as increases and reductions, respectively, to property operating expenses over the remaining term of the respective leases.

The Company expenses transaction costs associated with business combinations in the period incurred; these costs are included in acquisition-related expenses within the condensed consolidated statements of operations. The Company capitalizes transaction costs associated with asset acquisitions; these costs are allocated to the fair values of the net assets acquired, included within the condensed consolidated balance sheets and depreciated or amortized over the remaining life or term of the acquired assets.

Real Estate Investments

Real estate assets are recorded at cost, less accumulated depreciation and amortization.

Expenditures for ordinary repairs and maintenance will be expensed as incurred. Significant renovations which improve the property or extend the useful life of the assets are capitalized. As real estate is undergoing redevelopment activities, all amounts directly associated with and attributable to the project, including planning, development and construction costs, interest costs, personnel costs of employees directly involved and other miscellaneous costs incurred during the period of redevelopment, are capitalized. The capitalization period begins when redevelopment activities are underway and ends when the project is substantially complete.

Depreciation of real estate assets, excluding land, is recognized on a straight-line basis over their estimated useful lives as follows:

Building:	25 – 40 years
Site improvements:	5 – 15 years
Tenant improvements:	shorter of the estimated useful life or non-cancelable term of lease

The Company amortizes identified intangibles that have finite lives over the period they are expected to contribute directly or indirectly to the future cash flows of the property or business acquired, generally the remaining non-cancelable term of a related lease.

On a periodic basis, management assesses whether there are indicators that the value of the Company's real estate assets (including any related intangible assets or liabilities) may be impaired. If an indicator is identified, a real estate asset is considered impaired only if management's estimate of current and projected operating cash flows (undiscounted and unleveraged), taking into account the anticipated and probability weighted holding period, are less than a real estate asset's carrying value. Various factors are considered in the estimation process, including expected future operating income, trends and prospects and the effects of demand, competition, and other economic factors. If management determines that the carrying value of a real estate asset is impaired, a loss will be recorded for the excess of its carrying amount over its estimated fair value. No such impairment losses were recognized for the three months ended March 31, 2018 or March 31, 2017.

Investments in Unconsolidated Joint Ventures

The Company accounts for its investments in unconsolidated joint ventures using the equity method of accounting as the Company exercises significant influence, but does not control these entities. These investments are initially recorded at cost and are subsequently adjusted for cash contributions, cash distributions, and earnings which are recognized in accordance with the terms of the applicable agreement.

On a periodic basis, management assesses whether there are indicators, including the operating performance of the underlying real estate and general market conditions, that the value of the Company's investments in unconsolidated joint ventures may be impaired. An investment's value is impaired only if management's estimate of the fair value of the Company's investment is less than its carrying value and such difference is deemed to be other-than-temporary. To the extent impairment has occurred, the loss is measured as the excess of the carrying amount of the investment over its estimated fair value. No such impairment losses were recognized for the three months ended March 31, 2018 or March 31, 2017.

Cash and Cash Equivalents

The Company considers instruments with an original maturity of three months or less to be cash and cash equivalents. Cash and cash equivalents balances may, at a limited number of banks and financial institutions, exceed insurable amounts. The Company believes it mitigates this risk by investing in or through major financial institutions and primarily in funds that are insured by the United States federal government.

Restricted Cash

Restricted cash represents cash deposited in escrow accounts which generally can only be used for the payment of real estate taxes, debt service, insurance, and future capital expenditures as required by certain loan and lease agreements, as well as legally restricted tenant security deposits. As of March 31, 2018, the Company had approximately $177.4 million of restricted cash, including $154.2 million reserved for redevelopment costs, tenant allowances and leasing commissions, deferred maintenance, environmental remediation and other capital expenditures, $ 19.5 million reserved for basic property carrying costs such as real estate taxes, insurance and ground rent, and $ 3.7 million of other restricted cash which consisted primarily of prepaid rental income.

Tenant and Other Receivables

Accounts receivable includes unpaid amounts billed to tenants, accrued revenues for future billings to tenants for property expenses, and amounts arising from the straight-lining of rent. The Company periodically reviews its receivables for collectability, taking into consideration changes in factors such as the tenant's payment history, the financial condition of the tenant, business conditions in the industry in which the tenant operates, and economic conditions in the area where the property is located. In the event that the collectability of a receivable with respect to any tenant is in doubt, a provision for uncollectible amounts will be established or a direct write-off of the specific rent receivable will be made. For accrued rental revenues related to the straight-line method of reporting rental revenue, the Company performs a periodic review of receivable balances to assess the risk of uncollectible amounts and establish appropriate provisions.

Revenue Recognition

Rental income is recognized on a straight-line basis over the non-cancelable terms of the related leases. For leases that have fixed and measurable rent escalations, the difference between such rental income earned and the cash rent due under the provisions of the lease is recorded as deferred rent receivable and included as a component of tenant and other receivables on the condensed consolidated balance sheets.

In leasing tenant space, the Company may provide funding to the lessee through a tenant allowance. In accounting for a tenant allowance, the Company will determine whether the allowance represents funding for the construction of leasehold improvements and evaluate the ownership of such improvements. If the Company is considered the owner of the improvements for accounting purposes, the Company will capitalize the amount of the tenant allowance and depreciate it over the shorter of the useful life of the improvements or the related lease term. If the tenant allowance represents a payment for a purpose other than funding leasehold improvements, or in the event the Company is not considered the owner of the improvements for accounting purposes, the allowance is considered to be a lease incentive and is recognized over the lease term as reduction of rental revenue on a straight-line basis.

The Company commences recognizing revenue based on an evaluation of a number of factors. In most cases, revenue recognition under a lease begins when the lessee takes possession of or controls the physical use of the leased asset. Generally, this occurs on the lease commencement date.

Tenant reimbursement income arises from tenant leases which provide for the recovery of all or a portion of the operating expenses and real estate taxes of the respective property. This revenue is accrued in the same periods as the expenses are incurred.

Accounting for Recapture and Termination Activity Pursuant to the Master Lease

Seritage 100% Recapture Rights. The Company generally treats the delivery of a 100% recapture notice as a modification of the Master Lease as of the date of notice. Such a notice and lease modification result in the following accounting adjustments for the recaptured property:

– Accrued rental revenues related to the straight-line method of reporting rental revenue that are deemed uncollectable as result of the lease modification are amortized over the remaining shortened life of the lease from the date of notice to the date of vacancy.
– Intangible lease assets and liabilities that are deemed to be impacted by the lease modification are amortized over the shorter of the shortened lease term from the date of notice to the date of vacancy or the remaining useful life of the asset or liability.

A 100% recapture will generally occur in conjunction with obtaining a new tenant or a real estate development project. As such, termination fees, if any, associated with the 100% recapture notice are generally capitalized as either an initial direct cost of obtaining a new lease or a necessary cost of the real estate project and depreciated over the life of the new lease obtained or the real estate asset being constructed or improved.

Seritage 50% Recapture Rights. The Company generally treats the delivery of a 50% recapture notice as a modification of the Master Lease as of the date of notice. Such a notice and lease modification result in the following accounting adjustments for the recaptured property:

– The portion of accrued rental revenues related to the straight-line method of reporting rental revenue that are subject to the lease modification are amortized over the remaining shortened life of the lease from the date of notice to the date of vacancy. The portion of accrued rental revenues related to the straight-line method of reporting rental revenue that is attributable to the retained space is amortized over the remaining life of the Master Lease.
– The portion of intangible lease assets and liabilities that is deemed to be impacted by the lease modification is amortized over the shorter of the shortened lease term from the date of notice to the date of vacancy or the remaining useful life of the asset or liability. The portion of intangible lease assets and liabilities that is attributable to the retained space is amortized over the remaining useful life of the asset or liability.

Sears Holdings Termination Rights. The Master Lease provides Sears Holdings with certain rights to terminate the Master Lease with respect to properties that cease to be profitable for operation by Sears Holdings. Such a termination would generally result in the following accounting adjustments for the terminated property:

– Accrued rental revenues related to the straight-line method of reporting rental revenue that are subject to the termination are amortized over the remaining shortened life of the lease from the date of notice to the date of vacancy.
– Intangible lease assets and liabilities that are deemed to be impacted by the termination are amortized over the shorter of the shortened lease term from the date of notice to the date of vacancy or the remaining useful life of the asset or liability.
– Termination fees required to be paid by Sears Holdings are recognized as follows:
  - For the portion of the termination fee attributable to the annual base rent of the subject property, termination income is recognized on a straight-line basis over the shortened life of the lease from the date the termination fee becomes legally binding to the date of vacancy.
  - For the portion of the termination fee attributable to estimated real estate taxes and property operating expenses for the subject property, prepaid rental income is recorded in the period such fee is received and recognized as tenant reimbursement revenue in the same periods as the expenses are incurred.

Derivatives

The Company’s use of derivative instruments is limited to the management of interest rate exposure and not for speculative purposes. In connection with the issuance of the Company’s Mortgage Loans and Future Funding Facility, the Company purchased for $5.0 million an interest rate cap with a term of four years, a notional amount of $1,261 million and a strike rate of 3.5%. The interest rate cap is measured at fair value and included as a component of prepaid expenses, deferred expenses and other assets on the condensed consolidated balance sheets. The Company has elected not to utilize hedge accounting, and therefore, the change in fair value is included within change in fair value of interest rate cap on the condensed consolidated statements of operations. For the three months ended March 31, 2018, the Company recorded a gain of $0.2 million compared to a loss of $0.5 million for the three months ended March 31, 2017

Stock-Based Compensation

The Company generally recognizes equity awards to employees as compensation expense and includes such expense within general and administrative expenses on the condensed consolidated statements of operations. Compensation expense for equity awards is generally based on the fair value of the common shares at the date of the grant and is recognized (i) ratably over the vesting period for awards with time-based vesting and (ii) for awards with performance-based vesting, at the date the achievement of performance criteria is deemed probable, an amount equal to that which would have been recognized ratably from the date of the grant through the date the achievement of performance criteria is deemed probable, and then ratably from the date the achievement of performance criteria is deemed probable through the remainder of the vesting period.

Concentration of Credit Risk

Concentrations of credit risk arise when a number of operators, tenants, or obligors related to the Company's investments are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations, including those to the Company, to be similarly affected by changes in economic conditions. As of March 31, 2018, a majority of the Company's real estate properties were leased to Sears Holdings, and the majority of Company's rental revenues were derived from the Master Lease (see Note 5). Until the Company further diversifies the tenancy of its portfolio, an event that has a material adverse effect on Sears Holdings' business, financial condition or results of operations could have a material adverse effect on the Company's business, financial condition or results of operations. Sears Holdings is a publicly traded company that is subject to the informational filing requirements of the Securities Exchange Act of 1934, as amended, and is required to file periodic reports on Form 10-K and Form 10-Q with the SEC. Refer to www.sec.gov for Sears Holdings publicly-available financial information.

Other than the Company's tenant concentration, management believes the Company's portfolio was reasonably diversified by geographical location and did not contain any other significant concentrations of credit risk. As of March 31, 2018, the Company's portfolio of 225 Wholly Owned Properties and 24 JV Properties was diversified by location across 49 states and Puerto Rico.

Earnings per Share

The Company has three classes of common stock. The rights, including the liquidation and dividend rights, of the holders of the Company's Class A common shares and Class C non-voting common shares are identical, except with respect to voting. As the liquidation and dividend rights are identical, the undistributed earnings are allocated on a proportionate basis. The net earnings (loss) per share amounts are the same for Class A and Class C common shares because the holders of each class are legally entitled to equal per share distributions whether through dividends or in liquidation. Class B non-economic common shares are excluded from earnings per share computations as they do not have economic rights.

All outstanding non-vested shares that contain non-forfeitable rights to dividends are considered participating securities and are included in computing earnings per share pursuant to the two-class method which specifies that all outstanding non-vested share-based payment awards that contain non-forfeitable rights to distributions are considered participating securities and should be included in the computation of earnings per share.

Recently Issued Accounting Pronouncements

In February 2017, the Financial Accounting Standards Boards ("FASB") issued Accounting Standards Update ("ASU") 2017-05, "Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets" to provide guidance for recognizing gains and losses from the transfer of nonfinancial assets. The standard requires a company to derecognize nonfinancial assets once it transfers control of a distinct nonfinancial asset or distinct in substance nonfinancial assets to noncustomers. Additionally, when a company transfers its controlling interest in a nonfinancial asset, but retains a non-controlling ownership interest, the company is required to measure any non-controlling interest it receives or retains at fair value. An entity may elect to apply the amendments in ASU 2017-05 either retrospectively to each period presented in the financial statements (i.e. the retrospective approach) or retrospectively with a cumulative-effect adjustment to retained earnings as of the beginning of the fiscal year of adoption (i.e. the modified retrospective approach). We adopted this update on January 1, 2018 with no impact to beginning retained earnings/accumulated deficit because there were no open contracts at the time of adoption.

