NATIONWIDE HEALTH PROPERTIES INC
Form 424B5
September 22, 2006
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Registration File No. 333-127366

Prospectus supplement

To prospectus dated August 25, 2005

5,000,000 Shares of Common Stock

This prospectus supplement relates to the issuance and sale of up to 5,000,000 shares of our common stock from time to time through our sales agent, Cantor Fitzgerald & Co. These sales, if any, will be made pursuant to the terms of a sales agreement between us and the sales agent.

Our common stock trades on the New York Stock Exchange (NYSE) under the symbol NHP. Sales of shares of our common stock under this prospectus supplement, if any, may be made in privately negotiated transactions and/or any other method permitted by law, including sales deemed to be an at the market offering as defined in Rule 415 under the Securities Act of 1933, as amended, which includes sales made directly on the NYSE, the existing trading market for our common stock, or sales made to or through a market maker other than on an exchange. The sales agent will make all sales on a best efforts basis using commercially reasonable efforts consistent with its normal trading and sales practices, on mutually agreed terms between the sales agent and us. On September 21, 2006, the last reported sales price of our common stock on the NYSE was $26.31 per share.

The compensation to the sales agent for sales of common stock sold pursuant to the sales agreement will be up to 2.25% of the gross proceeds of the sales price per share of common stock sold. The net proceeds from any sales under this prospectus supplement will be used as described under Use of Proceeds in this prospectus supplement.

In connection with the sale of common stock on our behalf, the sales agent may be deemed to be an underwriter within the meaning of the Securities Act of 1933, as amended, and the compensation of the sales agent may be deemed to be underwriting commissions or discounts. We have agreed to provide indemnification and contribution to the sales agent against certain liabilities, including liabilities under the Securities Act of 1933, as amended.

You should carefully read and consider the Risk Factors beginning on page S-1 of this prospectus supplement and on page 5 of the accompanying prospectus.

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

Cantor Fitzgerald & Co.

The date of this prospectus supplement is September 22, 2006.

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

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

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Prospectus supplement

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The Company

Nationwide Health Properties, Inc., a Maryland corporation, is a real estate investment trust (REIT) specializing in investments in healthcare related senior housing and long-term care properties. Whenever we refer herein to NHP, the Company or to us or use the terms we or our, w referring to Nationwide Health Properties, Inc. and its subsidiaries, unless the context otherwise requires.

We primarily make our investments by acquiring an ownership interest in facilities and leasing them to unaffiliated tenants under triple-net master leases that pass all facility operating costs (maintenance, repairs, property taxes, utilities, insurance, capital expenditures, etc.) through to the tenant. In addition, but to a much lesser extent because we view the risks of this activity to be greater, from time to time we extend mortgage loans and other financing to tenants. For the six months ended June 30, 2006, approximately 97% of our revenues were derived from our leases, with the remaining 3% from our mortgage loans and other financing activities.

We believe we have operated in such a manner as to qualify for taxation as a REIT under Sections 856 through 860 of the Internal Revenue Code of 1986, as amended. We intend to continue to qualify as such and therefore to distribute at least 90% of our REIT taxable income (computed without regard to the dividends paid deduction and excluding net capital gain) to our stockholders. If we qualify for taxation as a REIT, and we distribute 100% of such REIT taxable income to our stockholders, we will generally not be subject to U.S. federal income taxes on our income that is distributed to stockholders. This treatment substantially eliminates the double taxation (i.e., at the corporate and stockholder levels) that generally results from investing in the stock of a corporation.

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

Use of Proceeds

We will use the net proceeds from this offering for general corporate purposes, including the acquisition of healthcare facilities, funding of mortgage loans secured by healthcare facilities and the repayment of debt. Pending such investments, we will place the net proceeds in interest-bearing bank accounts or in readily marketable, interest-bearing securities.

Risk Factors

An investment in our common stock involves various risks, including those described below pertaining to the common stock, those described in the accompanying prospectus beginning on page 5, and those described in our Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2006 and June 30, 2006, which are incorporated by reference in the accompanying prospectus, that address the general risks associated with our business. You should carefully consider such risk factors, together with the other information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus, before acquiring shares of our common stock.

Market volatility may adversely affect the market price of our common stock.

As with other publicly traded securities, the trading price of our common stock depends on several factors, many of which are beyond our control, including:

- general market and economic conditions;
- prevailing interest rates;
- the market for similar securities issued by REITs;
- our credit rating; and

our financial condition and results of operations.

Our charter and bylaws and the laws of the state of our incorporation contain provisions that may delay, defer or prevent a change in control or other transactions that could provide the holders of our common stock with the opportunity to realize a premium over the then-prevailing market price for our common stock.

In order to protect us against the risk of losing our REIT status for U.S. federal income tax purposes, our charter subjects the ownership by any single person of more than 9.9% of the issued and outstanding shares of our voting stock to our right to redeem shares acquired or held in excess of such ownership limit. In addition, any transfer of our shares, options, warrants or other securities convertible into voting shares that would create a beneficial owner of more than 9.9% of the outstanding shares of our stock shall be deemed null and void. The ownership limit may have the effect of delaying, deferring or preventing a change in control of our company and could adversely affect our stockholders ability to realize a premium over the market price for the shares of our common stock. Our board of directors has increased the ownership limit to 20% with respect to one of our stockholders. Based on shareholder reporting services, that stockholder beneficially owned 9,299,983 of our shares, or approximately 11.6% of our common stock, as of June 30, 2006.

Our charter authorizes us to issue additional shares of common stock and one or more series of preferred stock and to establish the preferences, rights and other terms of any series of preferred stock that we issue. Although our board of directors has no intention to do so at the present time, it could establish a series of preferred stock that could delay, defer or prevent a transaction or a change in control that might involve the payment of a premium over the market price for our common stock or otherwise be in the best interests of our stockholders.

In addition, the laws of the state of our incorporation and the following provisions of our charter may delay, defer or prevent a transaction that may be in the best interests of our stockholders:

- in certain circumstances, a proposed consolidation, merger, share exchange or transfer must be approved by two-thirds of the votes of our preferred stockholders entitled to be cast on the matter;

- business combinations must be approved by 90% of the outstanding shares unless the transaction receives a unanimous vote or consent of our board of directors or is a combination solely with a wholly owned subsidiary; and

- the classification of our board of directors into three groups, with each group of directors being elected for successive three-year terms, may delay any attempt to replace our board.

As a Maryland corporation, we are subject to provisions of the Maryland Business Combination Act (MBCA) and the Maryland Control Share Acquisition Act (MCSA). The MBCA may prohibit certain future acquirors of 10% or more of our stock (entitled to vote generally in the election of directors) and their affiliates from engaging in business combinations with us for a period of five years after such acquisition, and then only upon recommendation by the board of directors with (1) a stockholder vote of 80% of the votes entitled to be cast (including two-thirds of the stock not held by the acquiror and its affiliates) or (2) if certain stringent fair price tests are met. The MCSA may cause acquirers of stock at levels in excess of 10%, 33% or 50% of the voting power of our stock to lose the voting rights of such stock unless voting rights are restored by stockholder vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding votes of stock held by the acquiring stockholder and our officers and employee directors.

Holders of our outstanding preferred stock have liquidation and other rights that are senior to the rights of the holders of our common stock.

Our board of directors has the authority to designate and issue preferred stock that may have dividend, liquidation and other rights that are senior to those of our common stock. As of June 30, 2006, 900,485 shares of our Series A cumulative preferred step-up REIT securities and 1,064,500 shares of our Series B cumulative convertible preferred stock were outstanding. Holders of our preferred stock are entitled to cumulative dividends before any dividends may be declared or set aside on our common stock, subject to limited exceptions. Upon our voluntary or involuntary liquidation, dissolution or winding up, before any payment is made to holders of our common stock, holders of our preferred stock are entitled to receive a liquidation preference of $100 per share, plus any accrued and unpaid distributions. This will reduce the remaining amount of our assets, if any, available to distribute to holders of our common stock. In addition, holders of our preferred stock have the right to elect two additional directors to our board of directors if six quarterly preferred dividends are in arrears.

A decision by any of our significant stockholders to sell substantial amounts of our common stock could depress our stock price.

Based on filings with the SEC and shareholder reporting services, as of June 30, 2006, four of our stockholders owned more than 5% of our common stock, for a total of approximately 29.5% of our common stock. A decision by any of these stockholders to sell a substantial amount of our common stock could depress the trading price of our common stock.

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Certain U.S. Federal Income Tax Considerations

The following summary of material U.S. federal income tax considerations is based upon the provisions of the Internal Revenue Code of 1986, as amended (the Code), the final and temporary Treasury Regulations promulgated thereunder and administrative rulings and judicial decisions now in effect, all of which are subject to change (possibly with retroactive effect) or different interpretations. This summary does not purport to deal with all aspects of U.S. federal income taxation that may be relevant to an investor s decision to purchase shares of common stock, nor any tax consequences arising under the laws of any state, locality or foreign jurisdiction. This summary is not intended to be applicable to all categories of investors, such as dealers in securities, banks, thrifts, or other financial institutions, insurance companies, regulated investment companies, tax-exempt organizations, U.S. expatriates, persons that hold common stock as part of a straddle, conversion transaction, or hedge, persons deemed to sell common stock under the constructive sale provisions of the Code, persons whose functional currency is other than the U.S. dollar, persons who acquire or are deemed to have acquired common stock in an exchange or for property other than cash, or holders subject to the alternative minimum tax, each of which may be subject to special rules. This summary deals only with common stock held as capital assets. As used in this section, a U.S. holder is a beneficial owner of common stock that is for U.S. federal income tax purposes:

- an individual U.S. citizen or resident alien;
- a corporation, or other entity taxable as a corporation for U.S. federal income tax purposes, that was created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate the income of which is subject to U.S. federal income tax regardless of its source; or
- a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or that has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person.

A non-U.S. holder is a beneficial owner of common stock that is an individual, corporation or other entity taxable as a corporation for U.S. federal income tax purposes, estate, or trust and is not a U.S. holder.

If a partnership, or other entity treated as a partnership for U.S. federal income tax purposes, holds common stock, the tax treatment of a partner in such partnership will generally depend upon the status of the partner and upon the activities of the partnership.

YOU SHOULD CONSULT YOUR OWN TAX ADVISOR REGARDING THE U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP, AND DISPOSITION OF COMMON STOCK.

Certain U.S. federal income tax considerations to us of our REIT election

General

We have made an election to be taxed as a REIT under Sections 856 through 860 of the Code, commencing with our taxable year ended December 31, 1985. We believe that we are organized and have operated in such a manner as to qualify for taxation as a REIT under the Code and our proposed future method of operation will enable us to continue to so qualify. No assurances, however, can be given that we have operated in a manner so as to qualify as a REIT or that we will continue to operate in such a manner in the future. Qualification and taxation as a REIT depends on our ability to meet on a continuing basis, through actual annual operating results, distribution levels and diversity of stock ownership, the various qualification tests imposed under the Code on REITs, some of which are summarized below. While we intend to operate so that we qualify as a REIT, given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations, and the possibility of future changes in our circumstances, no assurance can be given that we satisfy the REIT tests or will continue to do so. See Failure to Qualify below.

The sections of the Code relating to qualification and operation as a REIT, and the U.S. federal income tax treatment of a REIT and its securityholders, are highly technical and complex. The following discussion sets forth only the material aspects of those sections. This summary is qualified in its entirety by the applicable Code provisions, rules and regulations promulgated thereunder, and administrative and judicial interpretations thereof.

Taxation of our company

In any year in which we qualify as a REIT, in general, we will not be subject to U.S. federal income tax on that portion of our taxable income or capital gain that is distributed to stockholders. We will, however, be subject to tax at normal corporate rates upon any taxable income or capital gain not distributed.

Notwithstanding our qualification as a REIT, we may also be subject to taxation in certain other circumstances. If we should fail to satisfy the 75% or the 95% gross income test (as discussed below), and nonetheless maintain our qualification as a REIT because certain other requirements are met, we will be subject to a 100% tax on the greater of (i) the amount by which we fail the 75% test, or (ii) the excess of 95% of our gross income over the amount of such income attributable to sources that qualify under the 95% test, multiplied in either case by a fraction intended to reflect our profitability. In addition, if we should fail to satisfy the asset or other requirements applicable to REITs, as described below, yet nonetheless maintain our qualification as a REIT because there is reasonable cause for the failure and other applicable requirements are met, we may be subject to tax based on the nature and amount of the failure. We will also be subject to a tax of 100% on net income from prohibited transactions (which are, in general, certain sales or other dispositions of property held primarily for sale to customers in the ordinary course of business, other than foreclosure property) and, if we have (i) net income from the sale or other disposition of foreclosure property (generally, property acquired by reason of a default on indebtedness or a lease) which is held primarily for sale to customers in the ordinary course of business or (ii) other non-qualifying income from foreclosure property, we will be subject to tax on such income from foreclosure property at the highest corporate rate. If we should fail to distribute during each calendar year at least the sum of (i) 85% of our REIT ordinary income for such year, (ii) 95% of our REIT capital gain net income for such year, and (iii) any undistributed taxable income from prior years, we would be subject to a 4% excise tax on the excess of such required distribution over the amounts actually distributed. In addition, if we acquire any asset from a C corporation (that is, a corporation generally subject to U.S. federal income tax under Subchapter C of the Code) in a transaction in which the basis of the asset in our hands is determined by reference to the basis of the asset in the hands of the C corporation, and we recognized gain on the disposition of such asset during a ten-year period beginning on the date we acquired the asset, then the asset s built in gain will be subject to tax at the highest regular corporate rate. We may also be subject to the corporate alternative minimum tax on our items of tax preference, as well as tax in certain situations not presently contemplated. If it is determined that amounts of certain income and expense were not allocated between us and a taxable REIT subsidiary on the basis of arm s-length dealing, or to the extent we charge a taxable REIT subsidiary interest in excess of a commercially reasonable rate, we will be subject to a tax equal to 100% of such amounts. We use the calendar year for U.S. federal income tax purposes and for financial reporting purposes.

Requirements for qualification

To qualify as a REIT, we must elect to be so treated and must meet the requirements, discussed below, relating to our organization, sources of income, nature of assets, and distributions of income to stockholders.

Organizational requirements. The Code defines a REIT as a corporation, trust or association (1) which is managed by one or more trustees or directors; (2) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest; (3) which would be taxable as a domestic corporation, but for Sections 856 through 860 of the Code; (4) which is neither a financial institution nor an insurance company subject to certain provisions of the Code; (5) the beneficial ownership of which is held by 100 or more persons; (6) during the last half of each taxable year not more than 50% in value of the outstanding stock of which is owned, directly or indirectly, by five or fewer individuals (as defined in the Code); and (7) which meets certain other tests, described below, regarding the nature of its income and assets. The Code provides that conditions (1) to (4), inclusive, must be met during the entire taxable year and that condition (5) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months. We are treated as having satisfied condition (6) if we comply with the regulatory requirements to request information from our shareholders regarding their actual ownership of our stock, and do not know, or exercising reasonable diligence would not have known, that we failed to satisfy such condition. If we fail to comply with the rules that require us to ascertain the actual ownership of our outstanding shares for any such taxable year, we will be subject to a penalty of $25,000, or $50,000 if such failure was intentional. However, if our failure to comply was due to reasonable cause and not willful neglect, no penalties will be imposed. Our Amended and Restated Articles of Incorporation, as amended, provide for restrictions regarding transfer of our capital stock, in order (among other purposes) to assist us in continuing to satisfy the share ownership requirement described in (6) above.

Gross income tests. In order for us to maintain our qualification as a REIT, there are two requirements relating to our gross income that must be satisfied annually. First, at least 75% of our gross income (excluding gross income from prohibited transactions) for each taxable year must consist of defined types of income derived directly or indirectly from investments relating to real property or mortgages on real property (including rents from real property and, in certain circumstances, interest) or temporary investment income. Second, at least 95% of our gross income (excluding gross income from prohibited transactions) for each taxable year must be derived from such real property and from dividends, other types of interest and gain from the sale or disposition of stock or securities or from any combination of the foregoing.

In the case of a REIT which is a partner in a partnership, Treasury regulations provide that the REIT will be deemed to own its proportionate share of the assets of the partnership and will be deemed to be entitled to the income of the partnership attributable to such share. In addition, the character of the assets and gross income of the partnership will retain the same character in the hands of the REIT for U.S. federal income tax purposes. Thus, our proportionate share of the assets, liabilities and items of income of the partnerships in which we have an interest will be treated as our assets, liabilities and items of income for purposes of applying the REIT requirements described herein.

Rents received by us will qualify as rents from real property in satisfying the gross income requirements for a REIT described above only if several conditions are met. First, the amount of rent must not be based in whole or in part on the

income or profits of any person. An amount received or accrued generally will not be excluded from the term rents from real property solely by reason of being based on a fixed percentage or percentages of receipts or sales. Second, the Code provides that rents received from a tenant generally will not qualify as rents from real property in satisfying the gross income tests if the REIT, or one or more owners of 10% or more of the REIT, directly or constructively, own in the aggregate 10% or more of such tenant. Third, if rent attributable to personal property, leased in connection with a lease of real property, is greater than 15% of the total rent received under the lease, then the portion of rent attributable to such personal property will not qualify as rents from real property. Finally, for rents received to qualify as rents from real property, the REIT generally must not operate or manage the property or furnish or render services to the tenants of such property, other than through an independent contractor from whom the REIT derives no income, except that we may directly perform certain services other than services which are not usually or customarily rendered in connection with the rental space for occupancy only and are considered rendered to the occupant of the property. A de minimis amount of up to 1% of the gross income received by us from each property is permitted to be from the provision of non-customary services without disqualifying all other amounts received from such property as rents from real property. However, such de minimis amount itself will not qualify as rents from real property for purposes of the 75% and 95% gross income tests. In addition, we may furnish certain services (including non-customary services) through a taxable REIT subsidiary (TRS). A TRS includes a corporation other than a REIT in which a REIT directly or indirectly holds stock and that has made a joint election with the REIT to be treated as a TRS. A TRS is subject to U.S. federal income tax at regular corporate rates.

