Seagate Technology plc
Form 10-K
August 12, 2015

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# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-K

**(Mark One)**

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

**For the fiscal year ended July 3, 2015**

**OR**

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

**For the transition period from to**

**Commission File No. 001-31560**

# SEAGATE TECHNOLOGY PUBLIC LIMITED COMPANY

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Ireland** | **98-0648577** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |

**38/39 Fitzwilliam Square**
**Dublin 2, Ireland**
(Address of principal executive offices)

**Registrant's telephone number, including area code: (353) (1) 234-3136**

**Securities registered pursuant to Section 12 (b) of the Act:**

| Title of Each Class | Name of Each Exchange on Which Registered |
|---|---|
| Ordinary Shares, par value $0.00001 per share | The NASDAQ Global Select Market |

**Securities registered pursuant to Section 12(g) of the Act:**
**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ý NO o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934. YES o NO ý

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). YES ý NO o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ý

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

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

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

The aggregate market value of the voting and non-voting ordinary shares held by non-affiliates of the registrant as of January 2, 2015, the last business day of the registrant's most recently completed second fiscal quarter, was approximately $21.7 billion based upon the closing price reported for such date by the NASDAQ.

The number of outstanding ordinary shares of the registrant as of August 4, 2015 was 302,033,939.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the definitive proxy statement to be filed with the Securities and Exchange Commission pursuant to Regulation 14A relating to the registrant's Annual General Meeting of Shareholders, to be held on October 21, 2015, will be incorporated by reference in this Form 10-K in response to Items 10, 11, 12, 13 and 14 of Part III. The definitive proxy statement will be filed with the SEC no later than 120 days after the registrant's fiscal year ended July 3, 2015.

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**SEAGATE TECHNOLOGY PLC**

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**PRESENTATION OF FINANCIAL AND OTHER INFORMATION**

In this Annual Report on Form 10-K (the "Form 10-K"), unless the context indicates otherwise, as used herein, the terms "we," "us," "Seagate," the "Company" and "our" refer to Seagate Technology public limited company ("plc"), an Irish public limited company, and its subsidiaries. References to "$" are to United States dollars.

We have compiled the market size information in this Form 10-K using statistics and other information obtained from several third-party sources.

Various amounts and percentages used in this Form 10-K have been rounded and, accordingly, they may not total 100%.

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**CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS**

Some of the statements and assumptions included in this Annual Report on Form 10-K are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 or Section 21E of the Securities Exchange Act of 1934, each as amended, including, in particular, statements about our plans, strategies and prospects and estimates of industry growth for the fiscal quarter ending October 2, 2015 and the fiscal year ending July 1, 2016 and beyond. These statements identify prospective information and may include words such as "expects," "intends," "plans," "anticipates," "believes," "estimates," "predicts," "projects" and similar expressions. These forward-looking statements are based on information available to the Company as of the date of this Annual Report on Form 10-K and are based on management's current views and assumptions. These forward-looking statements are conditioned upon and also involve a number of known and unknown risks, uncertainties and other factors that could cause actual results, performance or events to differ materially from those anticipated by these forward-looking statements. Such risks, uncertainties and other factors may be beyond our control and may pose a risk to our operating and financial condition. Such risks and uncertainties include, but are not limited to:

- the uncertainty in global economic conditions, as consumers and businesses may defer purchases in response to tighter credit and financial news;
- the impact of variable demand and the adverse pricing environment for data storage devices, particularly in view of current business and economic conditions;
- our ability to successfully qualify, manufacture and sell our data storage devices in increasing volumes on a cost-effective basis and with acceptable quality, particularly the new data storage devices with lower cost structures;
- the impact of competitive product announcements;
- currency fluctuations that may impact our margins and international sales; and
- possible excess industry supply with respect to particular disk drive products and disruptions to our supply chain or production capabilities.

Information concerning risks, uncertainties and other factors that could cause results to differ materially from those projected in such forward-looking statements is also set forth in "Item 1A. Risk Factors" of this Annual Report on Form 10K, which we encourage you to carefully read. These forward-looking statements should not be relied upon as representing our views as of any subsequent date and we undertake no obligation to update forward-looking statements to reflect events or circumstances after the date they were made.