During the three months ended March 31, 2018, the Company entered into a transaction in which it sold a portion of its investment in a consolidated property and retained joint control of the entity. (See Footnote 4 to the Notes to the Company's Condensed Consolidated Financial Statements for additional disclosure regarding this transaction).

In January 2017, the FASB issued ASU 2017-01 which changes the definition of a business to exclude acquisitions where substantially all of the fair value of the assets acquired are concentrated in a single identifiable asset or a group of similar identifiable assets. While there are various differences between the accounting for an asset acquisition and a business combination, the Company expects that the largest impact will be the capitalization of transaction costs for asset acquisitions which are expensed for business combinations. ASU 2017-01 is effective, on a prospective basis, for interim and annual periods beginning after January 1, 2019. The Company adopted the guidance on the issuance date effective January 5, 2017 on a prospective basis and it did not have an impact on the consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, "Classification of Certain Cash Receipts and Cash Payments." ASU 2016-15 provides classification guidance for eight specific topics including debt extinguishment costs, contingent consideration payments made after a business combination, and distributions received from equity method investees. ASU 2016-15 is effective, on a retrospective basis, for interim and annual periods beginning after December 15, 2017; early adoption is permitted. The Company adopted ASU 2016-15 on the effective date, January 1, 2018, and applied the cumulative earnings approach to classify distributions received from our equity method investees. The adoption changes our statements of cash flows so that distributions from unconsolidated joint ventures in excess of cumulative equity in earnings are now classified as inflows from investing activities for each period presented. These distributions were previously classified as inflows from operating activities.

In February 2016, with a subsequent update made in January 2018 and finalized in March 2018, the FASB issued ASU No. 2016-02 “Leases (Topic 842)” (“ASU 2016-02”) to amend the accounting guidance for leases. The accounting applied by a lessor is largely unchanged under ASU 2016-02. However, the standard requires lessees to recognize lease assets and lease liabilities for leases classified as operating leases on the balance sheet. Lessees will recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it will recognize lease expense for such leases generally on a straight-line basis over the lease term. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted.

In March 2018, the FASB finalized changes with respect to optional transition relief and approved a practical expedient for lessors that would permit lessors to make an accounting policy election to not separate non-lease components from the associated lease components, by class of underlying asset, if the following two criteria are met: (1) the timing and pattern of transfer of the lease and non-lease components are the same and (2) the lease component would be classified as an operating lease if accounted for separately. For leases where we are the lessor, we currently believe that we will elect the optional transition relief and that we will meet the noted criteria to not be required to bifurcate and separately report non-lease components, such as common area maintenance revenue, for operating leases on our consolidated statements of operations. As a result, we currently believe that leases where we are the lessor will be accounted for in a similar method to existing standards with the underlying leased asset being reported and recognized as a real estate asset. The FASB is expected to issue an Accounting Standards Update codifying these changes in the coming months. We currently expect to adopt ASU 2016-02 using the practical expedients proposed in the standard and the changes approved by the FASB and do not believe that this change will have a material impact on our consolidated financial statements.

In May 2014, with subsequent updates issued in August 2015 and March, April and May 2016, the FASB issued ASU No. 2014-09 “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”) and the related FASB ASU Nos. 2016-12 and 2016-20, which provide practical expedients, technical corrections, and improvements for certain aspects of ASU 2014- 09. ASU 2014-09 was developed to enable financial statement users to better understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The update’s core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Companies are to use a five-step contract review model to ensure revenue is recognized, measured and disclosed in accordance with this principle. Those steps include the following: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to each performance obligation in the contract, and (v) recognize revenue when or as the entity satisfies a performance obligation. The Company estimates the total transaction price, which generally includes a fixed contract price and may also include variable components. Variable components of the contract price are included in the transaction price to the extent that it is probable that a significant reversal of revenue will not occur. The Company recognizes the estimated transaction price as revenue as it satisfies its performance obligations.

The Company adopted ASU 2014-09 on the effective date of January 1, 2018 using the modified retrospective method. Management concluded that the majority of total revenues consist of rental income from leasing arrangements, which is specifically excluded from the standard. As of January 1, 2018, the Company began accounting for the sale of real estate properties under Subtopic 610-20 which provides for revenue recognition based on transfer of ownership.

During the three months ended March 31, 2018, the Company contributed its property located in Santa Monica, CA to a new joint venture and sold a 49.9% interest in the venture. The Company estimated the total transaction price, which includes fixed and variable components, pursuant to ASC 606. The variable component of the transaction will be re-measured at each reporting date until stabilization. (See Footnote 4 to the Notes to the Company's Condensed Consolidated Financial Statements for additional disclosure regarding this transaction).

Note 3 – Lease Intangible Assets and Liabilities

Lease intangible assets (acquired in-place leases, above-market leases and below-market ground leases) and liabilities (acquired below-market leases), net of accumulated amortization, were $291.6 million and $13.9 million, respectively, as of March 31, 2018 and $310.1 million and $14.5 million, respectively, as of December 31, 2017. The following table summarizes the Company's lease intangible assets and liabilities (in thousands):

March 31, 2018

Lease Intangible Assets	Gross Asset	Accumulated Amortization	Balance
In-place leases, net	$530,349	$ (255,408)	$274,941
Below-market ground leases, net	11,766	(559)	11,207
Above-market leases, net	8,925	(3,460)	5,465
Total	$551,040	$ (259,427)	$291,613

Lease Intangible Liabilities	Gross Liability	Accumulated Amortization	Balance
Below-market leases, net	$19,658	$ (5,713)	$13,945
Total	$19,658	$ (5,713)	$13,945

December 31, 2017

Lease Intangible Assets	Gross Asset	Accumulated Amortization	Balance
In-place leases, net	$542,655	$ (249,569)	$293,086
Below-market ground leases, net	11,766	(508)	11,258
Above-market leases, net	8,925	(3,171)	5,754
Total	$563,346	$ (253,248)	$310,098

Lease Intangible Liabilities	Gross Liability	Accumulated Amortization	Balance
Below-market leases, net	$19,658	$ (5,182)	$14,476
Total	$19,658	$ (5,182)	$14,476

Amortization of acquired below-market leases, net of acquired above-market leases, resulted in additional rental income of $0.2 million and $0.2 million for the three months ended March 31, 2018 and March 31, 2017, respectively. Future amortization of these intangibles is estimated to increase rental income as set forth below (in thousands):

Remainder of 2018	$(738)
2019	(923)
2020	(789)
2021	(775)
2022	(486)

Amortization of acquired below-market ground leases resulted in additional property expense of $50 thousand for the three months ended March 31, 2018 and March 31, 2017, respectively. Future amortization of below-market ground leases is estimated to increase property expenses as set forth below (in thousands):

Remainder of 2018	$152
2019	203
2020	203
2021	203
2022	203

Amortization of acquired in-place leases resulted in additional depreciation and amortization expense of $18.0 million and $43.8 million for the three months ended March 31, 2018 and March 31, 2017, respectively. Future estimated amortization of acquired in-place leases is set forth below (in thousands):

Remainder of 2018	$44,168
2019	37,269
2020	36,822
2021	36,039
2022	35,120

Note 4 – Investments in Unconsolidated Joint Ventures

The Company conducts a portion of its property rental activities through investments in unconsolidated joint ventures for which the Company holds less than a controlling interest. The Company's partners in these unconsolidated joint ventures are unrelated real estate entities or commercial enterprises. The Company and its unconsolidated joint venture partners make initial and/or ongoing capital contributions to these unconsolidated joint ventures. The obligations to make capital contributions are governed by each unconsolidated joint venture's respective operating agreement and related governing documents.

As of March 31, 2018, the Company had investments in five unconsolidated joint ventures as follows (in thousands, except number of properties):

Unconsolidated Joint Venture	Joint Venture Partner	Seritage % Ownership	# of Properties	Total GLA	Contribution Value (1)
GS Portfolio Holdings II LLC ("GGP I JV")	GGP Inc.	50.0 %	4	598	$ 37,570
GS Portfolio Holdings (2017) LLC	GGP Inc.	50.0 %	5	1,187	57,500

("GGP II JV")						
MS Portfolio LLC ("Macerich JV")	The Macerich Company	50.0	%	9	1,576	150,000
SPS Portfolio Holdings II LLC ("Simon JV")	Simon Property Group, Inc.	50.0	%	5	872	52,590
Mark 302 JV LLC ("Mark 302 JV")	Invesco Real Estate	50.1	%	1	97	45,000
				24	4,330	$ 342,660

(1) Represents the Company's share of property contribution value at the formation of each JV.

During the three months ended March 31, 2018, the Company contributed its property located in Santa Monica, CA to the Mark 302 JV and sold a 49.9% interest to an investment fund managed by Invesco Real Estate based on a contribution value of $90.0 million (the "Initial Contribution Value"). As a result of the transaction, the Company received cash of approximately $50.1 million and recorded a gain of $40.2 million (the "Initial Gain") which is included in gain on sale of real estate within the condensed consolidated statements of operations. The Initial Gain is comprised of $20.1 million attributable to the increase in fair value of the retained 50.1% interest due to application of the ASU 2017-05, while the remaining $20.1 million is the gain on sale of the remaining 49.9% interest.

The Mark 302 JV is subject to a revaluation upon the earlier of the first anniversary of project stabilization (as defined in the operating agreement of the Mark 302 JV) or December 31, 2020. Upon revaluation, the primary inputs in determining the Initial Contribution Value, which consist of property operating income and total project costs, will be updated for actual results and a value (the "Final Contribution Value") will be calculated to yield a pre-determined rate of return to the investment fund managed by Invesco Real Estate. The Final Contribution Value cannot be more than $105.0 million or less than $60.0 million and will result in a cash settlement between the two parties.

The Company recorded the Initial Gain based on the Initial Contribution Value because it determined it to be the most likely amount in the range of possible amounts. The Company made this determination based on its analysis of the primary inputs that determine both the Initial Contribution Value and Final Contribution Value, which consist of property operating income and total project costs. The gain on sale of real estate based on the Final Contribution Value (the "Final Gain") will not be more than $55.2 million or less than $10.2 million.

Each unconsolidated joint venture is obligated to maintain financial statements in accordance with GAAP. The Company shares in the profits and losses of these unconsolidated joint ventures generally in accordance with the Company's respective equity interests. In some instances, the Company may recognize profits and losses related to investment in an unconsolidated joint venture that differ from the Company's equity interest in the unconsolidated joint venture. This may arise from impairments that the Company recognizes related to its investment that differ from the impairments the unconsolidated joint venture recognizes with respect to its assets; differences between the Company's basis in assets it has transferred to the unconsolidated joint venture and the unconsolidated joint venture's basis in those assets; the Company's deferral of the unconsolidated joint venture's profits from land sales to the Company; or other items. There were no joint venture impairment charges for the three months ended March 31, 2018 or March 31, 2017.

The following tables present combined condensed financial data for the Company's unconsolidated joint ventures (in thousands):

	March 31, 2018	December 31, 2017
ASSETS		
Investment in real estate		
Land	$277,306	$191,853
Buildings and improvements	409,144	388,363
Accumulated depreciation	(53,731)	(48,306)
	632,719	531,910
Construction in progress	22,014	21,000
Net investment in real estate	654,733	552,910
Cash and cash equivalents	7,805	4,549
Tenant and other receivables, net	4,045	3,843
Other assets, net	40,976	45,605
Total assets	$707,559	$606,907
LIABILITIES AND MEMBERS INTERESTS		
Liabilities		
Mortgage loans payable, net	$124,056	$122,875
Accounts payable, accrued expenses and other liabilities	32,117	28,201
Total liabilities	156,173	151,076
Members Interest		
Additional paid in capital	579,134	473,098
Retained earnings	(27,748)	(17,267)
Total members interest	551,386	455,831
Total liabilities and members interest	$707,559	$606,907

	Three Months Ended March 31, 2018	2017
EQUITY IN INCOME OF UNCONSOLIDATED JOINT VENTURES		
Total revenue	$11,227	$16,344
Property operating expenses	(1,712)	(3,322)
Depreciation and amortization	(7,586)	(10,972)
Operating income	1,929	2,050
Other expenses	(7,094)	(46)
Net (loss) income	$(5,165)	$2,004
Equity in (loss) income of unconsolidated joint ventures	$(2,582)	$1,002

Note 5 – Leases

Master Lease

On July 7, 2015, subsidiaries of Seritage and subsidiaries of Sears Holdings entered into the Master Lease. The Master Lease generally is a triple net lease with respect to all space which is leased thereunder to Sears Holdings, subject to proportional sharing by Sears Holdings for repair and maintenance charges, real property taxes, insurance and other costs and expenses which are common to both the space leased by Sears Holdings and other space occupied by unrelated third-party tenants in the same or other buildings pursuant to third-party leases, space which is recaptured pursuant to the Company recapture rights described below and all other space which is constructed on the properties. Under the Master Lease, Sears Holdings and/or one or more of its subsidiaries will be required to make all expenditures reasonably necessary to maintain the premises in good appearance, repair and condition for as long as they are in occupancy.