We typically do not provide services to any lessees under our leases, and to the extent that we provide services to any such lessee, we believe that any and all such services were and will be of the type usually or customarily rendered in connection with the rental of space for occupancy only, and therefore, that the provision of such services did not and will not cause the rents received with respect to properties or newly-acquired properties to fail to qualify as rents from real property for purposes of the 75% and 95% gross income tests. If we contemplate providing services in the future that reasonably might be expected not to meet the usual or customary standard, we will arrange to have such services provided by an independent contractor from which we derive no income or by an affiliated entity that has elected TRS status. It is anticipated that, for purposes of the gross income tests, our investment in our leases will in major part give rise to qualifying income in the form of rents and gains on the sales of leased property.

If we fail to satisfy one or both of the 75% and 95% gross income tests for any taxable year, we may nevertheless qualify as a REIT for that year if we are entitled to relief under the Code. These relief provisions generally will be available if our failure to meet the tests is due to reasonable cause and not due to willful neglect, we attach a schedule of the sources of our income to our U.S. federal income tax return and any incorrect information on the schedule is not due to fraud with intent to evade tax. Beginning on or after October 23, 2004, these relief provisions generally will be available for any taxable year if our failure to meet the tests is due to reasonable cause and not due to willful neglect and if we satisfy certain specified filing and disclosure requirements set forth in the Code. It is not possible, however, to state whether in all circumstances we would be entitled to the benefit of these relief provisions. As discussed above in Certain U.S. federal income tax considerations to us of our REIT election Taxation of our company, even if these relief provisions apply, a tax would be imposed with respect to our excess gross income reduced by approximated expenses.

Asset tests. At the close of each quarter of our taxable year, we must also satisfy four tests relating to the nature of our assets. First, at least 75% of the value of our total assets must be represented by real estate assets (including (i) our allocable share of real estate assets held by partnerships in which we own an interest and (ii) stock or debt instruments held for not more than one year purchased with the proceeds of an offering of our stock or long-term (at least five years) debt), cash, cash items and government securities. Second, not more than 25% of our total assets may be represented by securities other than those in the 75% asset class. Third, of the investments included in the 25% asset class, the value of any one issuer s securities owned by us may not exceed 5% of the value of our total assets and we may not own more than 10% of the vote or value of any one issuer s outstanding securities. Fourth, not more than 20% of the value of our total assets may be represented by securities of one or more TRSs. For purposes of the third asset test, the term securities does not include equity or debt securities of a TRS, mortgage loans that constitute real estate assets, other securities included in the 75% asset class above, or equity interests in a partnership. The term securities, however, generally includes debt securities issued by a partnership or another REIT. Certain exceptions, such as a straight debt exception, apply for purposes of the 10% of value test referred to above. Our investment in our leases will constitute qualified assets for purposes of the 75% asset test.

We will not lose our status as a REIT if we fail to satisfy the asset tests at the end of a quarter solely by reason of changes in the relative values of our assets. If the failure to satisfy the asset tests results from the acquisition of securities or other property during a quarter, the failure can be cured by a disposition of sufficient non-qualifying assets or acquisition of sufficient qualifying assets within 30 days after the close of that quarter. We intend to maintain adequate records of the value of our assets to ensure compliance with the asset tests and to take any available action within 30 days after the close of any quarter as may be required to cure any noncompliance with the asset tests. We cannot ensure that these steps always will be successful. If we fail to cure the noncompliance with the asset tests within this 30-day period, we could fail to qualify as a REIT.

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In addition, beginning on or after October 23, 2004, we may avoid disqualification of our status as a REIT in the event of certain failures if (i) the failure was due to reasonable cause and not due to willful neglect, (ii) the failure is timely corrected, (iii) a penalty amount is paid, and (iv) other requirements are met; or the failure was de minimis and timely corrected.

Annual distribution requirements. In order to qualify as a REIT, we are required to distribute dividends (other than capital gain dividends) to our stockholders in an amount at least equal to (A) the sum of (i) 90% of our REIT taxable income (computed without regard to the dividends paid deduction and our net capital gain) and (ii) 90% of the net income (after tax), if any, from foreclosure property, minus (B) the sum of certain items of noncash income. Such distributions must be paid in the taxable year to which they relate, or in the following taxable year if declared before we timely file our tax return for such year and if paid on or before the first regular dividend payment after such declaration. To the extent that we do not distribute all of our net capital gain or distribute at least 90%, but less than 100%, of our REIT taxable income, as adjusted, we will be subject to tax on the undistributed amount at regular ordinary and capital gains corporate tax rates, as applicable. We may designate all or a portion of our undistributed net capital gains as being includable in the income of our stockholders as gain from the sale or exchange of a capital asset, which stockholders would receive an increase in the basis of their stock in the amount of such income recognized. Such stockholders would also be treated as having paid their proportionate share of the capital gains tax imposed on us on such undistributed amounts and would receive a corresponding decrease in the basis of their stock. Furthermore, if we should fail to distribute during each calendar year at least the sum of (i) 85% of our REIT ordinary income for such year, (ii) 95% of our REIT capital gain net income for such year, and (iii) any undistributed taxable income from prior periods, we would be subject to a 4% excise tax on the excess of such required distribution over the amounts actually distributed. We have made and intend to make timely distributions sufficient to satisfy all annual distribution requirements.

It is possible that, from time to time, we may experience timing differences between (i) the actual receipt of income and actual payment of deductible expenses and (ii) the inclusion of that income and deduction of such expenses in arriving at our taxable income. Further, it is possible that, from time to time, we may be allocated a share of net capital gain attributable to the sale of depreciated property which exceeds our allocable share of cash attributable to that sale. Additionally, we may incur cash expenditures that are not currently deductible for tax purposes. As such, we may have less cash available for distribution than is necessary to meet our annual 90% distribution requirement or to avoid tax with respect to capital gain or the excise tax imposed on certain undistributed income. To meet the 90% distribution requirement necessary to qualify as a REIT or to avoid tax with respect to capital gain or the excise tax imposed on certain undistributed income, we may find it appropriate to arrange for short-term (or possibly long-term) borrowings or to pay distributions in the form of taxable stock dividends.

Under certain circumstances relating to any Internal Revenue Service audit adjustments that increase income, we may be able to rectify a failure to meet the distribution requirement for a year by paying deficiency dividends to stockholders in a later year, which may be included in our deduction for dividends paid for the earlier year. Thus, we may be able to avoid being taxed on amounts distributed as deficiency dividends; however, we will be required to pay interest based upon the amount of any deduction taken for deficiency dividends.

Pursuant to applicable Treasury regulations, in order to be able to elect to be taxed as a REIT, we must maintain certain records. We are also required to request certain information from our stockholders designed to disclose the actual ownership of our stock. We have complied and intend to continue to comply with such requirements.

Failure to qualify

If we fail to qualify for taxation as a REIT in any taxable year, and the relief provisions do not apply, we will be subject to tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Dividends to stockholders in any year in which we fail to qualify will not be deductible by us nor will they be required to be made. In such event, to the extent of current and accumulated earnings and profits, all distributions to stockholders will be taxable as ordinary income, and, subject to certain limitations of the Code, corporate distributees may be eligible for the dividends received deduction. Unless entitled to relief under specific statutory provisions, we will also be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT. It is not possible to state whether in all circumstances we would be entitled to such statutory relief.

U.S. holders

Distributions. As long as we qualify as a REIT, distributions made to you out of current or accumulated earnings and profits and not properly designated by us as capital gain dividends will be taken into account by you as ordinary income and will not be eligible for the dividends received deduction for corporations. Since such dividends will be received from a REIT, they generally will not be eligible to be taxed at the preferential qualified dividend income rates (currently a 15% maximum federal rate, expiring for taxable years beginning after December 31, 2010) applicable to non-corporate U.S. holders who receive dividends from taxable C corporations under current law. An exception to this rule applies, however, and non-corporate U.S. holders will be taxed at such preferential rates on dividends designated by and received from us, to the extent that such dividends are attributable to (i) after-tax income that was accumulated in a non-REIT taxable year, (ii) dividends we received from taxable REIT subsidiaries or other taxable C corporations, or (iii) after-tax income from certain sales of appreciated

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property acquired from C corporations in carryover basis transactions. Distributions that are designated as capital gain dividends will be taxed as long-term capital gains (to the extent they do not exceed our actual net capital gain for the taxable year) without regard to the period for which you have held our common stock. However, if you are a corporation, you may be required to treat up to 20% of certain capital gain dividends as ordinary income. Distributions in excess of current and accumulated earnings and profits will not be taxable to you to the extent that they do not exceed the adjusted basis of your shares, but rather will reduce the adjusted basis of the shares. To the extent that distributions in excess of current and accumulated earnings and profits exceed the adjusted basis of your shares, you will include the distributions in income as long-term capital gain (or short-term capital gain if you have held the shares for one year or less). In addition, any distribution declared by us in October, November or December of any year payable to you as a stockholder of record on a specified date in any of these months shall be treated as both paid by us and received by you on December 31 of that year, provided that the distribution is actually paid by us during January of the following calendar year. You may not include in your individual income tax returns any of our net operating losses or capital losses.

Sale, exchange or other disposition of common stock. Upon a sale or other disposition of common stock, you generally will recognize capital gain or loss equal to the difference between the amount of cash and the fair market value of property you receive on the sale or other disposition and your adjusted tax basis in the common stock. Such capital gain or loss will be long-term capital gain or loss if your holding period for the common stock is more than one year. Long-term capital gains may qualify for reduced rates under U.S. federal income tax laws, and capital losses may be subject to limitations. In general, any loss upon a sale or exchange of shares by you, if you have held the shares for six months or less (after applying certain holding period rules), will be treated as a long-term capital loss to the extent of distributions from us required to be treated by you as long-term capital gain.

Backup withholding and information reporting. The amount of dividends paid to you and the tax withheld with respect to those dividends may be required to be reported. Under the backup withholding provisions of the Code and applicable Treasury Regulations, you may be subject to backup withholding with respect to dividends paid on, or the proceeds of a sale, exchange or redemption of, common stock unless:

- you are a corporation or come within certain other exempt categories and when required demonstrate this fact, or
- provide a taxpayer identification number, certify as to no loss of exemption from backup withholding, and otherwise comply with applicable requirements of the backup withholding rules.

If you do not provide us with your correct taxpayer identification number, you may also be subject to penalties imposed by the Internal Revenue Service. Any amount paid as backup withholding will be creditable against your income tax liability, provided that the required information is furnished to the Internal Revenue Service. In addition, we may be required to withhold a portion of capital gain distributions to you, if you fail to certify your nonforeign status to us. See Non-U.S. holders.

Treatment of tax exempt stockholders

If you are a tax exempt employee pension trust or other domestic tax exempt stockholder, our distributions to you generally will not constitute unrelated business taxable income, or UBTI, unless you have borrowed to acquire or carry our common stock. However, qualified trusts that hold more than 10% (by value) of certain REITs may be required to treat a certain percentage of that REIT s distributions as UBTI. This requirement will apply only if:

- the REIT would not qualify for U.S. federal income tax purposes but for the application of a look through exception to the five or fewer requirement applicable to shares held by qualified trusts; and
- the REIT is predominantly held by qualified trusts.

A REIT is predominantly held if either:

- a single qualified trust holds more than 25% by value of the REIT interests; or one or more qualified trusts, each owning more than 10% by value of the REIT interests, hold in the aggregate more than 50% by value of the REIT interests:

The percentage of any REIT dividend treated as UBTI is equal to the ratio of the UBTI earned by the REIT (treating the REIT as if it were a qualified trust and therefore subject to tax on UBTI) to the total gross income (less certain associated expenses) of the REIT.

A de minimis exception applies where the ratio set forth in the preceding sentence is less than 5% for any year. For those purposes, a qualified trust is any trust described in section 401(a) of the Code and exempt from tax under section 501(a) of the Code. The provisions requiring qualified trusts to treat a portion of REIT distributions as UBTI will not apply if the REIT is able to satisfy the five or fewer requirement without relying upon the look-through exception. The restrictions on ownership of our common stock in our Amended and Restated Articles of Incorporation, as amended, will help prevent application of the provisions treating a portion of REIT distributions as UBTI to tax-exempt entities purchasing our common stock, absent approval by the board of directors.

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Non-U.S. holders

The rules governing U.S. federal income taxation of non-U.S. holders are complex and no attempt will be made herein to provide more than a summary of these rules. Prospective non-U.S. holders should consult with their own tax advisors to determine the impact of federal, state and local income tax laws with regard to an investment in common stock, including any reporting requirements.

Distributions. Distributions that are not attributable to gain from our sales or exchanges of U.S. real property interests and not properly designated by us as capital gain dividends will be treated as dividends of ordinary income to the extent that they are made out of our current or accumulated earnings and profits. Such distributions will ordinarily be subject to a withholding tax equal to 30% of the gross amount of the distribution unless an applicable tax treaty reduces or eliminates that tax.

However, if income from the investment in the common stock is treated as effectively connected with your conduct of a U.S. trade or business, you generally will be subject to a tax at graduated rates, in the same manner as U.S. holders are taxed with respect to the distributions (and may also be subject to the 30% branch profits tax if you are a foreign corporation). We expect to withhold U.S. income tax at the rate of 30% on the gross amount of any distributions made to you unless:

a lower treaty rate applies, you file an IRS Form W-8BEN with us and other conditions are met; or

you file an IRS Form W-8ECI with us claiming that the distribution is effectively connected income, and other conditions are met.

Distributions in excess of our current and accumulated earnings and profits will not be taxable to you to the extent that the distributions do not exceed the adjusted basis of your shares, but rather will reduce the adjusted basis of the shares. To the extent that distributions in excess of current accumulated earnings and profits exceed the adjusted basis of your shares, these distributions will give rise to tax liability if you would otherwise be subject to tax on any gain from the sale or disposition of your shares in us, as described below. If it cannot be determined at the time a distribution is made whether or not the distribution will be in excess of current and accumulated earnings and profits, the distributions will be subject to withholding at the same rate as dividends. However, amounts thus withheld are refundable if it is subsequently determined that a distribution was, in fact, in excess of our current and accumulated earnings and profits, provided the required information is furnished in a timely manner to the Internal Revenue Service.

For any year in which we qualify as a REIT, distributions that are attributable to gain from our sales or exchanges of U.S. real property interests will be taxed to you under the provisions of the Foreign Investment in Real Property Tax Act of 1980 (FIRPTA). Under FIRPTA, distributions attributable to gain from sales of U.S. real property interests are taxed to you as if the gain were effectively connected with a U.S. business. You would thus be taxed at the normal capital gain rates applicable to U.S. holders (subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals). Also, distributions subject to FIRPTA may be subject to a 30% branch profits tax in the hands of a foreign corporate stockholder not entitled to a treaty exemption. We are required by applicable Treasury regulations to withhold 35% of any distribution that could be designated by us as a capital gain dividend. This amount is creditable against your FIRPTA tax liability.

Notwithstanding the foregoing, distributions (including capital gain distributions) with respect to any class of stock of a REIT which is regularly traded on an established securities market located in the United States will not be treated as gain recognized from the sale or exchange of a U.S. real property interest if the non-U.S. holder does not own more than 5% of such class of stock at any time during the 1-year period ending on the date of distribution.

Sale or other disposition. Gain recognized by you upon a sale of shares generally will not be taxed under FIRPTA if we are a domestically controlled REIT, defined generally as a REIT in which at all times during a specified testing period less than 50% in value of the stock was held directly or indirectly by foreign persons. It is currently anticipated that we will be a domestically controlled REIT, although there can be no assurance that we will retain that status. If we are not domestically controlled, so long as our common stock continues to be regularly traded on an established securities market, gain recognized by you upon a sale of our common stock will continue to be exempt under FIRPTA if you did not own more than 5% of our common stock for specified periods.

If the gain on the sale of common stock were to be subject to taxation under FIRPTA, you would be subject to the same treatment as U.S. holders with respect to the gain, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals.

Gain not subject to FIRPTA will be taxable to you if:

- investment in the shares is effectively connected with your U.S. trade or business, in which case you will be subject to the same treatment as U.S. holders with respect to the gain, subject to applicable alternative minimum tax and a special alternative minimum tax in the case of nonresident alien individuals (and may also be subject to the 30% branch profits tax if you are a foreign corporation); or

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you are a nonresident alien individual who was present in the United States for more than 182 days during the taxable year and other applicable requirements are met, in which case you will be subject to a 30% tax on your capital gains, net of certain capital losses.

Information reporting and backup withholding. The amount of dividends paid to you and the tax withheld with respect to those dividends may be required to be reported, regardless of whether withholding was required. Copies of the information returns reporting those dividends and withholding may also be made available to the tax authorities in the country in which you reside under the provisions of an applicable income tax treaty or other applicable agreements.

Backup withholding is generally imposed on certain payments to persons that fail to furnish the necessary identifying information to the payor. You generally will be subject to backup withholding tax with respect to dividends paid on your common stock unless you certify your non-U.S. status and other conditions are met.

The payment of proceeds of a sale of common stock effected by or through a U.S. office of a broker is subject to both backup withholding and information reporting unless you properly certify as to your non-U.S. status or you otherwise establish an exemption. In general, backup withholding and information reporting will not apply to the payment of the proceeds of a sale of common stock by or through a foreign office of a broker. If, however, such broker is, for U.S. federal income tax purposes, a U.S. person, a controlled foreign corporation, a foreign person that derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States or a foreign partnership with specified connections to the United States, such payments will be subject to information reporting, but not backup withholding, unless such broker has documentary evidence in its records that you are a non-U.S. holder and certain other conditions are met or you otherwise establish an exemption.

Any amounts withheld under the backup withholding rules generally will be allowed as a refund or a credit against your U.S. federal income tax liability provided the required information is furnished in a timely manner to the Internal Revenue Service.