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***PART I***

**ITEM 1. BUSINESS**

We are a leading provider of electronic data storage technology and solutions. Our principal products are hard disk drives, commonly referred to as disk drives, hard drives or HDDs. In addition to HDDs, we produce a broad range of electronic data storage products including solid state hybrid drives ("SSHD"), solid state drives ("SSD"), PCIe cards and SATA controllers. Our storage technology portfolio also includes storage subsystems, high performance computing (HPC) solutions, and data storage services.

Hard disk drives are devices that store digitally encoded data on rapidly rotating disks with magnetic surfaces. Disk drives continue to be the primary medium of mass data storage due to their performance attributes, high quality and cost effectiveness. Complementing existing data center storage architecture, solid-state storage devices use integrated circuit assemblies as memory to store data, and most SSDs use NAND-based flash memory. In addition to HDDs and SSDs, Solid-state hybrid drives (SSHDs) combine the features of SSDs and HDDs in the same unit, containing a large hard disk drive and an SSD cache to improve performance of frequently accessed data.

Our products are designed for enterprise servers and storage systems in mission critical and nearline applications; client compute applications, where our products are designed primarily for desktop and mobile computing; and client non-compute applications, where our products are designed for a wide variety of end user devices such as digital video recorders ("DVRs"), personal data backup systems, portable external storage systems, digital media systems and surveillance systems.

Our product and solution portfolio for the enterprise data storage industry includes storage enclosures, integrated application platforms and high performance computing ("HPC") data storage solutions. Our storage subsystems support a range of high-speed interconnect technologies to meet demanding cost and performance specifications. Our modular subsystem architecture allows us to support many segments within the networked storage market by enabling different specifications of storage subsystem designs to be created from a standard set of interlocking technology modules.

Our data storage services provide online backup, data protection and recovery solutions for small to medium-sized businesses.

**Industry Overview**

*Electronic Data Storage Industry*

The electronic data storage industry is comprised of companies that manufacture components or subcomponents designed for electronic data storage devices and companies that provide storage solutions, software and services for enterprise cloud, big data and computing platforms.

*Markets*

The principal markets served by the electronic data storage industry are:

*Enterprise Storage.* We define enterprise storage as dedicated storage area networks and hyperscale cloud storage environments. Enterprise data centers run solutions which are designed for mission critical performance and nearline high capacity applications.

Mission critical applications are defined as those that are vital to the operation of large-scale enterprise work loads, requiring high performance and high reliability storage solutions. We expect the market for mission critical enterprise storage solutions to continue to be driven by enterprises utilizing dedicated storage area networks. Our storage solutions are comprised principally of high performance enterprise class disk drives with sophisticated firmware and communications technologies.

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Nearline applications are defined as those which require high capacity and energy efficient storage solutions. We expect such applications, which include storage for cloud computing, content delivery and backup services, will continue to grow and drive demand for solutions designed with these attributes. With the increased requirements for storage driven by the creation and consumption of media-rich digital content, we expect the increased exabyte demand will require further build-out of datacenters by cloud service providers and other enterprises which utilize high capacity nearline devices.

Enterprise SAS SSDs are designed to deliver superior performance, reliability and enterprise features to meet the demands of I/O-intensive applications, with potential for substantial power savings. PCIe accelerator cards are designed to optimize enterprise applications with a persistent, high-performance, high-capacity memory design. Accelerated flash also targets flash and software to accelerate any server virtualized deployment and moves any big data to the realm of real time. From industry solutions perspective, PCIe cards are changing the storage architecture in many industries including the financial sector, government, telecommunications and media and entertainment.

*Client Compute.* We define client compute applications as solutions designed for desktop and mobile compute applications ranging from traditional laptops, tablets, convertible systems, and gaming consoles. We believe that the demand resulting from growing economies of certain countries and the continued proliferation of digital content will continue to maintain demand for the client compute market. As the storage of digital content in the cloud becomes more prominent and accessible, some client compute applications rely less on built-in storage, which is supplemented by cloud computing solutions and Branded external hard drives.