The Master Lease has an initial term of 10 years and contains three options for five-year renewals of the term and a final option for a four-year renewal. As of March 31, 2018 and March 31, 2017, the annualized base rent paid directly by Sears Holdings and its subsidiaries under the Master Lease was approximately $89.8 million and $124.1 million, respectively. In each of the initial and first two renewal terms, annual base rent will be increased by 2.0% per annum for each lease year over the rent for the immediately preceding lease year. For subsequent renewal terms, rent will be set at the commencement of the renewal term at a fair market rent based on a customary third-party appraisal process, taking into account all the terms of the Master Lease and other relevant factors, but in no event will the renewal rent be less than the rent payable in the immediately preceding lease year.

Revenues from the Master Lease for the three months ended March 31, 2018 and March 31, 2017 are as follows (in thousands and excluding straight-line rental income of 0.5 million and $1.0 million for the three months ended March 31, 2018 and March 31, 2017, respectively:

	Three Months Ended March 31,	
	2018	2017
Rental income	$22,531	$31,651
Termination fee income	174	6,136
Tenant reimbursements	13,268	14,706
Total revenue	$35,973	$52,493

The Master Lease provides the Company with the right to recapture up to approximately 50% of the space occupied by Sears Holdings at each of the 224 wholly owned properties initially included in the Master Lease (subject to certain exceptions). While the Company is permitted to exercise its recapture rights all at once or in stages as to any particular property, it is not permitted to recapture all or substantially all of the space subject to the recapture right at more than 50 properties under Master Lease during any lease year. In addition, Seritage has the right to recapture any automotive care centers which are free-standing or attached as “appendages” to the properties, all outparcels or outlots and certain portions of the parking areas and common areas. Upon exercise of these recapture rights, the Company will generally incur certain costs and expenses for the separation of the recaptured space from the remaining Sears Holdings space as it reconfigures and rents the recaptured space to third-party tenants.

The Company also has the right to recapture 100% of the space occupied by Sears Holdings at each of 21 properties initially identified under the Master Lease by making a specified lease termination payment to Sears Holdings, after which the Company can reposition and re-lease those stores. The lease termination payment is calculated as the greater of an amount specified at the time the Company entered into the Master Lease with Sears Holdings and an amount equal to 10 times the adjusted EBITDA attributable to such space within the Sears Holdings main store which is not attributable to the space subject to the separate 50% recapture right discussed above for the 12-month period ending at the end of the fiscal quarter ending immediately prior to recapturing such space.

As of March 31, 2018, the Company had exercised recapture rights at 62 properties:

Property	Recapture Type	Notice Date(s)
Asheville, NC	100% (1)	March 2018
Chicago, IL	100% (1)	March 2018
Clearwater, FL	100% (1)	March 2018
El Cajon, CA	100% (1)	March 2018
Fairfield, CA	100% (1)	March 2018 / December 2017
Oklahoma City, OK	Out parcel	March 2018
Plantation, FL	100% (1)	March 2018 / December 2017
Redmond, WA	100% (1)	March 2018 / September 2017
Reno, NV	100% (1)	March 2018
Tucson, AZ	100% (1)	March 2018
Anchorage, AK	100%	December 2017
Boca Raton, FL	100%	December 2017
Westminster, CA	100%	December 2017
Hicksville, NY	100%	December 2017
Orland Park, IL	100% (1)	December 2017
Florissant, MO	Out parcel	December 2017
Salem, NH	Out parcel	December 2017
Las Vegas, NV	Partial	December 2017
Yorktown Heights	Partial	December 2017
Austin, TX	100% (1)	December 2017 / September 2017
Ft. Wayne, IN	Out parcel	September 2017 / July 2016
North Little Rock, AR	Auto Center	September 2017
St. Clair Shores, MI	100%	September 2017
Canton, OH	Partial	June 2017
Dayton, OH	Auto center	June 2017
North Riverside, IL	Partial	June 2017
Roseville, CA	Auto center	June 2017
Temecula, CA	Partial	June 2017
Watchung, NJ	100%	June 2017
Anderson, SC	100% (1)	April 2017 / July 2016
Aventura, FL	100%	April 2017
Carson, CA	100% (1)	April 2017 / December 2016
Charleston, SC	100% (1)	April 2017 / October 2016
Hialeah, FL	100% (1)	April 2017
San Diego, CA	100% (1)	April 2017
Valley View, TX	100%	April 2017
Cockeysville, MD	Partial	March 2017
North Miami, FL	100%	March 2017
Olean, NY	Partial	March 2017
Guaynabo, PR	Partial	December 2016
Santa Cruz, CA	Partial	December 2016
Santa Monica, CA (2)	100%	December 2016
Saugus, MA	Partial	December 2016
Roseville, MI	Partial	November 2016
Troy, MI	Partial	November 2016
Rehoboth Beach, DE	Partial	October 2016

St. Petersburg, FL	100%	October 2016
Warwick, RI	Auto center	October 2016
West Hartford, CT	100%	October 2016
Madison, WI	Partial	July 2016
North Hollywood, CA	Partial	July 2016
Orlando, FL	100%	July 2016
West Jordan, UT	Partial + auto center	July 2016
Albany, NY	Auto center	May 2016
Bowie, MD	Auto center	May 2016
Fairfax, VA	Partial + auto center	May 2016
Hagerstown, MD	Auto center	May 2016
Wayne, NJ (3)	Partial + auto center	May 2016
San Antonio, TX	Auto center	March 2016
Braintree, MA	100%	November 2015
Honolulu, HI	100%	December 2015
Memphis, TN	100%	December 2015

(1) The Company converted partial recapture rights at this property to 100% recapture rights and exercised such rights.

(2) In March 2018, the Company contributed this asset to the Mark 302 JV and retained a 50.1% interest in the joint venture.

(3) In July 2017, the Company contributed this asset to the GGP II JV and retained a 50.0% interest in the joint venture.

The Master Lease also provides for certain rights to Sears Holdings to terminate the Master Lease with respect to wholly owned properties that cease to be profitable for operation by Sears Holdings. In order to terminate the Master Lease with respect to a certain property, Sears Holdings must make a payment to the Company of an amount equal to one year of rent (together with taxes and other expenses) with respect to such property. Sears Holdings must provide notice of not less than 90 days of their intent to exercise such termination right and such termination right will be limited so that it will not have the effect of reducing the fixed rent under the Master Lease by more than 20% per annum.

As of March 31, 2018, Sears Holdings had terminated the Master Lease with respect to 56 stores totaling 7.4 million square feet of gross leasable area. The aggregate base rent at these stores at the time of termination was approximately $23.6 million. Sears Holdings continued to pay the Company rent until it vacated the stores and also paid aggregate termination fees of approximately $45.1 million, amounts equal to one year of aggregate annual base rent plus one year of estimated real estate taxes and operating expense.

Subsequent to March 31, 2018, Sears Holdings provided notice that it intended to exercise its rights to terminate the Master Lease with respect to nine additional stores totaling 1.5 million square feet of gross leasable area. The aggregate annual base rent at these stores is approximately $5.8 million, or 2.7% of the Company's total annual base rent as of March 31, 2018, including all signed leases. Sears Holdings will continue to pay Seritage rent until it vacates the stores which is expected to occur in August 2018. The termination fee is approximately $11.5 million, an amount equal to one year of the aggregate annual base rent, plus one year of estimated annual operating expenses.

As of March 31, 2018, the Company had announced redevelopment projects at 22 of the terminated properties and will continue to announce redevelopment activity as new leases are signed to occupy the space formerly occupied by Sears Holdings. During the three months ended March 31, 2018, the Company sold four of the terminated properties for a total of $13.5 million and recorded a gain of $2.1 million which is included in gain on sale of real estate within the condensed consolidated statements of operations.

Property	Square Feet	Notice	Termination	Announced Redevelopment
Alpena, MI	118,200	September 2016	January 2017	
Chicago, IL (S Kedzie)	118,800	September 2016	January 2017	
Cullman, AL	98,500	September 2016	January 2017	Q2 2017
Deming, NM	96,600	September 2016	January 2017	
Elkhart, IN	86,500	September 2016	January 2017	Q4 2016
Harlingen, TX	91,700	September 2016	January 2017	Sold
Houma, LA	96,700	September 2016	January 2017	Sold
Kearney, NE	86,500	September 2016	January 2017	Q3 2016
Manistee, MI	87,800	September 2016	January 2017	
Merrillville, IN	108,300	September 2016	January 2017	Q4 2016
New Iberia, LA	91,700	September 2016	January 2017	Q2 2017
Riverton, WY	94,800	September 2016	January 2017	
Sault Sainte Marie, MI	92,700	September 2016	January 2017	
Sierra Vista, AZ	86,100	September 2016	January 2017	Sold
Springfield, IL	84,200	September 2016	January 2017	Q3 2016
Thornton, CO	190,200	September 2016	January 2017	Q1 2017
Yakima, WA	97,300	September 2016	January 2017	Sold

Chapel Hill, OH	187,179	January 2017	April 2017	
Concord, NC	137,499	January 2017	April 2017	
Detroit Lakes, MN	79,102	January 2017	April 2017	
El Paso, TX	103,657	January 2017	April 2017	
Elkins, WV	94,885	January 2017	April 2017	
Henderson, NV	122,823	January 2017	April 2017	Q1 2017
Hopkinsville, KY	70,326	January 2017	April 2017	Q1 2018
Jefferson City, MO	92,016	January 2017	April 2017	Q2 2017
Kenton, OH	96,066	January 2017	April 2017	
Kissimmee, FL	112,505	January 2017	April 2017	
Layton, UT	90,010	January 2017	April 2017	
Leavenworth, KS	76,853	January 2017	April 2017	
Mount Pleasant, PA	83,536	January 2017	April 2017	
Muskogee, OK	87,500	January 2017	April 2017	
Owensboro, KY	68,334	January 2017	April 2017	
Paducah, KY	108,244	January 2017	April 2017	Q3 2017
Platteville, WI	94,841	January 2017	April 2017	
Riverside, CA	94,500	January 2017	April 2017	

Property	Square Feet	Notice	Termination	Announced Redevelopment
Sioux Falls, SD	72,511	January 2017	April 2017	
Albany, NY	216,200	June 2017	October 2017	Q1 2016
Burnsville, MN	161,700	June 2017	October 2017	
Chicago, IL (N Harlem)	293,700	June 2017	October 2017	
Cockeysville, MD	83,900	June 2017	October 2017	Q1 2017
East Northport, NY	187,000	June 2017	October 2017	Q2 2017
Friendswood, TX	166,000	June 2017	November 2017 (1)	
Greendale, WI	238,400	June 2017	October 2017	Q4 2017
Hagerstown, MD	107,300	June 2017	October 2017	Q1 2016
Johnson City, NY	155,100	June 2017	October 2017	
Lafayette, LA	194,900	June 2017	October 2017	
Mentor, OH	208,700	June 2017	October 2017	
Middleburg Heights, OH	351,600	June 2017	October 2017	
Olean, NY	75,100	June 2017	October 2017	Q1 2017
Overland Park, KS	215,000	June 2017	October 2017	
Roseville, MI	277,000	June 2017	October 2017	Q3 2016
Sarasota, FL	204,500	June 2017	October 2017	
Toledo, OH	209,900	June 2017	October 2017	
Warwick, RI	169,200	June 2017	October 2017	Q3 2016 / Q3 2017
Westwood, TX	215,000	June 2017	January 2018 (1)	
York, PA	82,000	June 2017	October 2017	
Cedar Rapids, IA	141,100	April 2018	August 2018	
Citrus Heights, CA	280,700	April 2018	August 2018	
Gainesville, FL	140,500	April 2018	August 2018	
Maplewood, MN	168,500	April 2018	August 2018	
Pensacola, FL	212,300	April 2018	August 2018	
Rochester, NY	128,500	April 2018	August 2018	
Roseville, CA	121,000	April 2018	August 2018	Q2 2017 / Q1 2018
San Antonio, TX	187,800	April 2018	August 2018	Q4 2015
Warrenton, NJ	113,900	April 2018	August 2018	Q1 2018
Total square feet	8,905,487			

(1) The Company and Sears Holdings agreed to extend occupancy beyond October 2017 under the existing Master Lease terms.

Note 6 – Debt

Mortgage Loans Payable

On July 7, 2015, pursuant to the Transaction, the Company entered into a mortgage loan agreement (the "Mortgage Loan Agreement") and mezzanine loan agreement (collectively, the "Loan Agreements"), providing for term loans in an initial principal amount of approximately $1,161 million (collectively, the "Mortgage Loans") and a $100 million future funding facility (the "Future Funding Facility"). Pursuant to the terms of the Loan Agreements, amounts available under the Future Funding Facility were fully drawn by the Company on June 30, 2017. Such amounts were deposited into a redevelopment reserve and will be used to fund redevelopment activity at the Company's properties.

During the three months ended March 31, 2018, the Company reduced mortgage loans payable by $73.0 million as a result of the sale of a 50% joint venture interest in The Mark 302 and the disposition of four other assets.

As of March 31, 2018, the aggregate principal amount outstanding under the Mortgage Loans and the Future Funding Facility was $1,137 million.