Tax aspects of our investments in partnerships

We may hold direct or indirect interests in various partnerships (each individually a Partnership and, collectively, the Partnerships). In general, partnerships are pass-through entities that are not subject to U.S. federal income tax. Rather, partners are allocated their shares of the items of income, gain, loss, deduction and credit of a partnership, and are potentially subject to tax thereon, without regard to whether the partners receive a distribution from the partnership. We will include our proportionate share of the foregoing items of the Partnerships for purposes of the various REIT income tests. See Certain U.S. federal income tax considerations to us of our REIT election Requirements for qualification Gross income tests. Moreover, for purposes of the REIT asset tests (see Certain U.S. federal income tax considerations to us of our REIT election Requirements for qualification Asset tests), we will include our proportionate share of assets held by the Partnerships.

Other tax consequences

Possible legislative or other actions affecting tax consequences. Prospective holders of our common stock should recognize that the present U.S. federal income tax treatment of investment in our company may be modified by legislative, judicial or administrative action at any time and that any of these actions may affect investments and commitments previously made. The rules dealing with U.S. federal income taxation are constantly under review by persons involved in the legislative process and by the Internal Revenue Service and the Treasury Department, resulting in revisions of regulations and revised interpretations of established concepts as well as statutory changes. Revisions in U.S. federal tax laws and interpretations thereof could adversely affect the tax consequences of investment in our company.

State and local taxes. We may be required to pay tax in various state or local jurisdictions, including those in which we transact business. Our state and local tax treatment may not conform to the U.S. federal income tax consequences discussed above. Consequently, you should consult your tax advisors regarding the effect of state and local tax laws on an investment in us.

THE FOREGOING SUMMARY DOES NOT DISCUSS ALL ASPECTS OF U.S. FEDERAL INCOME TAXATION THAT MAY BE RELEVANT TO YOU IN LIGHT OF YOUR PARTICULAR CIRCUMSTANCES AND INCOME TAX SITUATION. YOU SHOULD CONSULT YOUR OWN TAX ADVISOR AS TO THE SPECIFIC TAX CONSEQUENCES THAT WOULD RESULT FROM YOUR PURCHASE, OWNERSHIP AND DISPOSITION OF COMMON STOCK, INCLUDING THE APPLICATION AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND THE POSSIBLE EFFECTS OF CHANGES IN U.S. FEDERAL OR OTHER TAX LAWS.

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Legal Matters

The validity of the common stock we are offering by this prospectus supplement and the accompanying prospectus will be passed upon for us by Venable LLP. Certain legal matters will be passed upon for us by O Melveny & Myers LLP. Sidley Austin LLP will act as counsel for the sales agent. As of September 21, 2006, Paul C. Pringle, a partner at Sidley Austin LLP, owned 51,893 shares of our common stock.

Experts

The consolidated financial statements of Nationwide Health Properties, Inc. appearing in Nationwide Health Properties, Inc. s Annual Report on Form 10-K for the year ended December 31, 2005 (including the schedule appearing therein) and Nationwide Health Properties, Inc. s management s assessment of the effectiveness of internal control over financial reporting as of December 31, 2005 included therein, have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon included therein, and incorporated herein by reference. Such financial statements and management s assessment have been incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Hearthstone Assisted Living, Inc. as of December 31, 2005 incorporated by reference in this prospectus supplement have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their report thereon appearing in the Current Report on Form 8-K/A filed by Nationwide Health Properties, Inc. on June 30, 2006 and incorporated by reference herein, and are incorporated by reference in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

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PROSPECTUS

$1,250,000,000

Debt Securities

Preferred Stock

Common Stock

Securities Warrants

We may offer, from time to time, in one or more series:

- debt securities;
- warrants to purchase debt securities;
- shares of our preferred stock;
- warrants to purchase shares of our preferred stock;
- shares of our common stock; and
- warrants to purchase shares of our common stock.

The common stock warrants, the debt securities warrants and the preferred stock warrants are collectively referred to herein as the securities warrants. The debt securities, the preferred stock, the common stock and the securities warrants are collectively referred to herein as the securities. The securities will have an aggregate offering price of $1,250,000,000 and will be offered on terms to be determined at the time of offering. We will provide the specific terms of these securities in prospectus supplements to this prospectus prepared in connection with each offering. The prospectus supplement will also disclose whether the securities will be listed on a national securities exchange and if they are not to be listed, the possible effects thereof on their marketability. You should read this prospectus and the applicable prospectus supplement carefully before you invest in the securities.

Securities may be sold directly, through agents from time to time or through underwriters or dealers. If any agent or any underwriter is involved in the sale of the securities, the name of the agent or underwriter and any applicable commission or discount will be set forth in the accompanying prospectus supplement. See Plan of Distribution. The net proceeds we receive from the sale also will be set forth in the applicable prospectus supplement.

Our common stock is traded on the New York Stock Exchange under the symbol NHP . On August 25, 2005, the closing price of our common stock was $23.12.

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

This prospectus may not be used to consummate sales of securities unless accompanied by a prospectus supplement.

The date of this prospectus is August 25, 2005

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus. You must not rely on any unauthorized information or representations. This prospectus is an offer to sell only the securities offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of the date of this prospectus.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the SEC utilizing a shelf registration process. Under this shelf process, we may sell any combination of the securities described in this prospectus in one or more offerings up to a total amount of $1,250,000,000. This prospectus provides you with a general description of the securities we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add to or update other information contained in this prospectus. You should read both this prospectus and the accompanying prospectus supplement together with additional information described under the heading Where You Can Find More Information on page 20.

Whenever we refer herein to NHP, the Company or to us or use the terms we or our, we are referring to Nationwide Health Properties, Inc. a its subsidiaries, unless the context otherwise requires.

THE COMPANY

Nationwide Health Properties, Inc., a Maryland corporation incorporated on October 14, 1985, is a real estate investment trust (REIT) that invests primarily in healthcare related facilities and provides financing to healthcare providers.

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

At June 30, 2005, we had investments in 426 facilities located in 39 states. The facilities included 194 skilled nursing facilities, 216 assisted and independent living facilities, seven continuing care retirement communities, seven specialty hospitals and two assets held for sale.

Our facilities are operated by 72 different operators, including the following publicly traded companies: American Retirement Corporation, Beverly Enterprises, Inc., Emeritus Corporation, Extendicare, Inc., Genesis Healthcare, HEALTHSOUTH Corporation, Kindred Healthcare, Inc. and Sun Healthcare Group, Inc. Of the operators of our facilities, only Alterra Healthcare Corporation (Alterra) accounted for 10% or more of our revenues at June 30, 2005 or is expected to account for more than 10% of our revenues for the remainder of 2005.

At June 30, 2005, we had direct ownership of 180 skilled nursing facilities, 215 assisted and independent living facilities, six continuing care retirement communities, seven specialty hospitals and two assets held for sale. Substantially all of our owned facilities are leased under triple-net leases, which are accounted for as operating leases.

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

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calculations so that all contingencies for revenue recognition have been eliminated at each of our quarterly reporting dates. Also, the majority of our leases contain provisions that the total rent cannot decrease from one year to the next. Approximately 82% of our facilities are leased under master leases. In addition, the majority of our leases contain cross-collateralization and cross-default provisions tied to other leases with the same tenant, as well as grouped lease renewals and, if purchase options exist, grouped purchase options. Leases covering 338 facilities are backed by security deposits consisting of irrevocable letters of credit or cash, most of which cover from three to six months of initial monthly minimum rents. As of December 31, 2004, leases covering 153 facilities required the tenant to impound property taxes and leases covering 71 facilities required capital expenditure impounds. Under the terms of the leases, the tenant is responsible for all maintenance, repairs, taxes, insurance and capital expenditures for the leased properties.

At June 30, 2005, we held 13 mortgage loans secured by 14 skilled nursing facilities, one assisted and independent living facility and one continuing care retirement community. As of June 30, 2005, the mortgage loans receivable had a net book value of $78,082,000. The mortgage loans had individual outstanding balances ranging from $111,000 to $10,563,000 and had maturities ranging from 2005 to 2031 at June 30, 2005.

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

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

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RISK FACTORS

Investing in the securities described herein involves risk. Please see the risk factors described in our Annual Report on Form 10-K for our most recent fiscal year, which is incorporated by reference in this prospectus. Before making an investment decision, you should carefully consider these risks as well as other information we include or incorporate by reference in this prospectus. The risks and uncertainties we have described are not the only ones we face. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also affect our business operations. Additional risk factors may be included in a prospectus supplement relating to a particular series or offering of such securities. These risks could materially affect our business, results of operations or financial condition and cause the value of our securities to decline. You could lose all or part of your investment.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth our ratios of earnings to fixed charges for the periods indicated. In computing the ratio of earnings to fixed charges, earnings have been based on consolidated income from continuing operations before fixed charges (exclusive of capital interest). Fixed charges consist of interest on debt, including amounts capitalized, an estimate of interest in rental expense, and interest expense related to the guaranteed debt of the partnerships and limited liability companies in which we hold an interest. In computing the ratio of earnings to combined fixed charges and preferred stock dividends, preferred stock dividends consist of dividends on our 7.677% Series A Cumulative Preferred Step-Up REIT Securities and 7.75% Series B Cumulative Convertible Preferred Stock.

	For the six months ended June 30,	Year Ended December 31,				
	2005	2004	2003	2002	2001	2000
Ratio of Earnings to Fixed Charges	2.27	2.27	1.96	1.72	2.05	2.09
Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends	1.81	1.87	1.73	1.52	1.80	1.85

USE OF PROCEEDS

Unless otherwise specified in the prospectus supplement which accompanies this prospectus, the net proceeds from the sale of the securities offered from time to time hereby will be used for general corporate purposes, including the repayment of short term bank lines of credit and investments in healthcare related facilities. The Company uses its existing revolving bank credit facility primarily to provide short term financing for the acquisition of healthcare related facilities.

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DESCRIPTION OF DEBT SECURITIES

NHP may issue debt securities under one or more trust indentures to be executed by NHP and a specified trustee. The terms of the debt securities will include those stated in the indenture and those made a part of the indenture (before any supplements) by reference to the Trust Indenture Act of 1939. The indentures will be qualified under the Trust Indenture Act.

The following description sets forth certain anticipated general terms and provisions of the debt securities to which any prospectus supplement may relate. The particular terms of the debt securities offered by any prospectus supplement (which terms may be different than those stated below) and the extent, if any, to which such general provisions may apply to the debt securities so offered will be described in the prospectus supplement relating to such debt securities. Accordingly, for a description of the terms of a particular issue of debt securities, investors should review both the prospectus supplement relating thereto and the following description. A form of the indenture (as discussed herein) has been filed as an exhibit to the Registration Statement of which this prospectus is a part.

General

The debt securities will be direct obligations of NHP and may be either senior debt securities or subordinated debt securities. The indebtedness represented by subordinated securities will be subordinated in right of payment to the prior payment in full of NHP s senior debt (as defined in the applicable indenture).

Except as set forth in the applicable indenture and described in a prospectus supplement relating thereto, the debt securities may be issued without limit as to aggregate principal amount, in one or more series, secured or unsecured, in each case as established from time to time in or pursuant to authority granted by a resolution of the board of directors or as established in the applicable indenture. All debt securities of one series need not be issued at the same time and, unless otherwise provided, a series may be reopened, without the consent of the holders of the debt securities of such series, for issuance of additional debt securities of such series.

The prospectus supplement relating to any series of debt securities being offered will contain the specific terms thereof, including, without limitation:

- The title of such debt securities and whether such debt securities are senior securities or subordinated securities;
- The aggregate principal amount of such debt securities and any limit on such aggregate principal amount;
- The percentage of the principal amount at which such debt securities will be issued and, if other than the principal amount thereof, the portion of the principal amount thereof payable upon declaration of acceleration of the maturity thereof;
- If convertible, the portion of the principal amount of such debt securities which is convertible into common stock or preferred stock, or the method by which any such portion shall be determined;

If convertible, any applicable limitations on the ownership or transferability of the common stock or preferred stock into which such debt securities are convertible;

The date or dates, or the method for determining the date or dates, on which the principal of such debt securities will be payable;

The rate or rates (which may be fixed or variable), or the method by which the rate or rates shall be determined, at which such debt securities will bear interest, if any.

The date or dates, or the method for determining such date or dates, from which any interest will accrue, the interest payment dates on which any such interest will be payable, the regular record dates for such

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interest payment dates, or the method by which any such date shall be determined, the person to whom such interest shall be payable, and the basis upon which interest shall be calculated if other than that of a 360-day year of twelve 30-day months;

The place or places where the principal of (and premium, if any) and interest, if any, on such debt securities will be payable, such debt securities may be surrendered for conversion or registration of transfer or exchange and notices or demands to or upon NHP in respect of such debt securities and the applicable indenture may be served;

The period or periods within which, the price or prices at which and the terms and conditions upon which such debt securities may be redeemed, as a whole or in part, at NHP s option, if NHP is to have such an option;

The obligation, if any, of NHP to redeem, repay or purchase such debt securities pursuant to any sinking fund or analogous provision or at the option of a holder thereof, and the period or periods within which, the price or prices at which and the terms and conditions upon which such debt securities will be redeemed, repaid or purchased, as a whole or in part, pursuant to such obligation;

BOARD OF DIRECTORS' MEETINGS, COMMITTEES OF THE BOARD
AND RELATED MATTERS

Corporate Governance

The Company believes that sound corporate governance practices are essential to maintain the trust of our stockholders, customers, employees and other stakeholders. We believe we operate under governance practices that are transparent, up-to-date and appropriate for our industry.

The following materials related to corporate governance, including our Corporate Governance Guidelines and Code of Business Conduct and Ethics, are available on our website at: http://investor.tempursealy.com/overview.cfm under the caption "Corporate Governance":

- Sixth Amended and Restated By-Laws ("By-Laws")
- Core Values
- Corporate Governance Guidelines
- Code of Business Conduct and Ethics for Employees, Executive Officers and Directors
- Policy on Complaints on Accounting, Internal Accounting Controls and Auditing Matters
- Amended and Restated Certificate of Incorporation, as amended ("Certificate of Incorporation")
- Audit Committee Charter
- Compensation Committee Charter
- Nominating and Corporate Governance Committee Charter
- Lead Director Charter
- Related Party Transactions Policy
- Governance Hotline Information
- Conflict Minerals Policy
- Clawback Policy
- Contact the Lead Director

Copies of these materials may also be obtained, free of charge, by writing to: Tempur Sealy International, Inc., 1000 Tempur Way Lexington, Kentucky 40511, Attention: Investor Relations. Please specify which document you would like to receive.

Certificate of Incorporation and By-Laws; Majority Voting for Directors

Tempur Sealy International's By-Laws provide that a director in an uncontested election will be elected by a majority of the votes cast at the Annual Meeting. In the event that the number of votes "against" a director exceeds the number of votes "for" that director, that director must tender his or her resignation to the Board of Directors. The Nominating and Corporate Governance Committee will make a recommendation to the Board of Directors whether to accept the resignation. In an election for directors where the number of nominees exceeds the number of directors to be elected - a contested election - the directors would be elected by the vote of a plurality of the shares represented at the meeting and entitled to vote on the matter. Neither Tempur Sealy International's Certificate of Incorporation nor its By-Laws provide for a classified Board.

Board of Directors' Meetings

The Board held seven meetings in 2016. The SEC requires disclosure of the name of any Director who, during the last full fiscal year (calendar year 2016), attended fewer than 75% of the aggregate of the total number of meetings of (i) the Board during the period for which he or she has been a Director and (ii) all committees of the Board on which the

Director served during the periods that he or she served. Each Director attended more than 75% of the combined total number of meetings of the Board and its committees held in 2016 during the period in which they served as Directors or committee members.

Directors' Independence

Our corporate governance guidelines provide that the Board shall consist of a majority of Directors who are independent within the meaning of the NYSE rules governing the composition of the Board and its committees ("NYSE Independence Rules"). The Board has determined that none of Evelyn S. Dilsaver, John A. Heil, Jon L. Luther, Usman S. Nabi, Richard W. Neu or Robert B. Trussell, Jr. have a material relationship with the Company (either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company) within the meaning of the NYSE Independence Rules and accordingly are "independent" for purposes of the NYSE Independence Rules.

The Board has determined that Scott L. Thompson, who serves as Chairman, President and Chief Executive Officer of Tempur Sealy, does not qualify as an independent director under the NYSE Independence Rules.

Board Leadership Structure

As stated in its Corporate Governance Guidelines, the Board has no set policy with respect to the separation of the offices of Chairman and Chief Executive Officer. In connection with its search for a new CEO in 2015, both the Search Committee created for this purpose and the Board of Directors concluded that in order to attract a high quality CEO candidate with the experience and leadership skills desired, the Board would be willing to offer the candidate a position that included the Chairman role. Accordingly, in connection with hiring Mr. Thompson as Chairman and CEO, the Board created the Lead Director role as an integral part of a Board leadership structure that promotes strong, independent oversight of our management and affairs. The Lead Director must be independent as determined by the Board in accordance with the NYSE Independence Rules.

Following the 2016 Annual Meeting, Mr. Neu assumed the role of the Lead Director. The Lead Director:

- presides at all meetings of the Board at which the Chairman is not present, including executive sessions of the independent Directors;
- has the authority to call meetings of the independent Directors;
- serves as the principal liaison between the Chairman and the independent Directors;
- consults with the Chairman regarding all information sent to the Board of Directors, including the quality, quantity, appropriateness and timeliness of such information;
- consults with the Chairman regarding meeting agendas for the Board of Directors;
- consults with the Chairman regarding the frequency of Board of Directors meetings and meeting schedules, assuring there is sufficient time for discussion of all agenda items;
- recommends to the Nominating and Corporate Governance Committee and to the Chairman, selection for the membership and chairman position for each Board committee;
- interviews, along with the chair of the Nominating and Corporate Governance Committee, all Director candidates and makes recommendations to the Nominating and Corporate Governance Committee; and
- will be invited to attend meetings of all other committees of the Board (other than meetings of committees on which he or she is already a member).