*Client Non-Compute.* We define client non-compute applications as solutions designed for consumer electronic devices and disk drives used for external storage and network-attached storage ("NAS"). Disk drives designed for consumer electronic devices are primarily used in applications such as DVRs and surveillance systems that require a higher capacity, low cost-per-gigabyte storage solution. Disk drives for external storage and NAS devices are designed for purposes such as personal data backup and portable external storage, and to augment storage capacity in the consumer's current desktop, notebook, tablet or DVR devices. We believe the proliferation and personal creation of media-rich digital content will continue to create increasing consumer demand for higher capacity storage solutions.

*Cloud Systems and Solutions.* We define cloud systems and solutions as applications that provide cloud based solutions to businesses for the purpose of high performance computing, scale-out storage solutions, modular systems, remote on-line digital storage archival offerings, and backup & recovery products and services. Systems can contain HDDs and SSDs and can offer file management systems, software, and even compute power.

Participants in the electronic data storage industry include:

*Major subcomponent manufacturers.* Companies that manufacture components or subcomponents used in electronic data storage devices or solutions include companies that supply spindle motors, heads and media, application specific integrated circuits ("ASICs") and glass substrates.

*Hardware storage solutions manufacturers.* Companies that transform components into storage products include disk drive manufacturers and semiconductor storage manufacturers which include integrating flash memory into storage products such as SSDs.

*System integrators.* Companies, such as original equipment manufacturers ("OEM"), that bundle and package storage solutions into client compute, client non-compute or enterprise applications as well as enterprise storage solutions. Distributors that integrate storage hardware and software into end-user applications are also included in this category.

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*Storage services.* Companies that provide and host services and solutions, which include storage, backup, archiving, recovery and discovery of electronic data.

*Hyperscale Data Centers.* Increasingly, large hyperscale data center companies are designing their own storage subsystems and having those built by contract manufacturers for use inside their own data centers. This trend is reshaping the storage system and subsystem market and driving innovation in system design and changes in the competitive landscape of the large storage system vendors.

*Demand for Electronic Data Storage*

The continued advancement of the cloud, the proliferation of a variety of mobile devices globally, development of the internet of things, increasingly pervasive use of video surveillance, evolution of consumer electronic devices, and enterprise use of big data analytics are driving the growth of digital content. Factors contributing to this growth include:

- Creation, sharing, and consumption of media-rich digital content, such as high-resolution photos, high definition video, and digital music through smart phones, tablets, digital cameras, personal video cameras, DVRs, gaming consoles or other digital devices;
- Creation, aggregation and distribution of digital content through services and other offerings such as Facebook®, Instagram®, iTunes®, LinkedIn®, Netflix®, Pandora®, Google® and YouTube®;
- New surveillance systems which feature higher resolution digital cameras and thus require larger data storage capacities;
- Creation and collection of data through the evolution of the internet of things ecosystem, big data analytics and new technology trends such as self-driving cars and drones;
- Build out of large numbers of cloud data centers by cloud service providers and private companies transitioning on-site data centers into the cloud;
- Protection of increased digital content through redundant storage on backup devices and externally provided storage services.

As a result of these factors, the nature and volume of content being created requires greater storage, which is more efficiently and economically facilitated by higher capacity storage devices in order to store, manage, distribute, analyze and backup such content. We expect this to support the growth in demand for electronic data storage solutions in developed and emerging economies well into the future.

The amount of data created as well as where and how data is stored continues to evolve with the proliferation of mobile devices, the growth of cloud computing, and the evolving internet of things. In addition, the economics of storage infrastructure are also evolving with the utilization of public and private hyper-scale storage and open-source solutions reducing the total cost of ownership of storage while increasing the speed and efficiency with which customers can leverage massive computing and storage devices. Accordingly, we expect these trends will continue to create significant demand for electronic data storage solutions going forward.

*Demand Trends for Disk Drives*

We believe that continued growth in digital content requires increasingly higher storage capacity in order to store, aggregate, host, distribute, analyze, manage, backup and use such content. We also believe that as architectures evolve to serve the growing commercial and consumer user base throughout the world, the manner which hard drives are delivered to market and utilized by our customers will evolve as well.