Interest under the Mortgage Loans is due and payable on the payment dates, and all outstanding principal amounts are due when the loan matures on the payment date in July 2019, pursuant to the Loan Agreements. The Company has two one-year extension options subject to the payment of an extension fee and satisfaction of certain other conditions. Borrowings under the Mortgage Loans bear interest at the London Interbank Offered Rates ("LIBOR") plus, as of March 31, 2018, a weighted-average spread of 478 basis points; payments are made monthly on an interest-only basis. The weighted-average interest rates for the Mortgage Loans and Future Funding Facility for the three months ended March 31, 2018 and March 31, 2017 were 6.40% and 5.54%, respectively.

The Mortgage Loans and Future Funding Facility are secured by all of the Company's Wholly Owned Properties and a pledge of its equity in the JVs. The Loan Agreements contain customary covenants for a real estate financing, including restrictions that limit the Company's ability to grant liens on its assets, incur additional indebtedness, or transfer or sell assets, as well as those that may require the Company to obtain lender approval for certain major tenant leases or significant redevelopment projects. Such restrictions also include cash flow sweep provisions based upon certain measures of the Company's and Sears Holdings' financial and operating performance, including (a) where the "Debt Yield" (the ratio of net operating income for the mortgage borrowers to their debt) is less than 11.0%, (b) if the performance of Sears Holdings at the stores subject to the Master Lease with Sears Holdings fails to meet specified rent ratio thresholds, (c) if the Company fails to meet specified tenant diversification tests and (d) upon the occurrence of a bankruptcy or insolvency action with respect to Sears Holdings or if there is a payment default under the Master Lease with Sears Holdings, in each case, subject to cure rights, including providing specified amounts of cash collateral or satisfying tenant diversification thresholds.

In November 2016, the Company and the servicer for its Mortgage Loans entered into amendments to the Loan Agreements to resolve a disagreement regarding one of the cash flow sweep provisions in the Loan Agreements. The principal terms of these amendments are that the Company (i) posted $30.0 million, and will post $3.3 million on a monthly basis, to a redevelopment project reserve account, which amounts may be used by the Company to fund redevelopment activity and (ii) extended the spread maintenance provision for prepayment of the loan by two months through March 9, 2018 (with the spread maintenance premium for the second month at a reduced amount). As a result of this agreement and the resolution of the related disagreement, no cash flow sweep was imposed.

All obligations under the Loan Agreements are non-recourse to the borrowers and the pledgors of the JV Interests and the guarantors thereunder, except that (i) the borrowers and the guarantors will be liable, on a joint and several basis, for losses incurred by the lenders in respect of certain matters customary for commercial real estate loans, including misappropriation of funds and certain environmental liabilities and (ii) the indebtedness under the Loan Agreements will be fully recourse to the borrowers and guarantors upon the occurrence of certain events customary for commercial real estate loans, including without limitation prohibited transfers, prohibited voluntary liens, and bankruptcy. Additionally the guarantors delivered a limited completion guaranty with respect to future redevelopments undertaken by the borrowers at the properties, and the Company must maintain (i) a net worth of not less than $1.0 billion and (ii) a minimum liquidity of not less than $50.0 million, throughout the term of the Loan Agreements.

The Company believes it is currently in compliance with all material terms and conditions of the Loan Agreements.

The Company incurred $22.3 million of debt issuance costs related to the Mortgage Loans and Future Funding Facility which are recorded as a direct deduction from the carrying amount of the Mortgage Loans and Future Funding Facility and amortized over the term of the Loan Agreements. As of March 31, 2018, the unamortized balance of the Company's debt issuance costs was $6.7 million as compared to $8.5 million as December 31, 2017.

Unsecured Term Loan

On February 23, 2017, the Operating Partnership, as borrower, and the Company, as guarantor, entered into a $200 million senior unsecured delayed draw term loan facility (the "Unsecured Delayed Draw Term Loan") with JPP, LLC and JPP II, LLC as lenders (collectively, the "Original Lenders") and JPP, LLC as administrative agent.

The total commitment of the Lenders under the Unsecured Delayed Draw Term Loan was $200 million and the maturity date was December 31, 2017.

The principal amount of loans outstanding under the Unsecured Delayed Draw Term Loan bore a base annual interest rate of 6.50%. If a cash flow sweep period were to have occurred and been continuing under the Company's Mortgage Loan Agreement (i) the interest rate on any outstanding advances would have increased from and after such date by

1.5% per annum above the base interest rate and (ii) the interest rate on any advances made after such date would have increased by 3.5% per annum above the base interest rate. Accrued and unpaid interest was payable in cash, except that during the continuance of a cash flow sweep period under the Company's Mortgage Loan Agreement, the Operating Partnership could elect to defer the payment of interest which deferred amount would be added to the outstanding principal balance of the loans.

On February 23, 2017, the Operating Partnership paid to the Original Lenders an upfront commitment fee equal to $1.0 million. On May 24, 2017, the Operating Partnership paid to the Original Lenders an additional, and final, commitment fee of $1.0 million.

The Unsecured Delayed Draw Term Loan required that the Company at all times maintain (i) a net worth of not less than $1.0 billion, and (ii) a leverage ratio not to exceed 60.0%.

The Unsecured Delayed Draw Term Loan included customary representations and warranties, covenants and indemnities. The Unsecured Delayed Draw Term Loan also had customary events of default, including (subject to certain materiality thresholds and grace periods) payment default, failure to comply with covenants, material inaccuracy of representation or warranty, and bankruptcy or insolvency proceedings. If there was an event of default, the Lenders could declare all or any portion of the outstanding indebtedness to be immediately due and payable, exercise any rights they might have under any of the Unsecured Delayed Draw Term Loan documents, and require the Operating Partnership to pay a default interest rate on overdue amounts equal to 1.50% in excess of the applicable base interest rate.

Mr. Edward S. Lampert, the Company's Chairman, is the Chairman and Chief Executive Officer of ESL, which controls JPP, LLC and JPP II, LLC. The terms of the Unsecured Delayed Draw Term Loan were approved by the Company's Audit Committee and the Company's Board of Trustees (with Mr. Edward S. Lampert recusing himself).

On December 27, 2017, the Operating Partnership, as borrower, and the Company, as guarantor, refinanced the Unsecured Delayed Draw Term Loan with a new $200 million unsecured term loan facility (the "Unsecured Term Loan"). The principal amount outstanding under the Unsecured Delayed Draw Term Loan at termination was $85 million. No prepayment penalties were triggered and the Unsecured Delayed Draw Term Loan terminated in accordance with its terms.

The lenders under the Unsecured Delayed Draw Term Loan, JPP, LLC and JPP II, LLC, maintained their funding of $85 million in the Unsecured Term Loan, with JPP, LLC appointed as administrative agent under the Unsecured Term Loan. An affiliate of Empyrean Capital Partners, L.P., a Delaware limited partnership (and together with JPP, LLC and JPP II LLC, each an "Initial Lender" and collectively, the "Initial Lenders"), funded $60 million under the Unsecured Term Loan, resulting in a total of $145 million committed and funded under the Unsecured Term Loan at closing. Under an accordion feature, the Company has the right to increase the total commitments up to $200 million and place an additional $55 million of incremental loans with the Initial Lenders or new lenders. The Initial Lenders under the Unsecured Term Loan are not obligated to make all or any portion of the incremental loans.

The Company used the proceeds of the Unsecured Term Loan, among other things, to refinance the Unsecured Delayed Draw Term Loan, to fund redevelopment projects and for other general corporate purposes. Loans under the Unsecured Term Loan are guaranteed by the Company.

The Unsecured Term Loan matures on the earlier of (i) December 31, 2018 and (ii) the date on which the outstanding indebtedness under the Company's existing mortgage and mezzanine facilities are repaid in full. The Unsecured Term Loan may be prepaid at any time in whole or in part, without any penalty or premium. Amounts drawn under the Unsecured Term Loan and repaid may not be redrawn.

The principal amount of loans outstanding under the Unsecured Term Loan bears a base annual interest rate of 6.75%. Accrued and unpaid interest is payable in cash.

On December 27, 2017, the Borrower paid to each Initial Lender an upfront fee in an aggregate amount equal to 1.00% of the principal amount of the loan made by such Initial Lender.

The Unsecured Term Loan requires that the Company at all times maintain (i) a net worth of not less than $1.0 billion, and (ii) a leverage ratio not to exceed 60.0%.

The Unsecured Term Loan includes customary representations and warranties, covenants and indemnities. The Unsecured Term Loan also has customary events of default, including (subject to certain materiality thresholds and grace periods) payment default, failure to comply with covenants, material inaccuracy of representations or warranties, and bankruptcy or insolvency proceedings. If there is an event of default, the lenders may declare all or any portion of the outstanding indebtedness to be immediately due and payable, exercise any rights they might have under any of the Unsecured Term Loan documents, and require the Borrower to pay a default interest rate on overdue amounts equal to 1.50% in excess of the then applicable interest rate.

The Company believes it is currently in compliance with all material terms and conditions of the Unsecured Term Loan.

The Company incurred $1.8 million of debt issuance costs related to the Unsecured Term Loan which are recorded as a direct deduction from the carrying amount of the Unsecured Term Loan and amortized over the term of the loan. As of March 31, 2018, the unamortized balance of the Company’s debt issuance costs was $1.4 million as compared to $1.5 million as December 31, 2017.

Mr. Edward S. Lampert, the Company’s Chairman, is the sole stockholder, chief executive officer and director of ESL Investments, Inc. (“ESL”), which controls JPP, LLC and JPP II, LLC. The terms of the Unsecured Term Loan were approved by the Company’s Audit Committee and the Company’s Board of Trustees (with Mr. Edward S. Lampert recusing himself).

Note 7 – Income Taxes

The Company has elected to be taxed as a REIT as defined under Section 856(c) of the Code for federal income tax purposes and expects to continue to operate to qualify as a REIT. To qualify as a REIT, the Company must meet a number of organizational and operational requirements, including a requirement to currently distribute at least 90% of its adjusted REIT taxable income to its shareholders.

As a REIT, the Company generally will not be subject to federal income tax on taxable income that is distributed to its shareholders. If the Company fails to qualify as a REIT or does not distribute 100% of its taxable income in any taxable year, it will be subject to federal taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years.

Even if the Company qualifies for taxation as a REIT, the Company is subject to certain state, local and Puerto Rico taxes on its income and property, and to federal income and excise taxes on its undistributed taxable income.

On December 22, 2017, H.R. 1, known as the Tax Cuts and Jobs Act (the “TCJA”) was signed into law and included wide-scale changes to individual, pass-through and corporation tax laws, including those that impact the real estate industry, the ownership of real estate and real estate investments, and REITs. We have reviewed the provisions of the law that pertain to the Company and have determined them to have no material income tax effect for financial statement purposes.

Note 8 – Fair Value Measurements

ASC 820, Fair Value Measurement, defines fair value and establishes a framework for measuring fair value. The objective of fair value is to determine the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (the “exit price”). ASC 820 establishes a fair value hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three levels:

Level 1 - quoted prices (unadjusted) in active markets that are accessible at the measurement date for assets or liabilities

Level 2 - observable prices based on inputs not quoted in active markets, but corroborated by market data

Level 3 - unobservable inputs used when little or no market data is available

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In determining fair value, the Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible. The Company also considers counterparty credit risk in its assessment of fair value.

Financial Assets and Liabilities Measured at Fair Value on a Recurring or Non-Recurring Basis

All derivative instruments are carried at fair value and are valued using Level 2 input. The Company’s derivative instruments as of March 31, 2018 and December 31, 2017 consisted of a single interest rate cap. The Company utilizes an independent third party and interest rate market pricing models to assist management in determining the fair value of this instrument.

The fair value of the Company's interest rate cap at March 31, 2018 and December 31, 2017 was $0.2 million and less than $0.1 million, respectively, and is included as a component of prepaid expenses, deferred expenses and other assets on the condensed consolidated balance sheets.

The Company has elected not to utilize hedge accounting, and therefore, the change in fair value is included within change in fair value of interest rate cap on the condensed consolidated statements of operations. For the three months ended March 31, 2018, the Company recorded a gain of $0.2 million compared to a loss of $0.5 million for the three months ended March 31, 2017.

Financial Assets and Liabilities not Measured at Fair Value

Financial assets and liabilities that are not measured at fair value on the condensed consolidated balance sheets include cash equivalents and debt obligations. The fair value of cash equivalents is classified as Level 1 and the fair value of debt obligations is classified as Level 2.

Cash equivalents are carried at cost, which approximates fair value. The fair value of debt obligations is calculated by discounting the future contractual cash flows of these instruments using current risk-adjusted rates available to borrowers with similar credit ratings. As of March 31, 2018 and December 31, 2017, the estimated fair values of the Company's debt obligations were $1.28 billion and $1.36 billion, respectively, which approximated the carrying value at such dates as the current risk-adjusted rate approximates the stated rates on the Company's debt obligations.