The Board believes that no single leadership model is universally or permanently appropriate, but that the current leadership structure is the most effective and best serves the Company at this juncture. The Board will continue to review and consider whether the roles of the Chairman and CEO should be combined or separated in the future as part of its regular review of the Company's governance structure.

Board of Director's Role in Risk Oversight

The Board is responsible for overseeing the management and operations of the Company, including overseeing its risk assessment and risk management functions. As discussed elsewhere in this Proxy Statement, the Board has delegated primary responsibility for reviewing the Company's policies with respect to risk assessment and risk management to the Audit Committee. The Board has determined that this oversight responsibility can be most efficiently performed by the Audit Committee as part of its overall responsibility for providing independent, objective oversight with respect to Tempur Sealy International's accounting and financial reporting functions, internal and external audit functions and systems of internal controls over financial reporting and legal, ethical and regulatory compliance. The Compensation Committee has primary responsibility for oversight of risk related to compensation matters, as more fully described elsewhere in this Proxy Statement. Each of these committees regularly reports to the Board with respect to its oversight of these important areas.

Committees of the Board

The standing committees of the Board are the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee.

The Audit Committee

The members of the Audit Committee are Evelyn S. Dilsaver (Chair), John A. Heil and Richard W. Neu.

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The Board has determined that each member of the Audit Committee is independent as defined in the NYSE Independence Rules and the rules of the SEC. The Board has also determined that all members of the Audit Committee are audit committee financial experts within the meaning of Item 407(d)(5)(ii) of Regulation S-K of the Securities Exchange Act of 1934, as amended (“Exchange Act”) and have "accounting or related financial management expertise" within the meaning of the applicable NYSE Rules. See "Election of Directors-Nominees to Board of Directors" for disclosure regarding such audit committee financial experts’ relevant experience. The Audit Committee was established in accordance with Section 3(a)(58) of the Exchange Act.

The Audit Committee is responsible for providing independent, objective oversight with respect to Tempur Sealy International’s accounting and financial reporting functions, internal and external audit functions and systems of internal controls over financial reporting and legal, ethical and regulatory compliance. Some of the Audit Committee’s responsibilities include:

- reviewing the scope of internal and independent audits;
- reviewing the Company’s quarterly and annual financial statements and related SEC filings;
- reviewing the adequacy of management’s implementation of internal controls;
- reviewing the Company’s accounting policies and procedures and significant changes in accounting policies;
- reviewing the Company’s business conduct, legal and regulatory requirements, and ethics policies and practices;
- reviewing the Company’s policies with respect to risk assessment and risk management;
- reviewing information to be disclosed and types of presentations to be made in connection with the Company’s earnings press releases, as well as financial information and earnings guidance provided to analysts and rating agencies;
- preparing an annual evaluation of the committee’s performance and reporting to the Board on the results of this self-evaluation;
- reporting regularly to the Board on the committee’s activities; and
- appointing the independent public accountants and reviewing their independence and performance and the reasonableness of their fees.

The Audit Committee has established whistleblower procedures, which provide for (a) the receipt, retention and treatment of complaints received regarding accounting, internal accounting controls or auditing matters; and (b) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters. Tempur Sealy International also has a confidential, anonymous reporting system which is web-based and available to all employees. All reports are treated confidentially.

The Audit Committee met twelve times in 2016. A copy of the Audit Committee charter as adopted by our Board of Directors is available on Tempur Sealy International’s website under the caption "Corporate Governance" at http://investor.tempursealy.com/overview.cfm.

The Compensation Committee

The members of the Compensation Committee are Jon L. Luther (Chair), Usman S. Nabi and Richard W. Neu.

The Board has determined that each member and prospective member of the Compensation Committee is independent as defined in the NYSE Independence Rules.

Some of the Compensation Committee’s responsibilities include:

- reviewing and approving on an annual basis the corporate goals and objectives with respect to compensation for the chief executive officer, evaluating at least once a year the chief executive officer's performance in light of these established goals and objectives and, based upon these evaluations, determining and approving the chief executive officer's annual compensation, including salary, bonus, incentive, equity compensation, perquisites and other personal benefits;

- reviewing and approving on an annual basis, with the input of the Chief Executive Officer, the corporate goals and objectives with respect to the Company’s compensation structure for all other executive officers (other than the chief executive officer), including perquisites and other personal benefits, and evaluating at least once a year the executive officers’ performance in light of these established goals and objectives and based upon these evaluations, determine and approve the annual compensation for these executive officers, including salary, bonus, incentive, equity compensation, perquisites and other personal benefits;
- reviewing on an annual basis the Company’s compensation policies, including salaries and annual incentive bonus plans, with respect to the compensation of employees whose compensation is not otherwise set by the Compensation Committee;
- reviewing the Company's incentive compensation and stock-based plans and approving changes in such plans as needed, subject to any approval of the Board required by applicable law or the terms of such plans, and having and exercising all the authority of the Board with respect to the administration of such plans;

- reviewing on an annual basis the Company's compensation structure for its Directors and making recommendations to the Board regarding the compensation of Directors;
- reviewing at least annually the Company's compensation programs with respect to overall risk assessment and risk management, particularly with respect to whether such compensation programs encourage unnecessary or excessive risk taking by the Company;
- reviewing and discussing with management the "Compensation Discussion and Analysis," and based on such review and discussions, make recommendations to the Board regarding inclusion of that section in the Company's proxy statement for any annual meeting of stockholders;
- preparing and publishing an annual executive compensation report in the Company's proxy statement;
- reviewing and recommending to the Board for approval the frequency with which the Company will conduct Say on Pay Votes and reviewing and approving the proposals regarding Say on Pay Vote and the frequency of the Say on Pay Vote to be included in the Company's proxy statement for any annual meeting of stockholders;
- reviewing and approving employment agreements, severance arrangements and change in control agreements and provisions when, and if, appropriate, as well as any special supplemental benefits;
- conducting an annual evaluation of the committee's performance and reporting to the Board on the results of this self-evaluation; and
- reporting regularly to the Board on the committee's activities.

The Compensation Committee, in its role as administrator under the Company's previous Amended and Restated 2003 Equity Incentive Plan, as amended (the "2003 Equity Incentive Plan"), and under the Company's current 2013 Equity Incentive Plan (the "2013 Equity Incentive Plan"), recommended, and the Board approved, the delegation of authority to the Company's President and Chief Executive Officer to grant equity awards under those plans within certain specified parameters.

In determining the incentive compensation of our senior executives (other than for our Chief Executive Officer), our Chief Executive Officer recommends performance objectives to the Compensation Committee and assists the Compensation Committee to determine if the performance objectives have been achieved.

Since 2005, the Compensation Committee has periodically engaged Frederic W. Cook & Co., Inc. ("Cook"), an executive compensation consultant, to evaluate the Company's overall compensation structure and equity compensation for the Company's executive officers and Directors. In 2016, the Compensation Committee directly engaged Cook to update the competitive analysis of executive compensation levels and structure. For a further description of the services Cook has provided, see "Executive Compensation and Related Information - Compensation Discussion and Analysis" in this Proxy Statement.

Cook does no work for the Company unless requested by and on behalf of the Compensation Committee Chair, receives no compensation from the Company other than for its work in advising the Compensation Committee and maintains no other economic relationships with the Company. A representative from Cook attends meetings of the Compensation Committee, when requested by the Compensation Committee Chair, and the Compensation Committee Chair frequently interacts with Cook between meetings to define the nature of work to be conducted, to review materials to be presented at Committee meetings and to obtain the consultant's opinion and perspective on proposals prepared by management. In accordance with the requirements of Item 407(e)(3)(iv) of Regulation S-K and the NYSE rules, the Compensation Committee has affirmatively determined that no conflicts of interest exist between the Company and Cook (or any individuals working on the Company's account on Cook's behalf). In reaching such determination, the Compensation Committee considered the following enumerated factors, all of which were attested to or affirmed by Cook:

- during 2016, Cook provided no services to and received no fees from the Company other than in connection with the engagement;

- the amount of fees paid or payable by the Company to Cook in respect of the engagement represented (or are reasonably certain to represent) less than 1% of Cook's total revenue for the 12 month period ended December 31, 2015;
- Cook has adopted and put in place adequate policies and procedures designed to prevent conflicts of interest, which policies and procedures were provided to the Company;
- there are no business or personal relationships between Cook and any member of the Compensation Committee other than in respect of (i) the engagement, or (ii) work performed by Cook for any other company, board of directors or compensation committee for whom such Committee member also serves as an independent director;
- Cook owns no stock of the Company; and
- there are no business or personal relationships between Cook and any executive officer of the Company other than in respect of the engagement.

The Compensation Committee met six times in 2016. A copy of the Compensation Committee charter as adopted by our Board of Directors is available on Tempur Sealy International’s website under the caption "Corporate Governance" at http://investor.tempursealy.com/overview.cfm.

The Nominating and Corporate Governance Committee

The members of the Nominating and Corporate Governance Committee are John A. Heil (Chair), Evelyn S. Dilsaver, Jon L. Luther and Usman S. Nabi. The Board has determined that each member and prospective member of the Nominating and Corporate Governance Committee is independent as defined in the NYSE Independence Rules. Some of the Nominating and Corporate Governance Committee’s responsibilities include:

- identifying individuals qualified to become members of the Board;
- recommending to the Board director nominees to be presented at the annual meeting of stockholders and to fill vacancies on the Board;
- developing appropriate criteria for identifying properly qualified directorial candidates;
- annually reviewing the composition of the Board and the skill sets and tenure of existing directors and discussing longer term transition issues;
- annually reviewing and recommending to the Board members for each standing committee of the Board;
- monitoring and participating in the Company's overall stockholder communications effort so that all of the communications elements are unified and consistent; members of the Committee, individually or collectively, may attend, with management, meetings with stockholders of the Company when requested by the Board or management;
- establishing procedures to assist the Board in developing and evaluating potential candidates for executive positions, including the Chief Executive Officer;
- reviewing various corporate governance-related policies, including the Code of Business Conduct and Ethics, the Related Party Transactions Policy, and the Policy on Insider Trading and Confidentiality, and recommending changes, if any, to the Board;
- reviewing and evaluating related party transactions;
- developing, annually reviewing and recommending to the Board corporate governance guidelines for the Company;
- establishing procedures to exercise oversight of the Company's adherence to such guidelines and the evaluation of the Board and Company management;
- reviewing at least annually the reports on the Company prepared by the major proxy advisory firms and provide a report to the Board;
- developing and overseeing, when necessary, a Company orientation program for new directors and a continuing education program for current directors, and periodically reviewing these programs and updating them as necessary;
- making recommendations to the Board in connection with any Director resignation tendered pursuant to the Company’s Amended and Restated By-Laws;
- preparing an annual evaluation of the committee's performance and reporting to the Board on the results of this self-evaluation; and
- reporting regularly to the Board on the committee's activities.

The Nominating and Corporate Governance Committee met five times in 2016. A copy of the Nominating and Corporate Governance Committee charter as adopted by our Board of Directors is available on Tempur Sealy International’s website under the caption "Corporate Governance" at http://investor.tempursealy.com/overview.cfm.

Compensation Committee Interlocks and Insider Participation

The members of our Compensation Committee are Jon L. Luther (Chair), Usman S. Nabi and Richard W. Neu. None of these members is a current or former officer or employee of Tempur Sealy International or, to our knowledge, has any interlocking relationships as set forth in applicable SEC rules that require disclosure as a Compensation Committee interlock.

Policy Governing Related Party Transaction

Our Board has adopted a written Related Party Transactions Policy providing for the review and approval or ratification by the Nominating and Corporate Governance Committee of any transaction, arrangement or relationship, or series of such transactions, arrangements or relationships (including indebtedness or guarantees of indebtedness), in which the aggregate amount involved will or may be expected to exceed $120,000 in any calendar year end and involving the Company and its Directors, executive officers, beneficial owners of more than 5% of the Company's common stock or their respective immediate family members or affiliates. In reviewing a transaction, an arrangement or relationship, the Nominating and Corporate Governance Committee will take into account, among other factors it deems appropriate, whether it is on terms no more favorable than to an unaffiliated third party under similar circumstances, as well as the extent of the related party's interest in the transaction, arrangement or relationship.

Policies Governing Director Nominations

Director Qualifications and Review of Director Nominees

The Nominating and Corporate Governance Committee makes recommendations to the Board regarding the size and composition of the Board. The Committee reviews annually with the Board the composition of the Board as a whole and recommends, if necessary, measures to be taken so that the Board reflects the appropriate balance of knowledge, experience, skills, expertise and diversity required for the Board as a whole and contains at least the minimum number of independent directors required by applicable laws and regulations. The Nominating and Corporate Governance Committee is responsible for ensuring that the composition of the Board accurately reflects the needs of the Company's business and, in furtherance of this goal, proposing the addition of members and the necessary resignation of members for purposes of obtaining the appropriate members and skills. Board members should possess such attributes and experience as are necessary to provide a broad range of personal characteristics including diversity, management skills and business experience. Directors should be able to commit the requisite time for preparation and attendance at regularly scheduled Board and committee meetings, as well as be able to participate in other matters necessary to ensure that good corporate governance is practiced. No individual may stand for election to the Board if he or she would be age 75 or older at the time of the election unless the application of that restriction to an individual is waived on an annual basis by the Board.

In evaluating a director candidate, the Nominating and Corporate Governance Committee considers factors that are in the best interests of the Company and its stockholders, including the potential contribution of each candidate to the diversity of backgrounds, experience and competencies which the Board desires to have represented; independence; reputation for integrity, honesty and adherence to high ethical standards; the ability to exercise sound business judgment; substantial business or professional experience and the ability to offer meaningful advice and guidance to the Company's management based on that experience; each candidate's ability to devote sufficient time and effort to his or her duties as a director; and any other criteria established by the Board and any core competencies or technical expertise necessary to staff Board committees. In addition, the Nominating and Corporate Governance Committee assesses whether a candidate possesses the integrity, judgment, knowledge, experience, skills and expertise that are likely to enhance the Board's ability to manage and direct the affairs and business of the Company, including, when applicable, to enhance the ability of committees of the Board to fulfill their duties.

In addition to fulfilling the above criteria, six of the seven nominees for re-election named above are considered independent under the NYSE Independence Rules. Mr. Thompson, the Company's Chairman, President and Chief Executive Officer, is not considered independent under the NYSE Independence Rules. The Nominating and Corporate Governance Committee believes that all seven nominees are independent of the influence of any particular stockholder or group of stockholders whose interests may diverge from the interests of our stockholders as a whole.

Each nominee also brings a strong and unique background and set of skills to the Board, giving the Board as a whole competence and experience in a wide variety of areas, including corporate governance and board service, executive management, investing, finance, manufacturing, consumer product companies, sales, marketing and international business. The Board believes that these are the skills necessary to execute on our strategy and to deliver long-term stockholder value. Set forth below are the conclusions reached by the Board with regard to its nominees.

Ms. Dilsaver brings significant accounting, auditing and financial skills, based on her training as an accountant and her senior positions at a number of financial services companies, including in the role of chief financial officer.

Mr. Heil has served in positions of president, chief executive officer or chief operating officer of a number of food and consumer products companies, and has significant manufacturing, marketing and managerial experience.

Mr. Luther brings a strong track record of profitably growing large global consumer branded businesses, with a keen understanding of the consumer, and notable brand development expertise. He has significant relevant experience as a CEO and as a director of other high-performance public companies.

Mr. Nabi brings significant investment and financial expertise, as well a strong record of stockholder value creation and expertise in senior management recruitment and compensation.

Mr. Neu has extensive knowledge and experience handling complex financial and operational issues through his service as both a director and executive officer of a variety of public companies.

Mr. Thompson serves as our Chairman, President and Chief Executive Officer and brings more than two decades of executive leadership experience, and a history of strategic focus, enhancing high-performance teams and stockholder value creation.

Mr. Trussell, as former Chief Executive Officer and a principal founder of the Company, brings management and mattress industry experience and an historical perspective to the Board.

The Nominating and Corporate Governance Committee of the Board is responsible for reviewing with the Board from time to time the appropriate qualities, skills and characteristics desired of members of the Board in the context of the needs of the business and the composition of the Board. This assessment includes consideration of the following minimum qualifications that the Nominating and Corporate Governance Committee believes must be met by all Directors:

- a reputation for integrity, honesty and adherence to high ethical standards;
- the ability to exercise sound business judgment;
- substantial business or professional experience and the ability to offer meaningful advice and guidance to the Company’s management based on that experience; and
- the ability to devote the time and effort necessary to fulfill their responsibilities to the Company.

The Nominating and Corporate Governance Committee also considers numerous other qualities, skills and characteristics when evaluating Director nominees, including whether the nominee has specific strengths that would augment the existing skills and experience of the Board, such as an understanding of and experience in international business, accounting, governance, finance or marketing and whether the nominee has leadership experience with public companies or other sophisticated and complex organizations. Further, consideration is given to having a diversity of background, experience, skill and perspective among the Directors, including perspectives that may result from diversity in ethnicity, race, gender, national origin or nationality, and that the Directors represent a range of differing professional positions, industry sectors, expertise and geographic representation. In addition, the Nominating and Corporate Governance Committee is responsible for considering the tenure of existing directors and longer term Board composition transition issues. The Board does not have a specific policy with respect to the diversity of its Directors, and diversity is only one consideration when selecting and nominating Directors.