We believe that in the foreseeable future the traditional enterprise, client compute markets that require high capacity storage solutions, and the data intensive client non-compute markets will continue to

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be best served by hard disk drives due to the industry's ability to deliver the most cost effective, reliable and energy efficient mass storage devices. Furthermore, the increased use of client non-compute devices that both consume media-rich digital content streamed from the cloud and create rich digital content that is stored in the cloud, increases the demand for high capacity hard disk drives in enterprise Nearline applications.

*Industry Supply Balance*

From time to time the HDD industry has experienced periods of imbalance between supply and demand. To the extent that the disk drive industry builds or maintains capacity based on expectations of demand that do not materialize, price erosion may become more pronounced. Conversely, during periods where demand exceeds supply, price erosion is generally muted.

**Our Business**

*Disk Drive Technology*

The design and manufacturing of disk drives depends on highly advanced technology and manufacturing techniques and therefore requires high levels of research and development spending and capital equipment investments. We design, fabricate and assemble a number of the most important components found in our disk drives, including read/write heads and recording media. Our design and manufacturing operations are based on technology platforms that are used to produce various disk drive products that serve multiple data storage applications and markets. Our core technology platforms are focused around the areal density of media and read/write head technologies. Using an integrated platform design and manufacturing leverage approach allows us to deliver a portfolio of disk drive products to service a wide range of electronic data storage applications and industries.

Disk drives that we manufacture are commonly differentiated by the following key characteristics:

- storage capacity, commonly expressed in gigabytes (GB) or terabytes (TB), which is the amount of data that can be stored on the disk drive;
- spindle rotation speed, commonly expressed in revolutions per minute (RPM), which has an effect on speed of access to data;
- interface transfer rate, commonly expressed in megabytes per second, which is the rate at which data moves between the disk drive and the computer controller;
- average seek time, commonly expressed in milliseconds, which is the time needed to position the heads over a selected track on the disk surface;
- data transfer rate, commonly expressed in megabytes per second, which is the rate at which data is transferred to and from the disk drive;
- input/output operations per second (IOPS), commonly expressed in megabytes per second, which is the maximum number of reads and writes to a storage location;
- product quality and reliability, commonly expressed in annualized return rates; and
- energy efficiency, commonly measured by the power output necessary to operate the disk drive.

Areal density is a measure of storage capacity per square inch on the recording surface of a disk. The storage capacity of a disk drive is determined by the number of disks it contains as well as the areal density capability of these disks. We have been pursuing, and will continue to pursue, a number of technologies to increase areal densities across the entire range of our products for expanding disk drive capacities and reducing the number of disks and heads per drive to further reduce product costs.

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*Manufacturing*

We design and produce our own read/write heads and recording media, which are critical technologies for disk drives. This integrated approach enables us to lower costs and to improve the functionality of components so that they work together efficiently.

We believe that because of our vertical design and manufacturing strategy, we are well suited to take advantage of the opportunities to leverage the close interdependence of components for disk drives. Our manufacturing efficiency and flexibility are critical elements of our integrated business strategy. We continuously seek to improve our manufacturing efficiency and reduce manufacturing cost by:

- employing manufacturing automation;
- improving product quality and reliability;
- integrating our supply chain with suppliers and customers to enhance our demand visibility and reduce our working capital requirements;
- coordinating between our manufacturing group and our research and development organization to rapidly achieve volume manufacturing; and
- operating our facilities at optimal capabilities.

A vertically integrated model, however, tends to have less flexibility when demand moderates as it exposes us to higher unit costs as capacity utilization is not optimized.

*Components and Raw Materials*

Disk drives incorporate certain components, including a head disk assembly and a printed circuit board mounted to the head disk assembly, which are sealed inside a rigid base and top cover containing the recording components in a contamination controlled environment. We maintain a highly integrated approach to our business by designing and manufacturing a significant portion of the components we view as critical to our products, such as recording heads and media.