Note 9 – Commitments and Contingencies

Insurance

The Company maintains general liability insurance and all-risk property and rental value, with sub-limits for certain perils such as floods and earthquakes on each of the Company's properties. The Company also maintains coverage for terrorism acts as defined by Terrorism Risk Insurance Program Reauthorization Act, which expires in December 2020.

Insurance premiums are charged directly to each of the retail properties. The Company or its tenants may be responsible for deductibles and losses in excess of insurance coverage, which losses could be material, subject to the terms of the respective tenant leases. The Company continues to monitor the state of the insurance market and the scope and costs of coverage for acts of terrorism. However, the Company cannot anticipate what coverage will be available on commercially reasonable terms in the future.

Environmental Matters

Under various federal, state and local laws, ordinances and regulations, the Company may be considered an owner or operator of real property or may have arranged for the disposal or treatment of hazardous or toxic substances. As a result, the Company may be liable for certain costs, including removal, remediation, government fines, and injuries to persons and property. The Company does not believe that any resulting liability from such matters will have a material effect on the condensed consolidated financial position, results of operations, or liquidity of the Company. Under the Master Lease, Sears Holdings has indemnified the Company from certain environmental liabilities at the Wholly Owned Properties existing before, or caused by Sears Holdings during, the period in which each Wholly Owned Property is leased to Sears Holdings, including removal and remediation of all affected facilities and equipment constituting the automotive care center facilities (and each JV Master Lease includes a similar requirement of Sears Holdings). As of March 31, 2018 and December 31, 2017, the Company had approximately $10.6 million and $10.8 million, respectively, of restricted cash in a lender reserve account to fund potential environmental costs that were identified during due diligence related to the Transaction.

Litigation and Other Matters

In accordance with accounting standards regarding loss contingencies, the Company accrues an undiscounted liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated, and the Company discloses the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued or disclose the fact that such a range of loss cannot be estimated. The Company does not record liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated, or when the liability is believed to be only reasonably possible or remote. In such cases, the Company discloses the nature of the contingency, and an estimate of the possible loss, range of loss, or disclose the fact that an estimate cannot be made.

The Company is subject, from time to time, to various legal proceedings and claims that arise in the ordinary course of business. While the resolution of such matters cannot be predicted with certainty, management believes, based on currently available information, that the final outcome of such matters will not have a material effect on the condensed consolidated financial position, results of operations, cash flows or liquidity of the Company.

Note 10 – Related Party Disclosure

Edward S. Lampert

Edward S. Lampert is Chairman and Chief Executive Officer of Sears Holdings and is the Chairman and Chief Executive Officer of ESL. Mr. Lampert beneficially owned approximately 73.3 % of Sears Holdings' outstanding common stock at March 31, 2018 (per Schedule 13D filed March 23, 2018). Mr. Lampert is also the Chairman of Seritage.

As of March 31, 2018, Mr. Lampert beneficially owned a 36.2% interest in the Operating Partnership and approximately 2.7% and 100% of the outstanding Class A common shares and Class B non-economic common shares, respectively.

Subsidiaries of Sears Holdings, as lessees, and subsidiaries of the Company, as lessors, are parties to the Master Lease (see Note 5).

Unsecured Term Loan

On December 27, 2017, the Operating Partnership, as borrower, and the Company, as guarantor, entered into a $200.0 million senior unsecured term loan facility with JPP, LLC, JPP II, LLC and an affiliate of Empyrean Capital Partners, L.P. as lenders, and JPP, LLC as administrative agent.

Edward S. Lampert, the Company's Chairman, is the Chairman and Chief Executive Officer of ESL, which controls JPP, LLC and JPP II, LLC. The terms of the unsecured delayed draw term loan facility were approved by the Company's Audit Committee and the Company's Board of Trustees (with Mr. Edward S. Lampert recusing himself).

Note 11 – Non-Controlling Interests

Partnership Agreement

On July 7, 2015, Seritage and ESL entered into the agreement of limited partnership of the Operating Partnership (the "Partnership Agreement"). Pursuant to the Partnership Agreement, as the sole general partner of the Operating Partnership, Seritage exercises exclusive and complete responsibility and discretion in its day-to-day management, authority to make decisions, and control of the Operating Partnership, and may not be removed as general partner by the limited partners.

As of March 31, 2018, the Company held a 63.8% interest in the Operating Partnership and ESL held a 36.2% interest. The portions of consolidated entities not owned by the Company are presented as non-controlling interest as of and during the periods presented.

Note 12 – Shareholders' Equity

Class A Common Shares

During the three months ended March 31, 2018, 2,779,121 net Class C non-voting common shares were converted to Class A common shares.

As of March 31, 2018, 35,208,666 Class A common shares were issued and outstanding.

Subsequent to March 31, 2018, 51,592 net Class C non-voting common shares were converted to Class A common shares.

Class B Non-Economic Common Shares

As of March 31, 2017, 1,328,866 Class B non-economic common shares were issued and outstanding. The Class B non-economic common shares have voting rights, but do not have economic rights and, as such, do not receive dividends and are not included in earnings per share computations.

Class C Non-Voting Common Shares

During the three months ended March 31, 2018, 2,779,121 net Class C non-voting common shares were converted to Class A common shares.

As of March 31, 2018, 372,010 Class C non-voting common shares were issued and outstanding. The Class C non-voting common shares have economic rights, but do not have voting rights. Upon any transfer of a Class C non-voting common share to any person other than an affiliate of the holder of such share, such share shall automatically convert into one Class A common share.

Subsequent to March 31, 2018, 51,592 net Class C non-voting common shares were converted to Class A common shares.

Series A Preferred Shares

In December 2017, the Company issued 2,800,000 7.00% Series A Cumulative Redeemable Preferred Shares (the “Series A Preferred Shares”) in a public offering at $25.00 per share. The Company received net proceeds from the offering of approximately $66.7 million, after deducting payment of the underwriting discount and offering expenses, which it used the proceeds to fund its redevelopment pipeline and for general corporate purposes.

We may not redeem the Series A Preferred Shares before December 14, 2022 except to preserve our status as a REIT or upon the occurrence of a Change of Control, as defined in the Trust Agreement addendum designating the Series A Preferred Shares. On and after December 14, 2022, we may redeem any or all of the Series A Preferred Shares at $25.00 per share plus any accrued and unpaid dividends. In addition, upon the occurrence of a Change of Control, we may redeem any or all of the Series A Preferred Shares for cash within 120 days after the first date on which such Change of Control occurred at $25.00 per share plus any accrued and unpaid dividends. The Series A Preferred Shares have no stated maturity, are not subject to any sinking fund or mandatory redemption and will remain outstanding indefinitely unless we redeem or otherwise repurchase them or they are converted.

Dividends and Distributions

The Company's Board of Trustees declared the following common stock dividends during 2018 and 2017, with holders of Operating Partnership units entitled to an equal distribution per Operating Partnership unit held on the record date:

Declaration Date	Record Date	Payment Date	Dividends per Class A and Class C Common Share
2018			
April 24	June 29	July 12	$ 0.25
February 20	March 30	April 12	0.25
2017			
October 24	December 29	January 11, 2018	$ 0.25
July 25	September 29	October 12	0.25
April 25	June 30	July 13	0.25
February 28	March 31	April 13	0.25

The Company's Board of Trustees declared the following preferred stock dividends during 2018:

Declaration Date	Record Date	Payment Date	Series A Preferred Share
2018			
April 24	June 29	July 16	$0.43750
February 20	March 30	April 16	0.43750
February 20 (1)	March 30	April 16	0.15556

(1) This dividend covers the period from, and including, December 14, 2017 to December 31, 2017.

Note 13 – Earnings per Share

The table below provides a reconciliation of net income (loss) and the number of common shares used in the computations of “basic” earnings per share (“EPS”), which utilizes the weighted-average number of common shares outstanding without regard to dilutive potential common shares, and “diluted” EPS, which includes all such shares. Potentially dilutive securities consist of shares of non-vested restricted stock and the redeemable non-controlling interests in the Operating Partnership.

All outstanding non-vested shares that contain non-forfeitable rights to dividends are considered participating securities and are included in computing EPS pursuant to the two-class method which specifies that all outstanding non-vested share-based payment awards that contain non-forfeitable rights to distributions are considered participating securities and should be included in the computation of EPS.

Earnings per share has not been presented for Class B shareholders, as they do not have economic rights.

(in thousands except per share amounts)	Three Months Ended March 31, 2018	2017
Numerator		
Net income (loss)	$16,201	$(32,844)
Net (income) loss attributable to non-controlling interests	(5,873)	13,006
Preferred dividends	(1,228)	—
Net income (loss) attributable to common shareholders	$9,100	$(19,838)
Earnings allocated to unvested participating securities	(22)	—
Net income (loss) available to common shareholders - Basic and diluted	$9,078	$(19,838)
Denominator		
Weighted average Class A common shares outstanding	33,673	27,748
Weighted average Class C common shares outstanding	1,741	5,762
Weighted average Class A and Class C common shares outstanding - Basic	35,414	33,510
Restricted shares and share units	87	—
Weighted average Class A and Class C common shares outstanding - Diluted	35,501	33,510

No adjustments were made to the numerator for the three months ended March 31, 2017 because the Company generated a net loss. During periods of net loss, undistributed losses are not allocated to the participating securities as they are not required to absorb losses.

No adjustments were made to the denominator for the three months ended March 31, 2017 because (i) the inclusion of outstanding non-vested restricted shares would have had an anti-dilutive effect and (ii) including the non-controlling interest in the Operating Partnership would also require that the share of the Operating Partnership loss attributable to such interests be added back to net loss, therefore, resulting in no effect on earnings per share.

As of March 31, 2018 and December 31, 2017, there were 312,951 and 245,570 shares, respectively, of non-vested restricted shares and share units outstanding.

Note 14 – Stock Based Compensation

On July 7, 2015, the Company adopted the Seritage Growth Properties 2015 Share Plan (the “Plan”). The number of shares of common stock reserved for issuance under the Plan is 3,250,000. The Plan provides for grants of restricted shares, share units, other share-based awards, options, and share appreciation rights, each as defined in the Plan (collectively, the "Awards"). Directors, officers, other employees, and consultants of the Company and its subsidiaries and affiliates are eligible for Awards.

Restricted Shares and Share Units

Pursuant to the Plan, the Company has periodically made grants of restricted shares or share units. The vesting terms of these grants are specific to the individual grant and vary in that a portion of the restricted shares and share units vest in equal annual amounts over the subsequent three years (time-based vesting) and a portion of the restricted shares and share units vest on the third anniversary of the grants subject to the achievement of certain performance criteria (performance-based vesting).

In general, participating employees are required to remain employed for vesting to occur (subject to certain limited exceptions). Restricted shares and share units that do not vest are forfeited. Dividends on restricted shares and share units with time-based vesting are paid to holders of such shares and share units and are not returnable, even if the underlying shares or share units do not ultimately vest. Dividends on restricted shares and share units with performance-based vesting are accrued when declared and paid to holders of such shares on the third anniversary of the initial grant subject to the vesting of the underlying shares.

The following table summarizes restricted share activity for the three months ended March 31, 2018:

	Three Months Ended March 31, 2018	
	Shares	Weighted-Average Grant Date Fair Value
Unvested restricted shares at beginning of period	245,570	$ 41.33
Restricted shares granted	81,595	36.17
Restricted shares vested	(14,214)	47.08
Unvested restricted shares at end of period	312,951	$ 39.73

The Company recognized $0.9 million and $0.4 million in compensation expense related to the restricted shares for the three months ended March 31, 2018 and March 31, 2017. Such expenses are included in general and administrative expenses on the Company's condensed consolidated statements of operations. As of March 31, 2018, there were approximately $6.8 million of total unrecognized compensation costs related to the outstanding restricted shares.

Note 15 – Accounts Payable, Accrued Expenses and Other Liabilities

The following table summarizes the significant components of accounts payable, accrued expenses and other liabilities as of March 31, 2018 and December 31, 2017 (in thousands):

	March 31, 2018	December 31, 2017
Accrued development expenditures	$19,964	$21,449
Dividends payable	15,910	14,559
Accrued real estate taxes	14,920	17,091
Below-market leases	13,945	14,476
Environmental reserve	10,846	11,322
Unearned tenant reimbursements	6,335	10,522
Accounts payable and accrued expenses	5,648	9,588
Prepaid rental income	5,127	4,156
Accrued interest	3,787	3,689
Deferred maintenance	2,581	2,581
Total accounts payable, accrued expenses and other liabilities	$99,063	$109,433

Note 16 – Subsequent Events

Subsequent to the three months ended March 31, 2018, the Company:

- Entered into an agreement with a residential developer to pursue a multi-family development on 2.5 acres of the 15-acre former Sears site owned by Seritage at Overlake Plaza in Redmond, WA. The agreement values the 2.5-acre parcel at $16.0 million.
- Entered into an agreement with the adjacent mall owner to pursue a multi-family development on 4.5 acres of the 10-acre Sears site owned by Seritage at NewPark Mall in Newark, CA. The agreement values the 4.5-acre parcel at $20.0 million.
- Entered into an agreement to sell the Sears store and parcel at Tanforan Mall in San Bruno, CA to the adjacent mall owner for gross consideration of $42.0 million.