Process for Identifying and Evaluating Director Nominees

As discussed above under "Director Qualifications and Review of Director Nominees," the Nominating and Corporate Governance Committee reviews annually the size and composition of the Board and makes recommendations to the Board regarding any measures to be taken. In addition, the Nominating and Corporate Governance Committee has established a process for identifying potential candidates when appropriate and evaluating nominees for Director. Although the Nominating and Corporate Governance Committee will consider nominees recommended by stockholders in accordance with the Company's By-Laws, the Nominating and Corporate Governance Committee believes that the process it uses to identify and evaluate nominees for Director is designed to produce nominees that possess the educational, professional, business and personal attributes that are best suited to further the Company's mission. If the Board has identified a need to either expand the Board with a new member possessing certain specific characteristics or to fill a vacancy on the Board, the Nominating and Corporate Governance Committee may identify nominees through the use of professional search firms that may utilize proprietary screening techniques to match candidates to the Nominating and Corporate Governance Committee's specified qualifications. The Nominating and Corporate Governance Committee may also receive recommendations from existing Directors, executive officers, stockholders, key business associates and trade or industry affiliations. The Nominating and Corporate Governance Committee will evaluate nominations at regular or special meetings, and in evaluating nominations, will seek to achieve a balance of knowledge, experience and capability on the Board and to address the membership criteria set forth above under "Director Qualifications and Review of Director Nominees." The Board itself is ultimately responsible for recommending candidates for election to the stockholders or for appointing individuals to fulfill a vacancy.

In 2016, the Company did not employ a search firm or pay fees to any third party to either search for or evaluate Board nominee candidates.

Procedures for Recommendation of Director Nominees by Stockholders

The Nominating and Corporate Governance Committee will consider director candidates recommended by our stockholders, in accordance with the Company's By-Laws. In evaluating candidates recommended by our stockholders, the Nominating and Corporate Governance Committee applies the same criteria set forth above under "Director Qualifications and Review of Director Nominees" and follows the same process as set forth above under "Process for Identifying and Evaluating Director Nominees." Any stockholder recommendations of director nominees proposed for consideration by the Nominating and Governance Committee should include the nominee's name and qualifications for Board membership and should be addressed in writing to the Committee, care of: Tempur Sealy International, Inc., 1000 Tempur Way, Lexington, Kentucky 40511, Attention: Corporate Secretary. The Company’s By-Laws permit stockholders to nominate directors for consideration at our 2018 annual stockholder meeting in accordance with certain procedures described in this Proxy Statement under the heading "Stockholder Proposals for 2018 Proxy Statement."

Designation of, and Communication with, Tempur Sealy International’s Board of Directors through its Lead Director

The Board has designated Mr. Neu as the Lead Director. Stockholders or other interested parties wishing to communicate with our Board may contact the Lead Director by e mail at presidingdirector@tempursealy.com or by going to Tempur Sealy International’s website at http://investor.tempursealy.com/overview.cfm under the caption "Corporate Governance - email the Lead Director." Regardless of the method you use, the Lead Director will be able to view your unedited message. The Lead Director will determine whether to relay your message to other members of the Board.

Executive Sessions

Executive sessions, or meetings of the outside (non-management) Directors without management present, are held regularly. In 2016, executive sessions were held during four of the regularly scheduled meetings of the Board of Directors. Executive sessions are led by the Lead Director.

Charitable Contributions

Tempur Sealy International has not made any charitable contributions to any charitable organization in which a director serves as an executive officer in which, within the preceding three years, such contributions in any single year exceeded the greater of $1.0 million, or 2% of such organization's consolidated gross revenues.

Board Member Attendance at Annual Meetings

In accordance with our Corporate Governance Guidelines, all continuing Directors are generally expected to attend the annual meeting of stockholders. At our last annual meeting, which was held on May 5, 2016, all the members of the Board attended.

PROPOSAL ONE

ELECTION OF DIRECTORS

Board of Directors

Tempur Sealy International’s Board currently consists of seven members, each serving a one-year term. The nominees for this year’s election of directors are: Evelyn S. Dilsaver, John A. Heil, Jon L. Luther, Usman S. Nabi, Richard W. Neu, Scott L. Thompson and Robert B. Trussell, Jr., each currently a director of Tempur Sealy International. The nominees, if elected, will each serve a one-year term until Tempur Sealy International’s annual meeting of stockholders in 2018 or until his or her respective successor is elected and qualified. Each of the nominees has consented to serve a one-year term. There are no family relationships among our executive officers and directors.

VOTE REQUIRED

Each director will be elected by the affirmative vote of a majority of the shares of common stock present or represented by proxy at the Annual Meeting. In the event that the number of votes "against" a director exceeds the number of votes "for" that director, that director must tender his or her resignation to the Board of Directors. The Nominating and Corporate Governance Committee will make a recommendation to the Board of Directors whether to accept the resignation. The Board of Directors will then consider the recommendation and publicly disclose its decision within 90 days after the certification of the election results.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE "FOR" THE ELECTION TO THE BOARD OF DIRECTORS OF EACH OF THE FOLLOWING NOMINEES:

Nominees to Board of Directors

Evelyn S. Dilsaver, 61, has served as a member of Tempur Sealy International’s Board of Directors since December 2009. Ms. Dilsaver was President and Chief Executive Officer of Charles Schwab Investment Management from July 2004 until September 2007. Prior to that, Ms. Dilsaver held various senior management positions with The Charles Schwab Corporation since December 1991, including Executive Vice President and Senior Vice President, Asset Management Products and Services, of Charles Schwab Investment Management and Chief Financial Officer for U.S. Trust Company. Ms. Dilsaver is also a member of the board of directors of Aeropostale, Inc., a clothing retailer, HealthEquity, Inc., a non-bank health savings trustee, Bailard Private Real Estate Fund, as well as Blue Shield of California and other non-profit boards. She also serves as a member of the advisory board of Protiviti, a global consulting company. In the past five years, Ms. Dilsaver has also served as a director of HighMark Funds, an asset management firm, Longs Drugs, a retail pharmacy chain, and Tamalpais Bancorp. Ms. Dilsaver is a certified public accountant and holds a B.S. degree in accounting from California State University-Hayward. Ms. Dilsaver brings a long professional career in finance, accounting and general management and considerable experience with consumer-oriented businesses to the Board as a senior executive of a large investment management firm and her many years of serving as a director of companies in a variety of businesses.

John A. Heil, 64, has served as a member of Tempur Sealy International’s Board of Directors since March 2008. From February 2005 until his retirement in April 2013, he served as President of United Pet Group, Inc., a global manufacturer and marketer of pet food/supplies and a subsidiary of Spectrum Brands, Inc. Spectrum Brands, Inc. filed a voluntary petition for reorganization under Chapter 11 of the United States Bankruptcy Code in February 2009 and emerged from bankruptcy protection on August 28, 2009. From 2000 to February 2005 he served as United Pet Group’s President and Chief Executive Officer. Mr. Heil has been a member of the board of directors and a member of the audit committee of VCA Antech, Inc., a NYSE listed company, since February 2002, and previously served as a director of that company from 1995 to 2000. Prior to joining United Pet Group, Mr. Heil spent twenty-five years with the H.J. Heinz Company in various executive and general management positions including President of Heinz Pet Products. Mr. Heil holds a B.A. degree in economics from Lycoming College. Mr. Heil’s long career in management and the branded consumer products arena brings a remarkable depth of operational and strategic experience to the Board.

Jon L. Luther, 73, has served as a member of Tempur Sealy International's Board of Directors since May 2015. He served as Chief Executive Officer of Dunkin' Brands from January 2003 to January 2009 and Chairman from March 2006 to January 2009. In January 2009, he assumed the role of Executive Chairman and became non-Executive Chairman from July 2010 until his retirement in May 2013. Prior to Dunkin' Brands, Mr. Luther was President of Popeyes, a division of AFC Enterprises, from February 1997 to December 2002. Prior to Popeyes, Mr. Luther served as President of CA One Services, a subsidiary of Delaware North Companies, Inc., a global food service and hospitality company, and served as President and CEO of Benchmark Services, Inc., a food services company he founded. Earlier in his career, Mr. Luther held various leadership positions at Marriott Corporation and ARAMARK. Mr. Luther is a member of the board of directors of Six Flags Entertainment Corporation and Arby's Restaurant Group. Mr. Luther holds a degree in hotel and restaurant management from Paul Smith's College. Mr. Luther brings a strong track record of profitably growing large global consumer branded businesses, with a keen understanding of the consumer, and notable brand development expertise. He has significant relevant experience as a CEO and as a director of other high-performance public companies.

Usman S. Nabi, 42, has served as a member of Tempur Sealy International's Board of Directors since May 2015. Mr. Nabi is a Senior Partner at H Partners, an investment management firm and Tempur Sealy International's largest stockholder. Before joining H Partners in 2006, Mr. Nabi was at Perry Capital, the Carlyle Group, and Lazard Freres. Mr. Nabi serves on the Board of Directors of Six Flags Entertainment. Mr. Nabi received his A.B. degree from Harvard College and an M.B.A. degree from Stanford University Graduate School of Business. Mr. Nabi brings a strong business and financial background and extensive investment experience to the Board.

Richard W. Neu, 61, has served as a member of Tempur Sealy International's Board of Directors since October 2015. Mr. Neu's professional career has spanned over 35 years. For the last 11 years Mr. Neu has served in a variety of Board roles. Mr. Neu currently serves on the board of directors, as chair of the audit committee and as a member of the executive and integration risk oversight committees of Huntington Bancshares Incorporated, and as a member of the board of directors of TICC Capital Corp. Until the sale of the company in 2012, he was the lead director and a member of the audit committee and governance committee of Dollar Thrifty Automotive Group, Inc., having served as the chairman of the Dollar Thrifty board of directors from 2010 through 2011. Mr. Neu also served as a director of MCG Capital Corporation, a private equity firm, from 2007 until its sale in 2015, and during this period served as chairman of the board from 2009 to 2015 and as Chief Executive Officer from November 2011 to November 2012. Mr. Neu served from 1985 to 2004 as Chief Financial Officer of Charter One Financial, Inc., a major regional bank holding company, and a predecessor firm, and as a director of Charter One Financial, Inc. from 1992 to August 2004. Mr. Neu previously worked for KPMG. Mr. Neu received a B.B.A. from Eastern Michigan University with a major in accounting. Mr. Neu has extensive knowledge and experience handling complex financial and operational issues through his service as both a director and executive officer of a variety of public companies.

Scott L. Thompson, 58, has served as Chairman of Tempur Sealy International's Board of Directors and as its President and Chief Executive Officer since September 2015. He previously served as Chief Executive Officer and President of Dollar Thrifty Automotive Group, Inc. until it was purchased by Hertz Global Holdings, Inc. in 2012. Prior to serving as CEO and President, Mr. Thompson was a Senior Executive Vice President and Chief Financial Officer of Dollar Thrifty. Prior to joining Dollar Thrifty in 2008, Mr. Thompson was a consultant to private equity firms, and was a founder of Group 1 Automotive, Inc., a NYSE and Fortune 500 company, serving as its Senior Executive Vice President, Chief Financial Officer and Treasurer. Mr. Thompson presently serves as a member of the Board of Directors for Asbury Automotive Group, Inc., a public automotive retailer. Mr. Thompson earned a Bachelor of Business Administration degree from Stephen F. Austin State University in Nacogdoches, Texas, and began his career with a national accounting firm. Mr. Thompson brings extensive financial, operational and entrepreneurial experience to the Board in his roles as an executive officer and director of publicly traded companies.

Robert B. Trussell, Jr., 65, has served as a member of Tempur Sealy International’s Board of Directors or its predecessors since 2002. Mr. Trussell served as Chief Executive Officer of Tempur Sealy or its predecessor from November 2002 until his retirement in May 2006. From 1994 to December 2004, Mr. Trussell served as President of the Company and its predecessors. Prior to joining the Company's predecessor in 1994, Mr. Trussell was general partner of several racing limited partnerships that owned racehorses in England, France and the United States. He was also the owner of several start-up businesses in the equine lending and insurance business. Mr. Trussell received his B.S. degree from Marquette University. As former Chief Executive Officer and a principal founder of Tempur Sealy, Mr. Trussell brings significant management and mattress industry experience and an historical perspective to the Board.

Executive Officers

Name	Age	Position
Scott L. Thompson	58	Chairman of the Board, President and Chief Executive Officer
Barry A. Hytinen	42	Executive Vice President and Chief Financial Officer
Richard W. Anderson	57	Executive Vice President and President, North America
David Montgomery	56	Executive Vice President and President of International Operations
Bhaskar Rao	51	Chief Accounting Officer and Senior Vice President Finance

Barry A. Hytinen was appointed to serve as Executive Vice President and Chief Financial Officer of Tempur Sealy International in July 2015. Since joining the Company in June 2005, Mr. Hytinen has served in a range of finance, corporate development, financial planning and investor relations roles, most recently as Executive Vice President, Corporate Development and Finance. Prior to joining the Company, Mr. Hytinen served as Chief Financial Officer of a venture-backed software company. Earlier in his career, he held finance and corporate development positions at Vignette and General Electric. Mr. Hytinen earned an M.B.A. from Harvard Business School and holds a B.S. in Finance and Political Science from Syracuse University.

Richard W. Anderson joined Tempur Sealy International in July 2006 and serves as Executive Vice President and President, North America. From 1983 to 2006, Mr. Anderson was employed by The Gillette Company, which became a part of The Procter & Gamble Company in 2005. Mr. Anderson most recently served as the Vice President of Marketing for Oral-B and Braun in North America. Previously, Mr. Anderson was the Vice President of Global Business Management for Duracell. Mr. Anderson has held several management positions in marketing and sales as well as overseeing branding, product development and strategic planning. Mr. Anderson earned a B.S. and a M.B.A. from Virginia Tech.

David Montgomery joined Tempur Sealy International in February 2003 and serves as Executive Vice President and President of International Operations, with responsibilities including marketing and sales. From 2001 to November 2002, Mr. Montgomery was employed by Rubbermaid, Inc., where he served as President of Rubbermaid Europe. From 1988 to 2001, Mr. Montgomery held various management positions at Black & Decker Corporation, most recently as Vice President of Black & Decker Europe, Middle East and Africa. Mr. Montgomery received his B.A. degree, with honors, from L' Ecole Superieure de Commerce de Reims, France and Middlesex Polytechnic, London.

Bhaskar Rao joined Tempur Sealy International as Director of Financial Planning and Analysis in January 2004 and since April 2011 has served as Senior Vice President Finance and Chief Accounting Officer. From January 2004 to April 2011, he held various roles of increasing responsibility in the Company's finance and accounting organization. From 2002 until December 2003, Mr. Rao was employed by Ernst & Young as a Senior Manager in the assurance and business advisory group, and from 1994 until 2002, he was employed by Arthur Andersen. Mr. Rao earned B.A. degrees in Accounting and Economics from Bellarmine University. Mr. Rao is also a Certified Public Accountant.

PRINCIPAL SECURITY OWNERSHIP AND CERTAIN BENEFICIAL OWNERS

The following table sets forth information as of March 15, 2017 regarding the beneficial ownership of our outstanding equity securities by:

- each person known to beneficially own more than 5% of Tempur Sealy International's outstanding common stock;
- each of Tempur Sealy International's Directors and Named Executive Officers (as defined below in "Executive Compensation and Related Information"); and
- all of Tempur Sealy International's Directors and executive officers as a group.

Beneficial ownership of shares is determined under Rule 13d-3(d)(1) of the Exchange Act and generally includes any shares over which a person exercises sole or shared voting or investment power and the number of shares that can be acquired within sixty (60) days upon exercise of any option or the conversion of other types of securities. Common stock subject to these options, warrants and rights is deemed to be outstanding for the purpose of computing the ownership percentage of the person holding such options, but is not deemed to be outstanding for the purpose of computing the ownership percentage of any other person. As of the close of trading on March 15, 2017, there were 53,885,518 shares of common stock outstanding, which is used to calculate the percentages in the table below.

Except as otherwise indicated, the persons named in the table below have sole voting and investment power with respect to all shares of common stock held by them.

Name of Beneficial Owner:	Shares Beneficially Owned Number of Shares	Percentage of Class	
5% Stockholders:			
Manulife Financial Corporation[(1)]	7,461,908	12.89	%
H Partners Management, LLC[(2)]	7,000,000	11.20	
T. Rowe Price Associates, Inc.[(3)]	4,470,343	7.70	
The Vanguard Group[(4)]	3,948,364	6.81	
Blackrock, Inc.[(5)]	3,818,153	6.60	
The London Company[(6)]	3,605,181	6.23	
Chieftain Capital Management, Inc.[(7)]	3,364,827	5.80	
State Street Corporation[(8)]	3,136,303	5.42	
Executive Officers and Directors:			
Scott L. Thompson[(9)(10)]	284,619	*	
Barry A. Hytinen[(10)]	60,515	*	
Richard W. Anderson[(10)]	115,027	*	
David Montgomery[(10)]	431,461	*	
Jay G. Spenchian[(10)]	34,418	*	
W. Timothy Yaggi[(10)]	31,745	*	
Evelyn S. Dilsaver[(10)]	33,465	*	
John A. Heil[(10)]	33,599	*	
Jon L. Luther[(10)]	9,949	*	
Usman S. Nabi[(2)]	see Note[(2)]	see Note[(2)]	
Richard W. Neu[(10)]	23,848	*	
Robert B. Trussell, Jr.[(10),(11)]	58,874	*	
All Executive Officers and Directors as a group (13 persons[(10)]):	1,140,679	2.10	%

* Represents ownership of less than 1% of class.

(1) Amounts shown reflect the aggregate number of shares of common stock held by Manulife Financial Corporation's indirect, wholly-owned subsidiaries based on information set forth in a Schedule 13G filed with the SEC on February 9, 2017. Manulife Asset Management (US) LLC reported sole voting power and sole dispositive power over 7,387,950 shares. Manulife Asset Management (North America) Limited reported sole voting power and sole dispositive power over 32,006 shares. Manulife Asset Management Limited reported sole voting power and sole dispositive power over 41,952 of the shares. The address of Manulife Financial Corporation is 200 Bloor Street East, Toronto, Ontario, Canada, M4W 1E5.

(2) Amounts shown reflect the aggregate number of shares of common stock held by H Partners Management, LLC based on information set forth in a Schedule 13D/A filed with the SEC on February 9, 2016. H Partners Management, LLC reported shared voting and shared dispositive power over all 7,000,000 shares. The address of H Partners Management, LLC is 888 Seventh Avenue, 29th Floor, New York, NY 10019. Mr. Nabi, a senior partner at H Partners, may be deemed to have voting and dispositive power with respect to these shares. Mr. Nabi disclaims beneficial ownership of these shares, except to the extent of his pecuniary interest.

(3) Amounts shown reflect the aggregate number of shares of common stock held by T. Rowe Price Associates, Inc. based on information set forth in a Schedule 13G filed with the SEC on February 7, 2017. T. Rowe Price Associates, Inc. reported sole voting power over 718,904 shares and sole dispositive power over all 4,470,343 shares. The address of T. Rowe Price Associates, Inc. is 100 E. Pratt Street, Baltimore, MD 21202.

(4) Amounts shown reflect the aggregate number of shares of common stock held by The Vanguard Group based on information set forth in a Schedule 13G/A filed with the SEC on February 10, 2017. The Vanguard Group reported sole voting power over 30,495 shares, shared voting power over 7,171 shares, sole dispositive power over 3,913,686 shares and shared dispositive power over 34,678 shares. The address of The Vanguard Group is 100 Vanguard Blvd., Malvern, PA 19355.

(5) Amounts shown reflect the aggregate number of shares of common stock held by Blackrock, Inc. based on information set forth in a Schedule 13G/A filed with the SEC on January 27, 2017. Blackrock, Inc. reported sole voting power over 3,627,393 shares and sole dispositive power over all 3,818,153 shares. The address of Blackrock, Inc. is 55 East 52nd Street, New York, NY 10055.

(6) Amounts shown reflect the aggregate number of shares of common stock held by The London Company based on information set forth in a Schedule 13G/A filed with the SEC on February 14, 2017. The London Company reported sole voting power over 2,764,745 shares, sole dispositive power over 2,764,745 shares and shared dispositive power over 840,436 shares. The address of The London Company is 1800 Bayberry Court, Suite 301, Richmond, VA 23226.

(7) Amounts shown reflect the aggregate number of shares of common stock held by Chieftain Capital Management, Inc. based on information set forth in a Schedule 13G filed with the SEC on February 14, 2017. Chieftain reported sole voting power over 3,110,732 shares and sole dispositive power over all 3,364,827 shares. The address of Chieftain Capital Management, Inc. is 510 Madison Avenue, New York, NY 10022.

(8) Amounts shown reflect the aggregate number of shares of common stock held by State Street Corporation based on information set forth in a Schedule 13G filed with the SEC on February 9, 2017. State Street Corporation reported shared voting power and shared dispositive power over all 3,136,303 shares. The address of State Street Corporation is State Street Financial Center, One Lincoln Street, Boston, MA 02111.

(9) Includes 38,028 shares of common stock which are the result of the vesting of restricted stock units, however payout of the vested common shares is deferred until thirty days following termination of his employment.

(10) Includes the following number of shares of common stock which a director or executive officer has the right to acquire upon the exercise of stock options that were exercisable as of March 15, 2017, or that will become exercisable within 60 days after that date, or other equity instruments which are scheduled to vest and convert into common shares within 60 days after that date:

Name	Number of Shares	Name	Number of Shares
Scott L. Thompson	113,608	Evelyn S. Dilsaver	20,088
Barry A. Hytinen	25,189	John A. Heil	11,297
Richard W. Anderson	58,500	Jon L. Luther	1,669
David Montgomery	104,715	Usman S. Nabi	—
Jay G. Spenchian	10,972	Richard W. Neu	675
W. Timothy Yaggi	26,223	Robert B. Trussell, Jr.	24,897
All Executive Officers and Directors as a Group (13 persons):			411,075

(11) Includes 25,000 shares of common stock, owned by RBT Investments, LLC and Robert B. Trussell, Jr. and Martha O. Trussell, Tenants in Common.

EXECUTIVE COMPENSATION AND RELATED INFORMATION

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis ("CD&A") is organized into eight sections:

INTRODUCTION

This CD&A provides information about the material components of our executive compensation programs for our Named Executive Officers ("NEOs"), whose compensation is set forth in the 2016 Summary Compensation Table and other compensation tables contained in this Proxy Statement:

- Scott L. Thompson, Chairman, President and Chief Executive Officer ("CEO");
- Barry A. Hytinen, Executive Vice President and Chief Financial Officer ("CFO");
- Richard W. Anderson, Executive Vice President and President, North America;
- David Montgomery, Executive Vice President and President, International;
- Jay G. Spenchian, Former Executive Vice President and Chief Marketing Officer; and
- W. Timothy Yaggi, Former Chief Operating Officer.

2016 was the first full year with the Company's new senior leadership team in place. During 2015 Scott L. Thompson was appointed Chairman, Chief Executive Officer and President and Barry A. Hytinen was promoted to the position of Executive Vice President and Chief Financial Officer. As discussed later in this CD&A, Mr. Yaggi, our Chief Operating Officer, left the Company effective March 31, 2016. Although Mr. Yaggi is an NEO for 2016 for purposes of SEC rules, he is not subject to our current executive compensation program and did not participate in certain portions of the fiscal 2016 program. Accordingly, in order to preserve an accurate description of our executive compensation programs, references in this CD&A to "executives" or "NEOs" are intended to exclude Mr. Yaggi unless otherwise noted. For a discussion of the 2016 compensation for Mr. Yaggi, please refer the subsection of this CD&A titled "2016 Compensation for Former Named Executive Officer." In addition, Jay G. Spenchian, our Executive Vice President and Chief Marketing Officer, left the Company effective February 28, 2017. For a discussion of the terms relating to Mr. Spenchian's departure please refer to "Compensation Discussion and Analysis - 2017 Compensation Actions - Departure of Mr. Spenchian."

In response to direct shareholder feedback during a proxy contest in connection with our 2015 Annual Meeting, our Board of Directors effected several management and compensation changes. These changes included: (i) the recruitment of a highly experienced CEO with a strong record of shareholder value creation, (ii) a realignment of strategy to emphasize profit growth as opposed to sales growth and (iii) a more focused compensation structure that included an aspirational long-term earnings target that would reward management for delivering exceptional outcomes for shareholders. In addition, over the last year in order to create a more focused, efficient management structure we have streamlined the size of our Board of Directors and significantly reduced the size of our senior management team. Our executive compensation program resulting from these changes is designed to attract, motivate and retain the leaders of our business. By rewarding our executives for Company performance and execution of key business plans and strategies, our compensation program creates long-term value for our stockholders. This CD&A explains how the

Compensation Committee of the Board of Directors made compensation decisions in 2016 and in early 2017 for our NEOs.

BUSINESS SUMMARY

2016 Key Business Highlights

We are the world's largest bedding manufacturer. Our long-term strategy is to drive earnings growth. Our key initiatives for 2016 included developing the best bedding products, investing in our brands, expanding our North America business segment margins while maintaining market share, growing our market share in our International business segment and optimizing our worldwide distribution. In 2016, we focused on these key initiatives and delivered earnings growth and margin expansion as compared to 2015.

Key financial highlights in the table below include metrics for net sales, net income, earnings per share ("EPS"), adjusted EPS(2), earnings before interest, tax, depreciation and amortization ("EBITDA")(2) and adjusted EBITDA(2):

(in millions, except percentages and per common share amounts)	Year Ended December 31, 2016	2015	% Change	% Change Constant Currency (3)
Net sales	$3,127.3	$3,151.2	(0.8)%	0.7 %
Net income (1)	$202.1	$73.5	175.0 %	184.4 %
EPS (1)	$3.38	$1.17	188.9 %	199.1 %
Adjusted EPS (2)	$4.05	$3.19	27.0 %	30.7 %
EBITDA(2)	$510.8	$388.9	31.3 %	34.1 %
Adjusted EBITDA(2)	$521.6	$455.8	14.4 %	16.8 %

(1) In 2015, the Company recorded a change in estimate of its uncertain tax position regarding the previously disclosed Danish tax matter of approximately $60.7 million. For a discussion of this issue please refer to the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

(2) These are not recognized terms under U.S. Generally Accepted Accounting Principles ("GAAP") and are non-GAAP financial measures. For more information about these non-GAAP financial measures, including reconciliations to GAAP information, please refer to Appendix A to this Proxy Statement.

(3) Amounts represent net sales, net income, EPS, Adjusted EPS, EBITDA, and Adjusted EBITDA for 2016 on a "constant currency basis", which is a non-GAAP financial measure. These references to constant currency basis do not include operational impacts that could result from fluctuations in foreign currency rates. To provide information on a constant currency basis, the applicable financial results are adjusted based on a simple mathematical model that translates current period results in local currency using the comparable prior corresponding period's currency conversion rate. This approach is used for countries where the functional currency is the local country currency. This information is provided so that certain financial results can be viewed without the impact of fluctuations in foreign currency rates, thereby facilitating period-to-period comparisons of business performance.

Our net sales decreased slightly as compared to 2015, driven primarily by a decrease in sales to our largest customer of approximately $80 million in our North America business segment, as well as unfavorable foreign exchange rates in our International business segment. However, our focus on profitability and improving our operations generated significant margin expansion and growth in profitability during 2016. Gross margin was 41.9% as compared to 39.6% in 2015. The increase in gross margin was primarily driven by operational improvements, pricing actions and favorable product mix. Adjusted gross margin, which is a non-GAAP financial measure, was 41.9% as compared to 40.1% in 2015. Operating income increased 34.4% to $415.5 million, as compared to $309.1 million in 2015. The increase in operating income was primarily driven by improved gross margin and improved operating expense leverage. Adjusted operating income, which is a non-GAAP financial measure, was $425.0 million, or 13.6% of net sales, as compared to $373.8 million, or 11.9% of net sales, in 2015.

In 2016, we also focused on improving our capital structure. We refinanced our senior credit facility and a portion of our indenture debt, which provided us a more flexible covenant package and a significantly longer maturity profile for our debt. We also returned value to our stockholders by repurchasing 8.7 million shares in 2016 under our share repurchase authorization for a total purchase price of approximately $533 million. Notwithstanding this significant use of cash to return value to stockholders, our net leverage ratio at December 31, 2016 was 3.60, within the covenant in our debt agreement which limits this ratio to 5.00 times for the year ended December 31, 2016.

Net leverage ratio is a non-GAAP financial measure. We provide information regarding net leverage ratio, adjusted EBITDA, adjusted EPS, adjusted gross margin and adjusted operating income, which are not recognized terms under GAAP and do not purport to be alternatives to total debt or to net income or GAAP EPS as a measure of operating performance. For more information about these non-GAAP financial measures, including reconciliations to GAAP information, please refer to Appendix A to this Proxy Statement.

2016 Say on Pay Vote Results and Stockholder Outreach

Our executive compensation program received stockholder support and was approved on an advisory basis by approximately 77% of the votes present or represented and entitled to vote at the 2016 Annual Meeting of Stockholders, which was comparable to the nearly 78% approval received at the 2015 meeting. Since our 2016 Annual Meeting, members of our management and Board of Directors have conducted outreach, either in person or by telephone, with stockholders owning more than a majority of our outstanding stock, and as part of this outreach received questions and feedback on compensation issues. The Compensation Committee will continue to consider future feedback from stockholders and other stakeholders while ensuring the executive compensation program continues to support our business and talent management objectives and strategic priorities.

OUR COMPENSATION PROGRAM

Compensation Best Practices

Our compensation program features specific elements designed to align executive compensation with long-term stockholder interests. We also strive to implement and maintain best practices in our compensation program. These practices include:

What We Do	What We Don't Do
• Emphasize incentive-based compensation to align pay with performance	• Permit stock option repricing without stockholder approval
• Place primary emphasis on equity-based compensation to align executive and stockholder interests	• Provide uncapped incentive award opportunities
• Tie performance-based incentives to metrics that drive the leadership team and other employees to accomplish our most important business goals	• Provide tax “gross-ups” on any form of compensation
• Subject executives to stock ownership guidelines and holding requirements, which were amended in 2016 to increase the ownership requirement for the CEO and members of the Board of Directors	• Permit stock hedging or stock pledging activities
• Maintain a Clawback Policy allowing for the recovery of excess compensation resulting from a material financial restatement and fraud, willful misconduct or gross negligence	• Provide for multi-year pay guarantees within employment agreements
• Use tally sheets and other analytical tools to assesses executive compensation	• Maintain single trigger vesting provisions in the event of a change of control for cash severance or equity award vesting acceleration
• Engage an independent compensation consultant to advise the Compensation Committee	• Other than the benefits described below, we do not provide additional perquisites or benefits to our NEOs that differ from those provided to other employees

CEO Annualized Compensation Values and Pay-for-Performance Alignment

As discussed above under “Introduction,” we have made significant changes in our compensation program since 2015 in response to shareholder feedback. Our compensation program is designed to align the interests of our NEOs, including our CEO, with our stockholders. Mr. Thompson’s compensation package, which was established as part of an extensive recruiting process in 2015, includes a number of one-time and special awards to attract, retain, and motivate a highly experienced CEO candidate with an exceptional record of shareholder value creation. Because amounts reported for 2016 in the Summary Compensation Table or the footnotes do not reflect the entire value of one-time and multi-year awards made in 2015, the amounts presented for 2016 are not indicative of annualized pay opportunities. The table below summarizes Mr. Thompson's annualized total compensation opportunity, recognizing that a number of awards made in 2015 were one-time only or special grants and that he did not receive any annual equity grants in 2016, as this was included in his 2015 compensation package. The total direct compensation for Mr. Thompson as reported in the Summary Compensation Table for 2016 is approximately 47% of the annualized target total direct compensation in the table set forth below. The table also shows total compensation values excluding one-time or special grants. Ongoing target total direct compensation for Mr. Thompson will be determined by the terms of his employment agreement and the Compensation Committee for fiscal years 2017 and beyond and is expected to be higher than values shown in this supplemental table and reported in the Summary Compensation Table for fiscal year 2016. However, as previously noted, the aspirational PRSU grants, which make up the majority of Mr. Thompson's compensation package, are tied to aspirational goals that the Compensation Committee believes are challenging performance hurdles and, if achieved, would likely result in significant stockholder value creation. In addition, the following table also includes two realizable pay comparisons based on results for 2016, with the first comparison including where applicable equity grant values based on $68.28, the closing price of the common stock on December 30, 2016 (the last trading day of the year) and the second comparison including where applicable equity grant values based on $47.22, the closing price of the common stock on March 1, 2017. The second comparison using March 1, 2017 information is being provided to better reflect the current value of Mr. Thompson's compensation package in light of recent events discussed below under "2017 Compensation Actions".

The fiscal year 2016 total direct compensation for Mr. Thompson as reported in the Summary Compensation Table equals approximately 47% of the annualized target total direct compensation. 2016 total realizable compensation using the December 30, 2016 date for equity grant values equals approximately 75% of the annualized target total direct compensation and 2016 total realizable compensation using the March 1, 2017 date equity grant values equals approximately 61% of the annualized target total direct compensation. Excluding one-time and special grants, (i) the fiscal year 2016 total direct compensation for Mr. Thompson as reported in the Summary Compensation Table equals 30% of the annualized target total direct compensation, (ii) 2016 total realizable compensation using the December 30, 2016 date for equity grant values equals approximately 68% of the annualized target total direct compensation and (iii) 2016 total realizable compensation using the March 1, 2017 date for equity grant values equals approximately 56% of the annualized target total direct compensation.

Supplemental Table of Pro-Forma
Annualized Target Total Direct Compensation Value and Realizable Pay Comparisons for Mr. Thompson

Compensation Element	FY 2016($)	Annualized Target($)	2016 Total Realizable Compensation (December 30, 2016 Closing Price)($)	2016 Total Realizable Compensation (March 1, 2017 Closing Price)($)
Base Salary[(1)]	$1,100,000	$1,100,000	$ 1,100,000	$ 1,100,000
Target Annual Incentive[(2)]	1,375,000	1,375,000	1,934,625	1,934,625
Stock Option Grants[(3)]	—	3,606,850	—	—
Restricted Stock Grants[(4)]	—	4,233,250	4,028,520	2,785,980
Sign-On Bonus (One-Time Hiring Award)[(5)]	—	686,695	686,695	686,695
Performance-Based Matching PRSU Grant (One-Time Hiring Award)[(6)]	—	1,717,063	1,586,056	1,096,859
Performance-Based Matching PRSU Grant (Special Grant)[(7)]	3,181,575	636,315	701,509	485,138
Aspirational PRSU Grant (Special Grant)[(8)]	— [(9)]	—	—	—
Total Direct[(10)]	$5,656,575	$13,355,173	$ 10,037,405	$ 8,089,297
Total Direct Compensation (Excluding One-Time and Special Grants)[(10)]	$2,475,000	$10,315,100	$ 7,063,145	$ 5,820,605

(1) 2016 base salary was $1,100,000. This reflected no increase from 2015.

(2) Target award opportunity equal to 125% of salary. For 2016 Mr. Thompson received an annual bonus, based on achievement against an Adjusted EBITDA goal of $1,934,625, or 140.7% of his target bonus of $1,375,000.

(3) In 2015 the Company granted stock options for 310,000 shares and an exercise price of $71.75 per share, and these stock options will only have value if our stock price appreciates between grant date and time of exercise. For the annualized value, the grant date value is averaged over 2 years, since no additional annual grants were made in 2016. For the 2016 total realizable compensation, no value is shown because the exercise price of $71.75 exceeded the closing price of the common stock on December 30, 2016 of $68.28 and the closing price of the common stock on March 1, 2017 of $47.22.

(4) In 2015 the Company granted restricted stock units for 118,000 shares. For the annualized value, the grant date value is averaged over 2 years, since no additional annual grants were made in 2016. For the 2016 total realizable compensation, the value is calculated by multiplying one-half of the grant, or 59,000 shares, by $68.28, the closing price of the common stock on December 30, 2016, or $47.22, the closing price of the common stock on March 1,

2017, as applicable.

(5) Reflects a $1.6 million one-time signing bonus paid in 2015. If Mr. Thompson voluntarily terminates his employment (other than for Good Reason) prior to December 31, 2017, he must repay a pro-rated portion of the signing bonus to the Company. Annualized over 2.33 years.