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

Certain statements contained herein constitute forward-looking statements as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements are not guarantees of future performance. They represent our intentions, plans, expectations and beliefs and are subject to numerous assumptions, risks and uncertainties. Our future results, financial condition and business may differ materially from those expressed in these forward-looking statements. You can find many of these statements by looking for words such as "approximates," "believes," "expects," "anticipates," "estimates," "inte "plans," "projects," "will," "would," "may" or other similar expressions in this Quarterly Report on Form 10-Q. Many of the factors that will determine the outcome of these and our other forward-looking statements are beyond our ability to control or predict. For further discussion of factors that could materially affect the outcome of our forward-looking statements, see "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2017. 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. 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. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances occurring after the date of this Quarterly Report on Form 10-Q. The following discussion should be read in conjunction with the condensed consolidated financial statements and notes thereto included in Part 1 of this Quarterly Report.

Overview

Seritage Growth Properties (NYSE: SRG), a Maryland real estate investment trust formed on June 3, 2015, is a fully integrated, self-administered and self-managed real estate investment trust ("REIT") as defined under Section 856(c) of the Internal Revenue Code (the "Code"). Seritage's assets are held by and its operations are primarily conducted through, directly or indirectly, the Operating Partnership. Under the partnership agreement of the Operating Partnership, Seritage, as the sole general partner, has exclusive responsibility and discretion in the management and control of the Operating Partnership. Unless otherwise expressly stated or the context otherwise requires, the "Company", "we," "us," and "our" as used herein refer to Seritage, the Operating Partnership, and its owned and controlled subsidiaries.

We are principally engaged in the acquisition, ownership, development, redevelopment, management, and leasing of diversified retail real estate throughout the United States. As of March 31, 2018, our portfolio included approximately 39.0 million square feet of gross leasable area ("GLA"), consisting of 225 Wholly Owned Properties totaling 34.6 million square feet of GLA across 49 states and Puerto Rico, and interests in 24 JV Properties totaling approximately 4.3 million square feet of GLA across 13 states.

As of March 31, 2018, we leased space at 145 Wholly Owned Properties to Sears Holdings under the Master Lease, including 81 properties leased only to Sears Holdings and 64 properties leased to both Sears Holdings and one or more third-party tenants. The remaining 80 Wholly Owned Properties include 54 properties that are leased solely to third-party tenants and do not have any space leased to Sears Holdings, and 26 vacant properties. As of March 31, 2018, space at 22 JV Properties is also leased to Sears Holdings under the JV Master Leases. Sears Holdings is the sole tenant at nine JV Properties and 13 JV properties are leased to both Sears Holdings and one or more third-party tenants. One JV Property is leased solely third-party tenants and one JV Property was vacant as of March 31, 2018.

We generate revenues primarily by leasing our properties to tenants, including both Sears Holdings and third-party tenants, who operate retail stores (and potentially other uses) in the leased premises, a business model common to many publicly traded REITs. In addition to revenues generated under the Master Lease through rent payments from Sears Holdings, we generate revenue through leases to third-party tenants under existing and future leases for space at our properties.

The Master Lease provides us with the right to recapture up to approximately 50% of the space occupied by Sears Holdings at each of the 224 Wholly Owned Properties initially included in the Master Lease (subject to certain exceptions and limitations). In addition, Seritage has the right to recapture any automotive care centers which are free-standing or attached as “appendages” to the properties, and all outparcels or outlots and certain portions of parking areas and common areas. Upon exercise of this recapture right, we will generally incur certain costs and expenses for the separation of the recaptured space from the remaining Sears Holdings space and can reconfigure and rent the recaptured space to third-party tenants on potentially superior terms determined by us and for our own account. We also have the right to recapture 100% of the space occupied by Sears Holdings at each of 21 identified Wholly Owned Properties by making a specified lease termination payment to Sears Holdings, after which we expect to be able to reposition and re-lease those stores on potentially superior terms determined by us and for our own account.

As of March 31, 2018, we had exercised recapture rights at 62 properties, including 18 properties at which we exercised partial recapture rights, 32 properties at which we exercised 100% recapture rights (16 of which were converted from partial recapture properties), and 14 properties at which we exercised our rights to recapture only automotive care centers or outparcels.

Critical Accounting Policies

A summary of our critical accounting policies is included in our Annual Report on Form 10-K for the year ended December 31, 2017 in Management's Discussion and Analysis of Financial Condition and Results of Operations. For the three months ended March 31, 2018, there were no material changes to these policies, other than the adoption of the Accounting Standards Codification Topic 606, Revenue from Contracts with Customers and revised Sub-topic 610-20 Other Income – Gains and Losses From the Derecognition of Nonfinancial Assets, described in Note 2 to the unaudited consolidated financial statements in Part I, Item I of this Quarterly Report on Form 10-Q.

Results of Operations

We derive substantially all of our revenue from rents received from tenants under existing leases at each of our properties. This revenue generally includes fixed base rents and recoveries of expenses that we have incurred and that we pass through to the individual tenants, in each case as provided in the respective leases.

Our primary cash expenses consist of our property operating expenses, general and administrative expenses, interest expense, and construction and development related costs. Property operating expenses include: real estate taxes, repairs and maintenance, management expenses, insurance, ground lease costs and utilities; general and administrative expenses include payroll, office expenses, professional fees, and other administrative expenses; and interest expense is primarily on our mortgage loans payable. In addition, we incur substantial non-cash charges for depreciation and amortization on our properties and related intangible assets and liabilities resulting from the Transaction.

We did not have any revenues or expenses until we completed the Transaction on July 7, 2015.

Rental Income

For the three months ended March 31, 2018, the Company recognized total rental income of $37.1 million as compared to $49.2 million for the three months ended March 31, 2017. The $12.1 million decrease was driven primarily by (i) reduced rental income under the Master Lease of $9.1 million and (ii) lower termination fee income of $6.0 million, offset by (i) increased third-party rental income of $2.0 million and increased straight-line rent of $1.0 million.

Rental income attributable to Sears Holdings was $22.5 million (excluding straight-line rental income of $0.5 million and termination fee income of $0.2 million), or 65.8% of total rental income earned in the period. For the prior year period, the comparable rental income attributable to Sears Holdings was $31.7 million, or approximately 76.6% of total rental income earned in the period.

Rental income attributable to third-party tenants was $11.7 million (excluding straight-line rental income of $1.9 million), or 34.2% of total rental income earned in the period. For the prior year period, the comparable rental income attributable to third-party tenants was $9.7 million, or approximately 23.4% of total rental income earned in the period.

Straight-line rent was $2.5 million as compared to $1.5 million for the prior year period. The prior year period was lower primarily due to the amortization of accrued rental revenues related to the straight-line method of reporting that were deemed uncollectable as result of recapture and termination activity under the Master Lease.

On an annual basis, and taking into account all signed leases, including those which have not yet commenced rental payments, rental income attributable to third-party tenants would have represented approximately 54.3% of total annual base rental income as of March 31, 2018.

The increase in rental income attributable to third-party tenants, and the reduction in rental income attributable directly to Sears Holdings, are driven by the Company's leasing and redevelopment activity, including signing leases with new, third-party tenants and recapturing space from Sears Holdings.

Tenant Reimbursements and Property Operating Expenses

Pursuant to the provisions of the Master Lease and many third-party leases, the Company is entitled to be reimbursed for certain property related expenses. For the three months ended March 31, 2018, the Company recorded tenant reimbursement income of $16.7 million compared to property operating and real estate tax expenses totaling $18.6 million, an expense recovery rate of 89.7%. For the three months ended March 31, 2017, the Company recorded tenant reimbursement income of $16.2 million compared to property operating and real estate tax expenses totaling $17.2 million, an expense recovery rate of 94.5%.

The $1.4 million increase in property operating and real estate taxes was primarily due to an increase in utility and certain common area maintenance expenses related to properties for which Sears Holdings paid such expenses directly during the prior year period, but for which the Company now incurs the expenses, a portion of which is reimbursed by other tenants.

The 480 bps reduction in expense recovery rate was primarily due to an increase in the amount of unleased space, including unleased space for which the Company was previously recording tenant reimbursement income as a result of termination payments under the Master Lease.

Depreciation and Amortization Expenses

Depreciation and amortization expenses consist of depreciation of real property, depreciation of furniture, fixtures and equipment, and amortization of certain lease intangible assets.

For the three months ended March 31, 2018, the Company incurred depreciation and amortization expenses of $34.7 million as compared to depreciation and amortization expenses of $58.7 million in the prior year period. The decrease of $24.0 million was due primarily to (i) a reduction of $18.1 million in accelerated amortization attributable to certain lease intangible assets and (ii) approximately $9.3 million of lower scheduled amortization resulting from an increase in fully-amortized lease intangibles, offset by $3.2 million of accelerated depreciation attributable to certain buildings that were demolished for redevelopment.

Accelerated amortization results from the recapture of space from, or the termination of space by, Sears Holdings. Such recaptures and terminations are deemed lease modifications and require related lease intangibles to be amortized over the shorter of the shortened lease term or the remaining useful life of the asset.

General and Administrative Expenses

General and administrative expenses consist of personnel costs, including stock-based compensation, professional fees, office expenses and overhead expenses.

For the three months ended March 31, 2018, the Company incurred general and administrative expenses of $7.8 million compared to general and administrative expenses of $6.3 million for the prior year period. The $1.5 million increase was driven primarily by (i) increased personnel costs related to 2017 annual incentive compensation and (ii) the write-off of certain transaction-related expenses; the Company does not expect to incur either expense for the remainder of 2018.

Gain on Sale of Real Estate

In March 2018, the Company contributed its property located in Santa Monica, CA to the Mark 302 JV and sold a 49.9% interest to an investment fund managed by Invesco Real Estate based on an Initial Contribution Value of $90.0 million. As a result of the transaction, the Company recorded an Initial Gain of $40.2 million which is included in gain on sale of real estate within the condensed consolidated statements of operations.

The Mark 302 JV is subject to a revaluation upon the earlier of the first anniversary of project stabilization (as defined in the operating agreement of the Mark 302 JV) or December 31, 2020. Upon revaluation, the primary inputs in determining the Initial Contribution Value, which consist of property operating income and total project costs, will be updated for actual results and a Final Contribution Value will be calculated to yield a pre-determined rate of return to the investment fund managed by Invesco Real Estate. The Final Contribution Value cannot be more than $105.0 million or less than $60.0 million and will result in a cash settlement between the two parties.

The Company recorded the Initial Gain based on the Initial Contribution Value because it determined it to be the most likely amount in the range of possible amounts. The Company made this determination based on its analysis of the primary inputs that determine both the Initial Contribution Value and Final Contribution Value, which consist of property operating income and total project costs. The Final Gain will not be more than $61.1 million or less than $16.1 million.

In March 2018, the Company also sold four former Kmart stores located in Harlingen, TX, Houma, LA, Sierra Vista, AZ and Yakima, WA for $13.5 million and recorded a gain of $2.1 million which is included in gain on the sale of real estate within the condensed consolidated statements of operations.

Interest Expense

For the three months ended March 31, 2018, the Company incurred $16.4 million of interest expense (net of amounts capitalized) as compared to interest expense of $16.6 million for the prior year period. The change in interest expense was driven by higher average borrowings and higher average LIBOR rates, offset by an increase in amounts capitalized as a result of a greater amount of construction in process.

Unrealized Loss on Interest Rate Cap

For the three months ended March 31, 2018, the Company recorded a gain of $0.2 million compared to a loss of $0.5 million in the prior year period.

Liquidity and Capital Resources

Property rental income is our primary source of cash and is dependent on a number of factors, including occupancy levels and rental rates, as well as our tenants' ability to pay rent. Our primary uses of cash include payment of operating expenses, debt service, reinvestment in and redevelopment of properties, and distributions to shareholders and unitholders. We believe that we currently have sufficient liquidity to fund such uses in the form of, as of March 31, 2018, (i) $135.1 million of unrestricted cash, (ii) $177.4 million of restricted cash, (iii) anticipated cash provided by operations and (iv) $55.0 million of permitted, but uncommitted, borrowing capacity under our Unsecured Term Loan. We may also raise additional capital through the public or private issuance of debt securities, common or preferred equity or other instruments convertible into or exchangeable for common or preferred equity, as well as through asset sales or joint ventures.

In November 2016, the Company and the servicer for our Mortgage Loans entered into amendments to our Loan Agreements to resolve a disagreement regarding one of the cash flow sweep provisions in our Loan Agreements. The principal terms of these amendments are that the Company has (i) posted $30.0 million, and will post $3.3 million on a monthly basis, to a redevelopment project reserve account, which amounts may be used by the Company to fund redevelopment activity and (ii) extended the spread maintenance provision for prepayment of the loan by two months through March 9, 2018 (with the spread maintenance premium for the second month at a reduced amount).