(6) In September 2015, Mr. Thompson purchased $5 million of Company stock and received a matching grant of 69,686 PRSUs which vest in 3 annual installments subject to meeting a requirement for positive pre-tax income for 2016, which was met. For the annualized value, the value at the date of grant is annualized over the vesting period. For the 2016 total realizable compensation, the value is calculated by multiplying one-third of the grant, or 23,228.7 shares, by $68.28, the closing price of the common stock on December 30, 2016, or $47.22, the closing price of the common stock on March 1, 2017, as applicable.

(7) In February 2016, the Compensation Committee approved a special incentive program for senior management pursuant to which the Company would issue PRSUs to match open market stock purchases made by the executives, up to a cap. These PRSUs vest over a 5 year period subject to meeting a requirement for positive profits for 2016, which was met. Mr. Thompson received 51,370 PRSUs to match the purchase of 51,370 shares in the open market for a total purchase price of $2,999,995. For the annualized value, the grant date value is annualized over the vesting period. For the 2016 total realizable compensation, the value is calculated based on one-fifth of the total shares, or 10,274, multiplied by $68.28, the closing price of the common stock on December 30, 2016, or $47.22, the closing price of the common stock on March 1, 2017, as applicable.

(8) This grant of 620,000 PRSUs runs through 2017 (or 2018 with a reduced award opportunity) and is tied to an aspirational performance goal of achieving more than $650 million in Adjusted EBITDA for 2017 or 2018. The Compensation Committee believes these are challenging performance hurdles and, if achieved, would likely result in significant stockholder value creation. This is a special grant and the Compensation Committee does not expect that it would grant any similar aspirational award for any performance period beginning prior to 2018. Because the performance requirement for vesting is so challenging, at the time of grant these shares were not expected to vest; therefore, no value attributable to these PRSUs is included in the Summary Compensation Table. In light of the revised business outlook for 2017 the Compensation Committee no longer believes that these aspirational PRSUs serve as a meaningful incentive tool. See "2017 Compensation Actions" below.

(9) Amount shown represents the grant date fair value, based on the probable outcome of the performance conditions as of the grant date computed in accordance with the stock-based compensation accounting rules (FASB ASC Topic 718). For a discussion of our accounting treatment for these aspirational PRSU grants, please refer to Note 10 to our audited consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2016. For informational purposes, assuming that we achieve more than $650 million in Adjusted EBITDA for 2017, the grant date fair value would be $44,485,000, calculated by multiplying the maximum number of shares issuable under the PRSUs (620,000) by the price on the grant date ($71.75).

(10) Does not include value of aspirational PRSU grants, as described in Note 8.

Our Commitment to Aligning Pay with Performance

We set challenging performance goals and are committed to aligning pay with performance. The following table summarizes the range of annual incentive payouts and PRSUs earned, relative to target, for performance periods ending in 2014 through 2016.

AIP		PRSUs	
Performance Period	% of Target Award Earned (Varies by NEO for 2014 and 2015)	Performance Period	% of Target PRSUs Earned[(1)]
2014	59% - 78%	2012 - 2014	0%
2015	88% - 107%	2013 - 2014	0%
2016	140.7%	2014 - 2015	79.0%
		2014 - 2016	71.2%

(1) Mr. Thompson did not receive any of these grants as he joined the Company in September 2015.

We continue to set challenging performance hurdles, as demonstrated by the range of payouts in our annual incentive programs from 2014-2016 and in our LTIP payouts from 2014-2016 and the aspirational PRSU grants made in 2015 and 2016, which are tied to aspirational goals and described in more detail in the section titled "2016 Compensation Actions - Aspirational Grants" later in this CD&A.

Roles of the Committee, Compensation Consultant and Management

The Compensation Committee is comprised solely of independent directors and is responsible for determining the compensation of our CEO and other NEOs. The Compensation Committee's composition has changed significantly in the last two years in connection with the significant change in the composition of the Board in 2015 and the Company's transition to a smaller Board in 2016. The Compensation Committee is currently comprised of Messrs. Luther (Chair), Nabi and Neu. Mr. Nabi joined the Compensation Committee in May 2015, Mr. Neu joined the Compensation Committee in February 2016, and Mr. Luther joined the Compensation Committee (as Chair) in May 2016.

The Compensation Committee receives assistance during its evaluation process from: (1) Frederic W. Cook & Co., Inc. ("Cook"), the Compensation Committee's independent consultant; and (2) our CEO and internal compensation staff, led by our Senior Vice President, Human Resources. Cook has been retained by and reports directly to the Compensation Committee; it does not have any other consulting engagements with management. Cook, at the Compensation Committee's request, regularly provides independent advice on current trends in compensation design, and provides executive compensation data and compensation program proposals to assist in evaluating and setting the overall structure of our executive compensation program and the compensation levels of our NEOs.

The Compensation Committee reviews and evaluates the CEO's performance and determines and approves the CEO's compensation. The Compensation Committee also reviews, with input from the CEO, the performance of the executive vice presidents (the "EVPs") and determines and approves the compensation for the EVPs. Our CEO reviews the compensation of the other executive officers annually and makes recommendations to the Compensation Committee regarding base salary, annual incentive and long-term incentive compensation plans.

Peer Group

Our Compensation Committee examines competitive peer group and survey information, compiled by Cook, as one of many factors to assist in determining base salary, annual incentive compensation and stock-based long-term equity awards. In addition to market data, the Compensation Committee considers factors such as individual performance, internal equity among executives, promotion potential and retention risk in determining total compensation for our NEOs. The Compensation Committee periodically benchmarks our executive compensation against the compensation paid to executives at a peer group of publicly-traded companies of similar size and in similar industries to the Company (the "Peer Group") to obtain a general understanding of current compensation practices. The 23 companies currently comprising the Peer Group provide a useful comparison to the Company based, among other things, on their similarity in size, revenues, enterprise value, EBITDA, EBITDA margin, scope of operations and branded consumer product focus. The Compensation Committee periodically evaluates the appropriateness of the size and composition of the Peer Group, and makes changes to its membership in response to mergers and acquisitions and changes in organizational comparability. In 2016 the Peer Group was changed to delete Mattress Firm Holding Corp., which was acquired in 2016, and to delete Newell Rubbermaid and Jarden, which combined during 2016 and as a result no longer met the revenue criteria, and to add La-Z-Boy and lululemon athletica.

As noted above, we benchmark our compensation practices against the Peer Group. Prior to 2016, our overall philosophy had been to target base salary and annual cash incentive at the market median, and long term incentive opportunities between the 50th and 75th percentiles. For 2016, we kept the base salary and annual incentive target compensation at the 50th percentile and also determined that the annual long-term incentive compensation grants should transition over the next few years to the median or 50th percentile of the Peer Group. In addition, as discussed above under "Introduction," over the last year in order to create a more focused, efficient management structure we have significantly reduced the size of our senior management team.

The Peer Group companies are listed below:

Peer Group		
Brunswick Corp.	Harman International Industries, Inc.	Polaris Industries Inc.
Carter's Inc.	Hasbro Inc.	Select Comfort Corp.
Columbia Sportswear Company	Herman Miller, Inc.	Steelcase Inc.
Deckers Outdoor Corporation	La-Z-Boy	Tupperware Brands Corporation
Dorel Industries Inc.	Leggett & Platt, Inc.	Under Armour, Inc.
Fossil Group Inc.	Lexmark International, Inc.	Williams-Sonoma Inc.
Gildan Activewear Inc.	lululemon athletica	Wolverine World Wide, Inc.
Hanesbrands Inc.	Mohawk Industries, Inc.	

Tally Sheets

In addition to considering compensation levels for the Peer Group, the Compensation Committee also considers information contained in total compensation tally sheets for each NEO. The Compensation Committee uses tally sheets to evaluate accumulated equity value and total compensation opportunities. The tally sheets summarize each component of compensation, including base salary, annual incentive plan payout, vested and unvested long-term incentive plan awards, 401(k) company contributions, health and welfare benefits, perquisites and potential payments in the event of termination of employment under various scenarios.

Compensation Philosophy and Objectives

Each element of our compensation program is designed to attract, motivate and retain our management talent and to reward management for strong Company performance and successful execution of key business plans and strategies. We believe that our compensation philosophy aligns management incentives with the long-term interests of our stockholders.

Compensation Components

The principal components of compensation for our NEOs include the following. In order to provide some context for the compensation decisions in 2016, we also provide below some information on LTIP awards made in 2015.

Pay Element	Purpose	Description	Link to Performance

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Annual Base Salary	To attract and retain leadership talent and to provide a competitive base of compensation that recognizes the executive's skills, experience and responsibilities in the position.	Fixed, non-variable cash compensation.	Base salary levels are based on a number of factors and are significantly influenced by each individual's sustained performance over time, including promotion to higher positions. Base salary is targeted at a competitive level, generally near the market median for each executive.
Annual Incentive Plan (AIP) Awards	To provide executives with a clear financial incentive to achieve critical short-term financial and operating targets or strategic initiatives.	Variable annual cash incentive with payout based on Company and individual performance over the fiscal year.	Annual incentive opportunity is targeted at a competitive level, generally near the market median for each executive. The actual incentive award payout is based on the achievement of the performance criteria and can range from 0% to 200% of target payout. 100% of the FY 2016 AIP payout opportunity was based on the Company's Adjusted EBITDA for 2016. Using a Company-wide performance goal based on Adjusted EBITDA promotes collaboration and focuses the entire Company on a goal that strongly correlates with stockholder value creation.
Annual Long-Term Incentive Awards	To align a significant portion of executive compensation to the Company's long-term operational performance as well as share price appreciation and total stockholder return. This component serves to motivate and retain executive talent.	Annual grants of stock options, PRSUs, and/or restricted stock.	The Company has granted annual LTIP awards in the form of stock options, PRSUs and restricted stock units ("RSUs"). In 2016, the Compensation Committee determined that the size of the target annual long-term incentive grants should transition over time to the median or 50th percentile of the Peer Group from the prior practice of targeting the point between the median and the 75th percentile of the Peer Group. Stock options have value only if and to the extent our share price increases from the date of grant to the time of exercise. PRSUs are granted to reward participants for the successful achievement of multi-year performance objectives, using a currency (common stock) that is strongly aligned with stockholder interests. Target long-term incentive grant values in 2015 were allocated 67% to PRSUs and 33% to stock options. PRSUs awarded in 2015 under the annual grant (to all NEOs except Mr. Thompson) are tied to our three-year Adjusted EPS performance over the 2015 - 2017 periods. The annual LTIP grants for 2016 were in the form of RSUs vesting over 4 years. The Compensation Committee chose to use RSUs rather than PRSUs primarily to enhance retention and equity stakes. The RSUs awarded to our NEOs were also subject to satisfaction of a performance test for Section 162(m) purposes of "positive profits" for 2016,

which was met. In addition, the NEOs had a number of PRSU grants still outstanding and RSUs are less dilutive, in terms of overall share usage, than stock options, and may help manage potential stockholder dilution from equity plans.

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Special Long-Term Incentive Awards	In addition to annual LTIP grants, the Company has also issued special or one-time grants, for several different purposes, including aspirational awards tied to very challenging performance goals and matching awards to incent our NEOs to make significant long term cash investments in our common stock. In the latter part of 2015, NEOs and other senior executives received special aspirational PRSU grants tied to the goal of achieving more than $650 million in Adjusted EBITDA in 2017. If the aspirational goals are not met in 2017 but are achieved in 2018, participants can earn one-third of the total shares subject to the awards. The Compensation Committee believes these are challenging performance hurdles and, if achieved, would likely result in significant stockholder value creation. These PRSU grants are described elsewhere in this Proxy Statement. In September 2015, Mr. Thompson purchased $5 million of Company stock and received a one-time matching grant of 69,686 PRSUs which vest in 3 annual installments, subject to a threshold performance goal of positive pre-tax income 2016, which was met. In 2016 we approved a new matching PRSU program for senior executives, including the NEOs, under which the Company issued PRSUs to match purchases of shares in the open market, up to specified caps. These PRSUs vest over five years, subject to a threshold performance goal of positive pre-tax income for 2016, which was met. Mr. Thompson's other equity awards are described above under "CEO Annualized Compensation Values and Pay-for-Performance Alignment" and include grants of stock options and RSUs intended to cover both 2015 and 2016 awards.

Overall, the Compensation Committee seeks to strike a balance among the three ongoing components of salary, annual cash bonus and annual equity awards, and also provide special equity grants from time to time that create additional significant incentives for exceptional performance, require management to make significant long-term cash investment in our common stock or address specific retention or incentive issues, with an emphasis on ensuring that a majority of the total potential compensation for the Company's executive officers is significantly at risk and tied to overall Company performance. Our Compensation Committee changed its overall philosophy on compensation starting in 2016. Prior to 2016, our overall philosophy had been to target base salary and annual cash incentive at the market median, and long term incentive opportunities between the 50th and 75th percentiles. For 2016, we kept the base salary and annual incentive target compensation at the 50th percentile and also determined that the annual long-term incentive compensation grants should transition over the next few years to the median or 50th percentile of the Peer Group.

Compensation Mix

The charts below show that most of our NEOs' target pay mix (or annualized pay mix based on the initial compensation package to our CEO, excluding one-time and special grants and sign-on bonus) is variable and at risk. For the CEO, 89% of the annualized initial pay package was provided in the form of annual and long-term incentives. For the other NEOs, annual and long-term incentives made up 76% of the total target pay mix. The proportions of each pay component shown below may change in the future based on market or performance considerations.

2016 Target Compensation Mix:

Due to the unique nature of the aspirational PRSU grants, and the probability at the grant date that the performance target will not be achieved, they are not included in the charts below.

(1) Mr. Thompson's chart excludes the performance-based Matching PRSU grants, his initial signing bonus and the special grant of aspirational PRSUs, as these are all viewed as special or one-time grants (see "CEO Annualized Compensation Values and Pay-for-Performance Alignment - Supplemental Table of Pro-Forma Annualized Target Total Direct Compensation Value for Mr. Thompson" for a description of the elements included in Mr. Thompson's compensation). In addition, the stock option and restricted stock grants to Mr. Thompson made in 2015 are annualized over 2 years since Mr. Thompson did not receive a regular annual long term incentive award in 2016.

(2) The chart for other NEOs excludes the aspirational PRSU grants in light of the nature of the grant and the probability that the performance target will not be achieved.

2016 COMPENSATION ACTIONS

Base Salary

Mr. Thompson's base salary was established pursuant to his employment agreement and Mr. Hytinen's ending 2015 salary reflects his promotion to EVP and CFO in July 2015. The table below summarizes the annualized salary changes during the year:

Named Executive Officer	2015 Annual Salary	2016 Annual Salary	Increase (%)
Scott L. Thompson	$ 1,100,000	$ 1,100,000	—
Barry A. Hytinen[1]	$ 430,000	$ 460,000	7%
Richard W. Anderson	$ 441,000	$ 441,000	—
David Montgomery	£ 298,576	£ 298,576	—
Jay G. Spenchian	$ 440,000	$ 440,000	—

(1) Mr. Hytinen was promoted to Chief Financial Officer during 2015. Amount shown represents his annualized salary at the end of 2015.

Mr. Hytinen received a 7% increase in base salary for 2016 as compared to his ending salary in 2015. This increase reflects his promotion to CFO during 2015 and an increase required to place him near the median for the Peer Group. No other NEO received an increase in salary for 2016.

2016 Annual Incentive Program

Our annual incentive program ("AIP") ensures that a significant portion of each NEO's annual compensation is at risk and dependent on overall Company performance. The program provides NEOs a clear financial incentive to achieve critical short-term financial and operating targets or strategic initiatives. The Compensation Committee is responsible for administering the AIP pursuant to the terms of our Second Amended and Restated Annual Incentive Bonus Plan for Senior Executives (the "2015 Annual Incentive Plan") which was approved by our stockholders in May 2015. The 2015 Annual Incentive Plan provides for cash-based performance awards, including awards intended to qualify as performance compensation under Section 162(m) of the Internal Revenue Code of 1986, as amended ("Code").

The design and purpose of the AIP are to focus the NEOs on behaviors that support our overall performance and success. The goals are set with a reasonable level of difficulty that requires the Company and NEOs to perform at a high level in order to meet the goals and objectives. The attainment of these goals and objectives is not assured. Payouts in any year above 100% (target level) indicate significant accomplishment with performance above expectation.

The following table sets forth the targeted annual incentive levels for each NEO in 2016, shown as a percentage of his annual base salary at year-end, along with the maximum potential incentive opportunity:

Named Executive Officer	Target Award as a % of Salary	Target Award	Maximum Award as a % of Salary
Scott L. Thompson	125%	$1,375,000	250%
Barry A. Hytinen	70%	$322,000	140%
Richard W. Anderson	70%	$308,700	140%
David Montgomery	70%	£209,003	140%
Jay G. Spenchian	70%	$308,000	140%

Messrs. Anderson, Montgomery and Spenchian received the same target bonus for 2016 as in 2015. Mr. Thompson joined the Company in September 2015 and received a fixed bonus for 2015 of $458,000, pursuant to his employment agreement. Mr. Hytinen's target bonus for 2016 was increased to 70% to reflect his promotion to CFO during 2015.
The Compensation Committee determined that our Adjusted EBITDA should be the sole performance metric for the 2016 AIP, to simplify the plan design by eliminating multiple goals and different goals for different groups, and to eliminate subjective goals, and promote collaboration. The Compensation Committee believes that Adjusted EBITDA strongly correlates with long-term stockholder value creation. Performance is measured with no adjustment for currency fluctuations, consistent with our financial statements, to further align executive and stockholder interests.
In order to ensure that our 2016 AIP complies with Section 162(m) of the Code, the Company had to meet a threshold goal of positive profits in order for any annual incentive to be earned for 2016 by our NEOs. If this threshold goal was achieved, then each NEO's potential annual incentive bonus became earned at the maximum bonus payable under the 2016 AIP, subject to the exercise by the Committee of its authority to reduce (but not increase) the actual amount of the annual incentive bonuses payable. The Committee determined that the Company had met the threshold goal of positive profits for 2016, and the Committee then used its discretion to finalize the amount of the incentive awards for each NEO based on the Company's Adjusted EBITDA and the performance matrix adopted by the Committee when it created the 2016 AIP, including discretion authorized under the 2016 AIP to make adjustments for extraordinary events not contemplated in the 2016 budget approved by the Board of Directors. After making a discretionary adjustment of $4.7 million to reflect extraordinary costs incurred in the fourth quarter of 2016 relating to the Mattress Firm relationship, our Adjusted EBITDA calculated for purposes of the 2016 AIP was $526.3 million, which under the goals set for the 2016 AIP represented a pay-out at 140.7% of the target bonus. The Compensation Committee believes that the Adjusted EBITDA targets for 2016 were challenging, with a minimum requirement of $470 million in Adjusted EBITDA for a 50% bonus payout, $510 million in Adjusted EBITDA for a 100% target bonus payout and $550 million in Adjusted EBITDA for a 200% bonus payout. These targets represented a 3.1%, 11.9% and 20.7% increase in Adjusted EBITDA over 2015, respectively. The $526.3 million in Adjusted EBITDA for 2016 represents a 15.5% increase over Adjusted EBITDA for 2015, reflecting the significant improvement in our profitability in 2016, driven by management's successful efforts to improve our operations and other factors discussed above under "Business Summary." Based on this performance, each of our NEOs received a bonus payment as set forth below:

Named Executive Officer	2016 Target	Percentage of Overall	2016 Actual

		Incentive Target		Payout
Scott L. Thompson	$1,375,000	140.7	%	$1,934,625
Barry A. Hytinen	$322,000	140.7	%	$453,054
Richard W. Anderson	$308,700	140.7	%	$434,341
David Montgomery	£209,003	140.7	%	£294,067
Jay G. Spenchian	$308,000	140.7	%	$433,356

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Performance-Based Retention Bonus Program

On May 30, 2015, in connection with the termination of our previous CEO, and the commencement of the search for a new CEO, the Board of Directors approved a retention program for NEOs and other senior executives. This program was established to ensure stability in the senior management team and provide additional incentives to achieve performance targets for 2015. Awards were payable in cash, and contingent on the Company achieving an Adjusted EBITDA threshold for 2015 of $444 million, which represented the consensus analysts' estimate at the time the program was approved, and continued service through May 31, 2016 (with exceptions for termination by the Company without "Cause" or voluntary resignation for "Good Reason" as defined within employment agreements or our Severance and Retention Plan). The following retention bonus opportunities were approved for our NEOs:

Named Executive Officer	Position at Time of Grant	Value($)
Barry A. Hytinen	EVP, Corporate Development & Finance	$450,000
Richard W. Anderson	EVP and President, North America	500,000
David Montgomery	EVP and President, International	500,000
Jay G. Spenchian	EVP and Chief Marketing Officer	500,000

The Compensation Committee determined that the Company had met this Adjusted EBITDA threshold (as defined in the retention program) for 2015. In making this determination, the Committee noted that the Company's 2015 Adjusted EBITDA as reported in its earnings release for the fourth quarter and full year 2015 was $455.8 million, and used its discretion to take into account extraordinary items that positively or negatively impacted the Company's performance. For a description of these adjustments, refer to the calculation of Adjusted EBITDA in Appendix A to this Proxy Statement. As a result, each of the NEOs listed in the table above received the bonus listed above after satisfying the one year service period at May 31, 2016.

2016 Annual Long-Term Incentive Grants (Regular Annual Grants)

Members of senior management, including our NEOs, are eligible to receive equity compensation awards under our equity incentive plans. As previously discussed, we believe that providing equity awards as a component of compensation for senior managers aligns the interests of management with the interests of our stockholders and provides an additional method of compensation where the return is directly tied to stockholders' return on their investment.

The Compensation Committee approved targeted equity values for each of our NEOs, other than Mr. Thompson who did not receive a regular annual equity grant in 2016. Our practice in recent years prior to 2016 had been to grant multiple forms of long-term incentive awards, each intended to accomplish different objectives. Stock options are granted to reward stock price increases and alignment with stockholders' interests. PRSUs are granted to reward participants for the successful achievement of multi-year performance objectives, using a currency (Company common stock) that is strongly aligned with stockholders' interests.

For 2016, the Compensation Committee determined that awards would be provided in the form of RSUs to enhance retention and equity stakes. In moving to RSUs, the Compensation Committee decided that the RSUs should vest over 4 years, rather than the 3 year vesting typically used in the past for stock options. In addition, the Compensation Committee determined that the targeted equity value of annual grants for NEOs should transition over the next few years to the median or 50th percentile of the Peer Group rather than targeting between the 50th and 75th percentile. The Compensation Committee also determined that the RSUs to be granted to NEOs would contain a performance threshold sufficient to satisfy the requirements of Section 162(m) of the Code for tax deductibility. In choosing to provide 2016 grants in the form of RSUs, the Compensation Committee noted that NEOs had a number of outstanding performance-based awards still in effect, including annual PRSU grants made in 2014 and the aspirational PRSU grants. This was the first time service-based RSUs have been granted to NEOs (other than the CEO, who did not receive a regular annual grant in 2016) in a number of years. The Compensation Committee also noted that RSUs are less dilutive, in terms of overall share usage, than stock options, and may help manage potential stockholder dilution from equity plans. Assuming that the Section 162(m) performance threshold was achieved, which it was, the 2016 RSUs vest in four equal annual installments on each of the first four anniversaries of the grant date.

Set forth below are the principal changes made to our annual long-term incentive program for 2016, as compared to 2015:

	Long-Term Incentive Programs	
	2015 (Annual Grant)	2016 (Annual Grant)
Allocation	67% PRSUs 33% Stock Options (Mix excludes CEO)	100% RSUs with a Section 162(m) performance threshold for NEOs
Vesting Period	3 year ratable (for stock options)	4 year ratable
Performance Measurement Period	3 years (for PRSUs)	1 year (for RSUs awarded to NEOs)
PRSU Performance Goals	Adjusted EPS(1)	—
PRSU Maximum Payout (as % of Target)	300%	—

(1) Adjusted EPS is not a recognized term under GAAP and does not purport to be an alternative to EPS calculated in accordance with GAAP. For more information on this non-GAAP financial measure please refer to Appendix A.

Mr. Thompson did not receive annual equity grants in 2016. For Messrs. Anderson, Montgomery and Spenchian, the target value of the 2016 annual equity grants remained at the same level as the 2015 annual equity grants. For Mr. Hytinen, his target annual equity grant was increased for 2016 to $975,000 to reflect his promotion to CFO during 2015. The following table summarizes 2016 grants to the NEOs:

Named Executive Officer	Fair Value ($) 2016 LTIP Grant Date	# of RSUs
Scott L. Thompson	$	——
Barry A. Hytinen	975,000	18,262
Richard W. Anderson	975,000	18,262
David Montgomery	1,100,000	20,603
Jay G. Spenchian	975,000	18,262

The Committee reserves the right to adjust the target award mix from year to year, as deemed appropriate. As previously noted, Mr. Thompson, who joined the Company in September 2015, received various equity grants as part of his initial compensation package. As discussed later in this section, the NEOs, including Mr. Thompson, also received the aspirational PRSU grant in the latter part of 2015. During 2016, certain NEOs, EVPs and Senior Vice Presidents ("SVPs") were eligible for matching PRSU grants if they purchased shares of our common stock in the open market. These programs are described below.

Aspirational Grants

To further encourage significant increases in profitable growth and stockholder value creation, the Board of Directors established an aspirational objective for the Company to achieve more than $650 million in Adjusted EBITDA for 2017. To achieve this aspirational objective, the Company would need to increase its Adjusted EBITDA by nearly $200 million, or more than 40%, above the Company’s Adjusted EBITDA of $455 million for 2015. To further align executive and stockholder interests, Adjusted EBITDA is measured with no adjustment for currency fluctuations, consistent with the Company’s financial statements. To reinforce this objective and encourage “aspirational pay for aspirational performance,” the Compensation Committee approved special aspirational PRSU grants for a group of senior executives, including our NEOs.

In September 2015, the Compensation Committee established an initial compensation package for Mr. Thompson which places primary emphasis on the aspirational PRSUs. Other senior executives received aspirational PRSU grants in October and December 2015. Grant date values for this special award were set well above regular target long-term incentive award levels, given the plan's aspirational goals, which the Compensation Committee believes are challenging performance hurdles that, if achieved, would likely result in significant stockholder value creation. Because the performance requirement for vesting is so challenging, at the time of grant these shares were not expected to vest; therefore, no value attributable to these PRSUs is included in the Summary Compensation Table. To earn the full grant, the Company's Adjusted EBITDA must exceed $650 million in 2017. If this hurdle is not met in 2017 but is achieved in 2018, participants would earn 1/3 of the grant, with the remaining portion forfeited. No PRSUs will be earned if the hurdle is not met for 2017 or 2018. Participants must also remain employed with the Company through the entire performance period to earn the award. The aspirational PRSU grants to the NEOs are shown in the following table:

Named Executive Officer	# of Aspirational PRSUs Earned for Meeting Hurdle in 2017	# of Aspirational PRSUs Earned for Meeting Hurdle in 2018
Scott L. Thompson	620,000	206,667
Barry A. Hytinen	125,000	41,667
Richard W. Anderson	80,000	26,667
David Montgomery	125,000	41,667
Jay G. Spenchian	80,000	26,667

The Compensation Committee views these as special grants and does not expect it would make similar aspirational awards covering any performance period beginning prior to 2018. However, as discussed below under "2017 Compensation Actions", in light of the termination of contracts with Mattress Firm in January 2017 and the revised business outlook for 2017, the Compensation Committee believes that these aspirational PRSUs no longer serve as a meaningful incentive tool, and over the course of 2017 the Compensation Committee will review the Company's performance and business outlook to consider whether the Committee should take steps to ensure that the Company's equity incentive grants continue to support the Company's incentive compensation strategy and pay-for-performance philosophy.

2016 Special Matching PRSU Program

In February, 2016, the Compensation Committee and the Board of Directors added an additional incentive program for a group of senior executives in the Company including our CEO. This program provided an incentive for these executives to purchase Tempur Sealy International stock in the open market at market prices between February 25, 2016 and September 15, 2016, subject to compliance with our trading window guidelines and to hold the purchased stock for five years. Under the terms of the program, if an executive purchased Company shares according to the parameters of the program, including the applicable cap as described below, the Company committed to matching the executive's investment with a matching value of PRSUs, referred to as "matching PRSUs." These matching PRSUs will vest ratably over a five year period, and were subject to a performance threshold for Section 162(m) purposes of positive profits (as defined in the program) for 2016, which was met. Unvested matching PRSUs will expire should executives sell any of their purchased shares during the 5 year vesting period. The Compensation Committee and Board of Directors strongly believe that encouraging our senior executives to make and retain meaningful long term cash investments creates a strong performance incentive and further aligns our senior executives with our stockholders. The following table summarizes the maximum potential grants under this program for the NEOs (based on the total purchase price paid by the applicable NEO for shares purchased):

Named Executive Officer	2016 Stock Purchase Program Company Matching Limit - PRSUs ($)	Total Matchable Purchases Made by NEO($)	Number of Matching PRSUs Issued	Value of Matching PRSUs at Time of Grant($)
Scott L. Thompson	$3,000,000	$3,000,000	51,370	$3,181,573
Barry A. Hytinen	1,000,000	1,000,000	16,663	987,283
Richard W. Anderson	1,000,000	1,000,000	17,430	1,101,402
David Montgomery	1,000,000	—	—	—

Jay G. Spenchian[1]	1,000,000	900,000	15,800	919,342

(1) Mr. Spenchian left the Company effective February 28, 2017. As a result, Mr. Spenchian forfeited all of this grant of matching PRSUs in accordance with the terms of the award agreement and his separation agreement. For a discussion of the terms relating to Mr. Spenchian's departure please refer to "2017 Compensation Actions - Departure of Mr. Spenchian."

Prior Year PRSU Grants with Performance Cycles Ending in 2016

In 2014, members of senior management, including several of our current NEOs, were granted PRSUs that vested based upon achievement of certain goals relating to 2016 Net sales and EBIT Margin objectives. Company results were between threshold and target performance levels, resulting in 71.2% of the target number of PRSUs being earned.

Departure of Mr. Spenchian

The Company announced on February 13, 2017 that Mr. Spenchian would be leaving the Company effective February 28, 2017. In connection with the foregoing, Mr. Spenchian and the Company entered into a letter agreement dated February 15, 2017 confirming the terms of his separation pursuant to his employment agreement, including the payment of his 2016 performance bonus, the payment of a pro rata portion of his performance bonus for 2017, subject to the attainment of the Company's goals for 2017, payment of severance and maintenance of welfare benefits for 12 months, non-disparagement provisions and a general release and waiver by Mr. Spenchian of all claims. In addition, Mr. Spenchian has agreed to provide consulting services for six months and the Company will pay a consulting fee of $37,500 per month.

2017 COMPENSATION ACTIONS

Set forth below is a brief summary of the compensation decisions made by the Compensation Committee in late December 2016 and early 2017 relating to compensation for 2017. Many of these decisions were made prior to January 30, 2017, when we announced the termination of our contracts with Mattress Firm, our largest customer, and the wind down of our business with Mattress Firm over the first quarter of 2017. Although we strongly believe that this termination is in the best long-term interests of our stockholders, as discussed in our Form 10-K for the year ended December 31, 2016, it is expected to have a significant negative impact on our ability to achieve our original sales and profitability goals for 2017. In light of these events, the Compensation Committee, after careful review and feedback from stockholders, took certain actions to retain and focus the executive team and key employees during this transitional period as described below. In addition, in light of the termination of contracts with Mattress Firm in January 2017 and the revised business outlook for 2017, the Compensation Committee no longer believes it is likely that any portion of the PRSUs granted in 2014 and with a performance target based on Adjusted EPS for 2017 will vest. In addition, the Compensation Committee believes that the aspirational PRSUs no longer serve as a meaningful incentive tool, and accordingly over the course of 2017 the Compensation Committee will review the Company's performance and business outlook to consider whether the Committee should take steps to ensure that the Company's equity incentive grants continue to support the Company's incentive compensation strategy and pay-for-performance philosophy.

2017 Base Salary

No NEO received an increase in base salary for 2017.

2017 Annual Incentive Program (AIP)
Company-wide Adjusted EBITDA was selected as the sole performance metric for the 2017 AIP, consistent with the change made by the Compensation Committee in 2016 to simplify the program design by eliminating multiple goals and different goals for different groups, and to eliminate subjective goals, and promote collaboration. The Compensation Committee believes that Adjusted EBITDA strongly correlates with long-term stockholder value creation. Performance will be measured with no adjustment for currency fluctuations, consistent with the Company's financial statements, to further align executive and stockholder interests. In order to ensure that our AIP complies with Section 162(m) of the Code, the Company must meet a threshold goal of positive profits in order for any annual incentive to be earned for 2017 by our NEOs. If this threshold goal is achieved, then each NEO's potential annual incentive bonus will become earned at the maximum bonus payable, subject to the exercise by the Committee of its authority to reduce (but not increase) the actual amount of the incentive bonus payable. In addition, the Committee is authorized to make adjustments to reflect extraordinary events not contemplated by the budget approved by the Board in December 2016 (but no adjustment may be made with respect to the threshold goal adopted for Section 162(m) purposes).

The 2017 AIP was adopted by the Committee in December 2016 and the performance metrics were based on the budget for 2017 adopted by the Board in December 2016. As a result of the termination of the Mattress Firm relationship discussed above and the Company's revised expectations for 2017, the Committee determined that the recently-approved 2017 AIP no longer served as a meaningful performance incentive for the remainder of the year based on the original Adjusted EBITDA goals. In response, and at the request of the CEO that the Committee provide assurances to participants in the 2017 AIP other than the CEO, pursuant to the discretion reserved under the 2017 AIP to make adjustments for extraordinary events the Committee committed that the bonuses under the 2017 AIP would be paid at least at 100% of target (other than for the CEO) to retain and focus the executive team and key employees during this transitional period. This commitment for a payout at target does not affect the requirement for NEOs to meet the Section 162(m) threshold test described above and does not apply to the CEO, who will remain subject to the 2017 AIP as originally adopted, including the exercise by the Committee of its discretion as described above.

No adjustments were made to target annual incentive award opportunities for the NEOs for 2017.

2017 Annual Long-Term Incentive Grants (Regular Annual Grants)

The Compensation Committee approved targeted equity values for each of our NEOs. The Compensation Committee also determined that the regular annual awards for 2016 will be provided in the form of RSUs to enhance retention and equity stakes. The Compensation Committee decided that the RSUs should vest over 4 years, rather than the 3 year vesting typically used in the past for stock options. The Compensation Committee also determined that the RSUs to be granted to NEOs would contain a performance threshold sufficient to satisfy the requirements of Section 162(m) of the Code for tax deductibility. In choosing to provide the regular 2017 grants in the form of RSUs, the Compensation Committee noted that NEOs have a number of outstanding

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performance-based awards still in effect, including annual PRSU grants made in 2014 with a performance period ending December 31, 2017 and the aspirational PRSU grants. The Compensation Committee also noted that RSUs are less dilutive, in terms of overall share usage, than stock options, and may help manage potential stockholder dilution from equity plans. The 2017 RSUs vest in four equal annual installments on each of the first four anniversaries of the grant date, assuming the Section 162(m) performance goal is achieved for 2017.

The following table summarizes the 2017 annual grants to the NEOs:

Named Executive Officer	2017 LTIP Grant Date Fair Value ($)[1]	# of RSUs
Scott L. Thompson	$7,000,000	100,719
Barry A. Hytinen	975,000	14,029
Richard W. Anderson	975,000	14,029
David Montgomery	1,100,000	15,827
Jay G. Spenchian[2]	975,000	14,029

(1) The grant date fair value is based on $69.50, the closing price of the Company’s common stock on January 5, 2017, the grant date. On March 1, 2017, the closing price of the common stock was $47.22.

(2)