Summary of Cash Flows

Net cash provided by operating activities was $7.7 million for the three months ended March 31, 2018 compared to $34.3 million for the three months ended March 31, 2017. Significant changes in the components of net cash provided by operating activities include:

- In 2018, a decrease in operating cash inflows due to net reductions in rental income under the Master Lease and an increase in unleased properties, offset by additional third-party rental income; and
- In 2017 an increase in operating cash inflows due to termination fee income.

Net cash used by investing activities was $25.1 million for the three months ended March 31, 2018 compared $25.2 million for the three months ended March 31, 2017. Significant components of net cash used in investing activities include:

- In 2018, net proceeds from the sale of real estate, $60.4 million;
- In 2018, development of real estate and property improvements, ($86.0) million;
- In 2017, development of real estate and property improvements, ($22.8) million; and
- In 2017, investments in unconsolidated joint ventures, ($5.9) million.

Net cash used by financing activities was $87.3 million for the three months ended March 31, 2018 compared to $8.4 million for the three months ended March 31, 2017. Significant components of net cash used in financings activities include:

− In 2018, repayment of mortgage loan payables, ($73.0) million;
− In 2018, cash distributions to common stockholders and holders of Operating Partnership units, ($13.9) million;
− In 2017, proceeds from the Future Funding Facility, $7.0 million; and
− In 2017, cash distributions to common stockholders and holders of Operating Partnership units, ($13.9) million.

Dividends and Distributions

The Company's Board of Trustees declared the following common stock dividends during 2018 and 2017, with holders of Operating Partnership units entitled to an equal distribution per Operating Partnership unit held on the record date:

Declaration Date	Record Date	Payment Date	Dividends per Class A and Class C Common Share
2018			
April 24	June 29	July 12	$ 0.25
February 20	March 30	April 12	0.25
2017			
October 24	December 29	January 11, 2018	$ 0.25
July 25	September 29	October 12	0.25
April 25	June 30	July 13	0.25
February 28	March 31	April 13	0.25

The Company's Board of Trustees declared the following preferred stock dividends during 2018:

Declaration Date	Record Date	Payment Date	Series A Preferred Share
2018			
April 24	June 29	July 16	$0.43750
February 20	March 30	April 16	0.43750
February 20 (1)	March 30	April 16	0.15556

(1) This dividend covers the period from, and including, December 14, 2017 to December 31, 2017.

Litigation and Other Matters

In accordance with accounting standards regarding loss contingencies, the Company accrues an undiscounted liability for those contingencies where the incurrence of a loss is probable and the amount can be reasonably estimated, and the Company discloses the amount accrued and the amount of a reasonably possible loss in excess of the amount accrued or disclose the fact that such a range of loss cannot be estimated. The Company does not record liabilities when the likelihood that the liability has been incurred is probable but the amount cannot be reasonably estimated, or when the liability is believed to be only reasonably possible or remote. In such cases, the Company discloses the nature of the contingency, and an estimate of the possible loss, range of loss, or disclose the fact that an estimate cannot be made.

The Company is subject, from time to time, to various legal proceedings and claims that arise in the ordinary course of business. While the resolution of such matters cannot be predicted with certainty, management believes, based on currently available information, that the final outcome of such matters will not have a material effect on the condensed consolidated financial position, results of operations, cash flows or liquidity of the Company.

Off-Balance Sheet Arrangements

The Company accounts for its investments in joint ventures that it does not have a controlling interest or is not the primary beneficiary using the equity method of accounting and those investments are reflected on the condensed consolidated balance sheets of the Company as investments in unconsolidated joint ventures. As of March 31, 2018 and December 31, 2017, we did not have any off-balance sheet financing arrangements.

Retenanting and Redevelopment Projects

We are currently retenanting or redeveloping several properties primarily to convert single-tenant buildings occupied by Sears Holdings into multi-tenant properties occupied by a diversity of retailers and related concepts. The table below provides a brief description of each of the 68 new redevelopment projects originated on the Seritage platform as of March 31, 2018. These projects represent an estimated total investment of $1.2 billion, of which approximately $895 million remained to be spent.

Total Project Costs under $10 Million

Property	Description	Total Project Square Feet	Estimated Construction Start	Estimated Substantial Completion
King of Prussia, PA	Repurpose former auto center space for Outback Steakhouse, Yard House and small shop retail	29,100	Complete	
Merrillville, IN	Termination property; redevelop existing store for At Home, Powerhouse Gym and small shop retail	132,000	Complete	
Elkhart, IN	Termination property; existing store has been released to Big R Stores	86,500	Complete	
San Antonio, TX	Recapture and repurpose auto center space for Orvis, Jared's Jeweler, Shake Shack and small shop retail	18,900	Complete	
Bowie, MD	Recapture and repurpose auto center space for BJ's Brewhouse	8,200	Complete	
Troy, MI	Partial recapture; redevelop existing store for At Home	100,000	Complete	
Roseville, MI	Partial recapture; redevelop existing store for At Home	100,400	Complete	

Rehoboth Beach, DE	Partial recapture; redevelop existing store for Christmas Tree Shops andThat! and PetSmart	56,700	Complete
Henderson, NV	Termination property; redevelop existing store for At Home, Seafood City and additional retail	144,400	Complete
Cullman, AL	Termination property; redevelop existing store for Bargain Hunt, Tractor Supply and Planet Fitness	99,000	Complete
Albany, NY	Recapture and repurpose auto center space for BJ's Brewhouse, Ethan Allen and additional small shop retail	28,000	Substantially complete
Hagerstown, MD	Recapture and repurpose auto center space for BJ's Brewhouse, Verizon and additional restaurants	15,400	Substantially complete
Jefferson City, MO	Termination property; redevelop existing store for Orscheln Farm and Home	96,000	Delivered to tenant
Kearney, NE	Termination property; redevelop	92,500	Delivered to tenants

	existing store for Marshall's, PetSmart and additional junior anchors			
Ft. Wayne, IN	Site densification; new outparcels for BJ's Brewhouse (substantially complete) and Chick-Fil-A (project expansion)	12,000	Delivered to tenant	
Olean, NY	Partial recapture; redevelop existing store for Marshall's and additional retail	45,000	Underway	Q2 2018
Guaynabo, PR	Partial recapture; redevelop existing store for Planet Fitness and Capri	56,100	Underway	Q3 2018
Florissant, MO	Site densification; new outparcel for Chick-Fil-A	5,000	Underway	Q3 2018
Dayton, OH	Recapture and repurpose auto center space for Outback Steakhouse and additional restaurants	14,100	Underway	Q4 2018
New Iberia, LA	Termination property; redevelop existing store for Rouses Supermarkets, Hobby Lobby and small shop retail	93,100	Underway	Q1 2019
North Little Rock, AR		17,300	Q2 2018	Q2 2019

	Recapture and repurpose auto center space for LongHorn Steakhouse and additional small shop retail			
St. Clair Shores, MI	100% recapture; demolish existing store and develop site for new Kroger store	107,200	Q2 2018	Q2 2019
Hopkinsville, KY	Termination property; redevelop existing store for Bargain Hunt, additional junior anchors and small shop retail	87,900	Q2 2018	Q2 2019
Oklahoma City, OK	Site densification; new fitness center for Vasa Fitness	59,500	Q3 2018	Q3 2019

Total Project Costs $10 - $20 Million

Property	Description	Total Project Square Feet	Estimated Construction Start	Estimated Substantial Completion
Braintree, MA	100% recapture; redevelop existing store for Nordstrom Rack, Saks OFF 5th and additional retail	90,000	Complete	
Honolulu, HI	100% recapture; redevelop existing store for Longs Drugs (CVS), PetSmart and Ross Dress for Less	79,000	Complete	
Anderson, SC	100% recapture (project expansion); redevelop existing store for Burlington Stores, Gold's Gym, Sportsman's Warehouse, additional retail and restaurants	111,300	Complete	
West Jordan, UT	Partial recapture; redevelop existing store and attached auto center for Burlington Stores and additional retail	81,400	Substantially complete	
Madison, WI	Partial recapture; redevelop existing store for Dave &	75,300	Substantially complete	

	Busters, Total Wine & More, additional retail and restaurants			
Thornton, CO	Termination property; redevelop existing store for Vasa Fitness and additional junior anchors	191,600	Delivered to tenant	
Springfield, IL	Termination property; redevelop existing store for Burlington Stores, Binny's Beverage Depot, Orangetheory Fitness, Outback Steakhouse, CoreLife Eatery, additional junior anchors and small shop retail	133,400	Underway	Q2 2018
Orlando, FL	100% recapture; demolish and construct new buildings for Floor & Décor, Orchard Supply Hardware, LongHorn Steakhouse, Olive Garden, additional small shop retail and restaurants	139,200	Underway	Q2 2018
Cockeysville, MD		83,500	Underway	Q2 2018

	Partial recapture; redevelop existing store for HomeGoods, Michael's Stores, additional junior anchors and restaurants			
Charleston, SC	100% recapture (project expansion); redevelop existing store and detached auto center for Burlington Stores and additional retail	126,700	Underway	Q3 2018
North Hollywood, CA	Partial recapture; redevelop existing store for Burlington Stores, Ross Dress for Less and additional junior anchors	79,800	Underway	Q3 2018
Salem, NH	Site densification; new theatre for Cinemark Recapture and repurpose auto center for restaurant space	71,200	Underway	Q3 2018
Paducah, KY	Termination property; redevelop existing store for Burlington Stores and additional retail	102,300	Underway	Q3 2018

Fairfax, VA	Partial recapture; redevelop existing store and attached auto center for Dave & Busters, Seasons 52, additional junior anchors and restaurants	110,300	Underway	Q4 2018
North Miami, FL	100% recapture; redevelop existing store for Burlington Stores, Michael's, PetSmart and Ross Dress for Less	124,300	Underway	Q4 2018
Hialeah, FL	100% recapture; redevelop existing store for Bed, Bath & Beyond, Ross Dress for Less and dd's Discounts to join current tenant, Aldi	88,400	Underway	Q4 2018
Warwick, RI	Termination property; repurpose auto center space for BJ's Brewhouse and additional retail Redevelop existing store for At Home and Raymour & Flanigan (project expansion)	190,700	Underway	Q4 2018
Temecula, CA		65,100	Underway	Q4 2018

	Partial recapture; redevelop existing store and detached auto center for Round One, small shop retail and restaurants			
Canton, OH	Partial recapture; redevelop existing store for Dave & Busters and restaurants	83,900	Underway	Q2 2019
North Riverside, IL	Partial recapture; redevelop existing store and detached auto center for Round One, additional junior anchors, small shop retail and restaurants	103,900	Underway	Q2 2019
Las Vegas, NV	Partial recapture; redevelop existing store for Round One and additional retail	78,800	Q3 2018	Q3 2019
Yorktown Heights, NY	Partial recapture; redevelop existing store for 24 Hour Fitness and additional retail	85,200	Q3 2018	Q4 2019
Santa Cruz, CA	Partial recapture; redevelop existing store for TJ Maxx,	62,200	Q4 2018	Q4 2019

	HomeGoods and additional junior anchors			
Warrenton, VA	Termination property; redevelop existing store for Homegoods and additional retail	97,300	Q1 2019	Q3 2019
Saugus, MA	Partial recapture; redevelop existing store and detached auto center NOTE: project which has been temporarily postponed while the Company identifies a new lead tenant	99,000	To be determined	

Total Project Costs over $20 Million

Property	Description	Total Project Square Feet	Estimated Construction Start	Estimated Substantial Completion
Memphis, TN	100% recapture; demolish and construct new buildings for LA Fitness, Nordstrom Rack, Ulta Beauty, Hopdoddy Burger Bar, additional junior anchors, restaurants and small shop retail	135,200	Substantially complete	
West Hartford, CT	100% recapture; redevelop existing store and detached auto center for Buy Buy Baby, Cost Plus World Market, REI, Saks OFF Fifth, other junior anchors, Shake Shack and additional small shop retail	147,600	Delivered to tenants	
St. Petersburg, FL	100% recapture; demolish and construct new buildings for Dick's Sporting Goods, Lucky's Market, PetSmart, Five Below, Chili's	142,400	Delivered to tenants	

	Grill & Bar, Pollo Tropical, LongHorn Steakhouse and additional small shop retail and restaurants			
Wayne, NJ	Partial recapture; redevelop existing store for Dave & Busters, additional junior anchors and restaurants Recapture and repurpose detached auto center for Cinemark (project expansion) NOTE: contributed to GGP II JV in July 2017	156,700	Underway	Q3 2018
Carson, CA	100% recapture (project expansion); redevelop existing store for Burlington Stores, Ross Dress for Less and additional retail	163,800	Underway	Q1 2019
Watchung, NJ	100% recapture; demolish full-line store and construct new buildings for HomeSense, Sierra Trading Post, Ulta	126,700	Underway	Q2 2019

	Beauty and additional small shop retail and restaurants Demolish detached auto center and construct a freestanding Cinemark theater			
Santa Monica, CA	100% recapture; redevelop existing building into premier, mixed-use asset featuring unique, small-shop retail and creative office space NOTE: contributed to The Mark 302 JV in March 2018	96,500	Underway	Q4 2019
Aventura, FL	100% recapture; demolish existing store and construct new, multi-level open air retail destination featuring a leading collection of experiential shopping, dining and entertainment concepts alongside a treelined	216,600	Underway	Q4 2019

	esplanade and activated plazas			
San Diego, CA	100% recapture; redevelop existing store into two highly-visible, multi-level buildings with exterior facing retail representing a premier mix of experiential shopping, dining, and entertainment concepts	206,000	Underway	Q4 2019
Roseville, CA	Termination property; repurpose auto center space for AAA Auto Repair Center Redevelop existing store for Cinemark, Round One and restaurants (project expansion)	147,400	Underway	Q2 2020
Austin, TX	100% recapture (project expansion); redevelop existing store for AMC Theatres, additional junior anchors and restaurants	177,400	Q2 2018	Q3 2019
Greendale, WI	Termination property; redevelop existing store and attached auto center for	223,800	Q2 2018	Q4 2019

	Dick's Sporting Goods, Round One, additional junior anchors and restaurants			
Anchorage, AK	100% recapture; redevelop existing store for Guitar Center, Safeway, Planet Fitness and additional retail to join current tenant, Nordstrom Rack	142,500	Q2 2018	Q4 2019
East Northport, NY	Termination property; redevelop existing store and attached auto center for AMC Theatres, 24 Hour Fitness, Floor & Decor and small shop retail	179,700	Q2 2018	Q4 2019
El Cajon, CA	100% recapture; redevelop existing store and auto center for Bob's Discount Furniture, Burlington Stores, additional retail and restaurants	242,700	Q3 2018	Q3 2019
Tucson, AZ	100% recapture; redevelop existing store and auto center for Round One	224,300	Q3 2018	Q4 2019

	and additional retail			
Reno, NV	100% recapture; redevelop existing store and auto center for Round One and additional retail	169,800	Q3 2018	Q4 2019
Fairfield, CA	100% recapture (project expansion); redevelop existing store and auto center for Dave & Busters, additional retail and office	146,500	Q3 2018	Q1 2020
Plantation, FL	100% recapture (project expansion); redevelop existing store and auto center for GameTime, Powerhouse Gym, additional retail and restaurants	184,400	Q4 2018	Q1 2020

Non-GAAP Supplemental Financial Measures and Definitions

The Company makes reference to NOI, Total NOI, FFO, Company FFO, EBITDA and Adjusted EBITDA which are considered non-GAAP measures.

Net Operating Income ("NOI") and Total NOI

We define NOI as income from property operations less property operating expenses. Other REITs may use different methodologies for calculating NOI, and accordingly, the Company's depiction of NOI may not be comparable to other REITs. We believe NOI provides useful information regarding the Company, its financial condition, and results of operations because it reflects only those income and expense items that are incurred at the property level.

The Company also uses Total NOI, which includes its proportional share of unconsolidated properties. We believe this form of presentation offers insights into the financial performance and condition of the Company as a whole given our ownership of unconsolidated properties that are accounted for under GAAP using the equity method. We also consider Total NOI to be a helpful supplemental measure of our operating performance because it excludes from NOI variable items such as termination fee income, as well as non-cash items such as straight-line rent and amortization of lease intangibles.

Due to the adjustments noted, NOI and Total NOI should only be used as an alternative measure of the Company's financial performance.

Earnings before Interest Expense, Income Tax, Depreciation, and Amortization for Real Estate ("EBITDAre") and Company EBITDA

We define EBITDAre using the definition set forth by the National Association of Real Estate Investment Trusts ("NAREIT"), which may not be comparable to measures calculated by other companies who do not use the NAREIT definition of EBITDAre. EBITDAre is calculated as net income computed in accordance with GAAP, excluding interest expense, income tax expense, depreciation and amortization, gains (or losses) from property sales and impairment charges on depreciable real estate assets. We believe EBITDAre provides useful information to investors regarding our results of operations because it removes the impact of our capital structure (primarily interest expense) and our asset base (primarily depreciation and amortization). Management also believes the use of EBITDAre facilitates comparisons between us and other equity REITs and real property owners that are not REITs.

The Company makes certain adjustments to EBITDAre, which it refers to as Company EBITDA, to account for certain non-cash and non-comparable items, such as termination fee income, unrealized loss on interest rate cap, litigation charges, acquisition-related expenses and certain up-front-hiring and personnel costs that it does not believe are representative of ongoing operating results.

Due to the adjustments noted, EBITDAre and Company EBITDA should only be used as an alternative measure of the Company's financial performance

Funds from Operations ("FFO") and Company FFO

We define FFO using the definition set forth by NAREIT, which may not be comparable to measures calculated by other companies who do not use the NAREIT definition of FFO. FFO is calculated as net income computed in accordance with GAAP, excluding gains (or losses) from property sales, real estate related depreciation and amortization, and impairment charges on depreciable real estate assets.

We consider FFO a helpful supplemental measure of the operating performance for equity REITs and a complement to GAAP measures because it is a recognized measure of performance by the real estate industry. FFO facilitates an understanding of the operating performance of our properties between periods because it does not give effect to real estate depreciation and amortization which are calculated to allocate the cost of a property over its useful life. Since values for well-maintained real estate assets have historically increased or decreased based upon prevailing market conditions, the Company believes that FFO provides investors with a clearer view of the Company's operating performance.

The Company makes certain adjustments to FFO, which it refers to as Company FFO, to account for certain non-cash and non-comparable items, such as termination fee income, unrealized loss on interest rate cap, litigations charges, acquisition-related expenses, amortization of deferred financing costs and up-front-hiring and personnel costs, that it does not believe are representative of ongoing operating results. The Company previously referred to this metric as Normalized FFO; the definition and calculation remain the same.

Due to the adjustments noted, FFO and Company FFO should only be used as an alternative measure of the Company's financial performance.

Reconciliation of Non-GAAP Financial Measures to GAAP Financial Measures

None of NOI, Total NOI, EBITDAre, Adjusted EBITDAre, FFO and Company FFO are measures that (i) represent cash flow from operations as defined by GAAP; (ii) are indicative of cash available to fund all cash flow needs, including the ability to make distributions; (iii) are alternatives to cash flow as a measure of liquidity; or (iv) should be considered alternatives to net income (which is determined in accordance with GAAP) for purposes of evaluating the Company's operating performance. Reconciliations of these measures to the respective GAAP measures we deem most comparable are presented below on a comparative basis for all periods.

The following table reconciles NOI and Total NOI to GAAP net income (loss) for the three months ended March 31, 2018 and March 31, 2017 (in thousands):

	Three Months Ended March 31,	
NOI and Total NOI	2018	2017
Net income (loss)	$16,201	$(32,844)
Termination fee income	(174)	(6,136)
Depreciation and amortization	34,667	58,663
General and administrative expenses	7,797	6,274
Equity in loss (income) of unconsolidated joint ventures	2,582	(1,002)
Gain on sale of real estate	(41,831)	—
Interest and other income	(680)	(78)
Interest expense	16,419	16,592
Unrealized (gain) loss on interest rate cap	(165)	471
Provision for income taxes	104	119
NOI	$34,920	$42,059
NOI of unconsolidated joint ventures	4,758	6,511
Straight-line rent adjustment (1)	(2,568)	(1,449)
Above/below market rental income/expense (1)	(231)	(231)
Total NOI	$36,879	$46,890

(1) Includes adjustments for unconsolidated joint ventures.

The following table reconciles EBITDAre and Adjusted EBITDAre to GAAP net income (loss) for the three months ended March 31, 2018 and March 31, 2017 (in thousands):

	Three Months Ended March 31,	
EBITDAre and Company EBITDA	2018	2017
Net income (loss)	$16,201	$(32,844)
Interest expense	16,419	16,592
Provision for income and other taxes	104	119
Depreciation and amortization	34,667	58,663
Depreciation and amortization (unconsolidated	3,793	5,486

joint ventures)		
Gain on sale of real estate	(41,831)	—
EBITDAre	$29,353	$48,016
Termination fee income	(174)	(6,136)
Unrealized (gain) loss on interest rate cap	(165)	471
Company EBITDA	$29,014	$42,351

The following table reconciles FFO and Company FFO to GAAP net income (loss) for the three months ended March 31, 2018 and March 31, 2017 (in thousands):

FFO and Company FFO	Three Months Ended March 31, 2018	2017
Net income (loss)	$16,201	$(32,844)
Real estate depreciation and amortization (consolidated properties)	34,113	58,404
Real estate depreciation and amortization (unconsolidated joint ventures)	3,793	5,486
Gain on sale of real estate	(41,831)	—
Dividends on preferred shares	(1,228)	—
FFO attributable to common shareholders and unitholders	$11,048	$31,046
Termination fee income	(174)	(6,136)
Unrealized (gain) loss on interest rate cap	(165)	471
Amortization of deferred financing costs	1,720	1,582
Company FFO attributable to common shareholders and unitholders	$12,429	$26,963
FFO per diluted common share and unit	$0.20	$0.56
Company FFO per diluted common share and unit	$0.22	$0.48
Weighted Average Common Shares and Units Outstanding		
Weighted average common shares outstanding	35,501	33,510
Weighted average OP units outstanding	20,218	22,086
Weighted average common shares and units outstanding	55,719	55,596

Item 3. Quantitative and Qualitative Disclosure about Market Risk

Except as discussed below, there were no material changes in the Quantitative and Qualitative Disclosures about Market Risk set forth in our 2017 Annual Report on Form 10-K.

Interest Rate Fluctuations

As of March 31, 2018, we had $1.28 billion of consolidated debt, including $1.14 billion outstanding under our variable-rate Mortgage Loans and Future Funding Facility. The interest rate on the loans is the 30-day LIBOR rate plus, as of March 31, 2018, a weighted average spread of 478 basis points. We have purchased a LIBOR interest rate cap that has a LIBOR strike rate of 3.5% and a term of four years. We are subject to market risk with respect to changes in the LIBOR rate. An immediate 100 basis point change in interest rates would have affected annual pretax funding costs by approximately $11.4 million.

Fair Value of Debt

As of March 31, 2018, the estimated fair value of our consolidated debt was $1.28 billion. The estimated fair value of our consolidated debt is calculated based on current market prices and discounted cash flows at the current rate at which similar loans would be made to borrowers with similar credit ratings for the remaining term of such debt.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures.

Under the supervision and with the participation of our management, including the Chief Executive Officer and the Chief Financial Officer, we conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of the end of the period covered by this report. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures were effective as of such date.

Changes in Internal Controls.

There were no changes in our internal control over financial reporting that occurred during the period ended March 31, 2018 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The information required by this Item is incorporated by reference to Note 9 of the condensed consolidated financial statements included herein.

Item 1A. Risk Factors

Information regarding risk factors appears in our 2017 Annual Report on Form 10-K in Part I, Item 1A. Risk Factors. Other than as noted, there have been no material changes from the risk factors previously disclosed in our 2017 Annual Report on Form 10-K.

Cybersecurity incidents could cause a disruption to our operations, a compromise of confidential information and damage to our business relationships, all of which could negatively impact our business, financial condition and operating results.

Seritage is susceptible to cybersecurity risks that include, among other things, theft, unauthorized monitoring, release, misuse, loss, destruction or corruption of confidential and highly restricted data; denial of service attacks; unauthorized access to relevant systems, compromises to networks or devices; or operational disruption or failures in the physical infrastructure or operating systems of Seritage’s information systems. Seritage’s information systems are essential to the operation of our business and our ability to perform day-to-day operations, including for the secure processing, storage and transmission of confidential and personal information. Seritage must continuously monitor and develop its systems to protect its technology infrastructure and data from misappropriation, corruption and disruption. Cybersecurity risks may also impact properties in which we invest on behalf of clients and tenants of those properties, which could result in a loss of value in our clients’ investment. In addition, due to Seritage’s interconnectivity with third-party service providers and other entities with which Seritage conducts business, Seritage could be adversely impacted if any of them is subject to a successful cyber incident. Although we and our service providers have implemented processes, procedures and controls to help mitigate these risks, there can be no assurance that these measures will be effective or that security breaches or disruptions will not occur. The result of these incidents may include disrupted operations, liability for loss or misappropriation of data, stolen assets or information, increased cybersecurity protection and insurance costs, increased compliance costs, litigation, regulatory enforcement actions and damage to our reputation or business relationships.

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

Exhibit No.	Description	SEC Document Reference
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	Filed herewith.
32.1	Certification of the Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350	Filed herewith.
32.2	Certification of the Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350	Filed herewith.
101.INS	XBRL Instance Document	Filed herewith.
101.SCH	XBRL Taxonomy Extension	Filed herewith.

	Schema Document	
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	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.

	SERITAGE GROWTH PROPERTIES
Dated: May 4, 2018	/s/ Benjamin Schall By: Benjamin Schall President and Chief Executive Officer
Dated: May 4, 2018	/s/ Brian Dickman By: Brian Dickman Executive Vice President and Chief Financial Officer