*Read/Write Heads.* The function of the read/write head is to scan across the disk as it spins, magnetically recording or reading information. The tolerances of recording heads are extremely demanding and require state-of-the-art equipment and processes. Our read/write heads are manufactured with thin-film and photolithographic processes similar to those used to produce semiconductor integrated circuits, though challenges in magnetic film properties and topographical structures are unique to the disk drive industry. We perform all primary stages of design and manufacture of read/write heads at our facilities. We use a combination of internally manufactured and externally sourced read/write heads, the mix of which varies based on product mix, technology and our internal capacity levels.

*Media.* Information is written to the media, or disk, as it rotates at very high speeds past the read/write head. The media is made from non-magnetic material, usually aluminum alloy or glass, and is coated with thin layers of magnetic materials. We use a combination of internally manufactured and externally sourced finished media and aluminum substrates, the mix of which varies based on product mix, technology and our internal capacity levels. We purchase all of our glass substrates from third parties, which we use in the disk drives we make for mobile products.

*Printed Circuit Board Assemblies.* The printed circuit board assemblies (PCBAs) are comprised of standard and custom ASICs and ancillary electronic control chips. The ASICs control the movement of data to and from the read/write heads and through the internal controller and interface, which communicates with the host computer. The ASICs and control chips form electronic circuitry that delivers instructions to a head positioning mechanism called an actuator to guide the heads to the selected track of a disk where the data is recorded or retrieved. Disk drive manufacturers use one or more industry standard

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interfaces such as serial advanced technology architecture (SATA); small computer system interface (SCSI); serial attached SCSI (SAS); or Fibre Channel (FC) to communicate to the host systems. We outsource to third parties the manufacture and assembly of the PCBAs used in our disk drives. We do not manufacture any ASICs, but we participate in their proprietary design.

*Head Disk Assembly.* The head disk assembly consists of one or more disks attached to a spindle assembly powered by a spindle motor that rotates the disks at a high constant speed around a hub. Read/write heads, mounted on an arm assembly, similar in concept to that of a record player, fly extremely close to each disk surface and record data on and retrieve it from concentric tracks in the magnetic layers of the rotating disks. The read/write heads are mounted vertically on an E-shaped assembly (E-block) that is actuated by a voice-coil motor to allow the heads to move from track to track. The E-block and the recording media are mounted inside the head disk assembly. We purchase spindle motors from outside vendors and from time to time participate in the design of the motors that go into our products. We use a combination of internally manufactured and externally sourced head disk assemblies.

*Disk Drive Assembly.* Following the completion of the head disk assembly, it is mated to the PCBA, and the completed unit goes through extensive defect mapping and testing prior to packaging and shipment. Disk drive assembly and test operations occur primarily at facilities located in China and Thailand. We perform subassembly and component manufacturing operations at our facilities in China, Malaysia, Northern Ireland, Singapore, Thailand and in the United States. In addition, third parties manufacture and assemble components and disk drive assemblies for us in various countries worldwide.

*Suppliers of Components and Industry Constraints.* There are a limited number of independent suppliers of components, such as recording heads and media, available to disk drive manufacturers. Vertically integrated disk drive manufacturers, who manufacture their own components, are less dependent on external component suppliers than less vertically integrated disk drive manufacturers.

*Commodity and Other Manufacturing Costs.* The production of disk drives requires rare earth elements, precious metals, scarce alloys and industrial commodities, which are subject to fluctuations in prices and the supply of which has at times been constrained. In addition to increased costs of components and commodities, volatility in fuel costs may also increase our costs related to commodities, manufacturing and freight. As a result, we may increase our use of ocean shipments to help offset any increase in freight costs.

**Products**

We offer a broad range of storage solutions for the enterprise, data center, client compute and client non-compute applications. We offer more than one product within each product category and differentiate products on the basis of price, performance, form factor, capacity, interface, power consumption efficiency, security features, and other customer integration requirements. Our industry is characterized by continuous and significant advances in technology which contribute to rapid product life cycles. We list our main current product offerings below.

*Enterprise Storage*

*Enterprise Performance HDDs.* Our 10,000 and 15,000 RPM Enterprise Performance disk drives feature increased throughput and improved energy efficiency, targeted at high random performance server application needs. Performance 10,000 RPM HDDs ship in storage capacities ranging from 300GB to 1.8TB, and our 15,000 RPM HDDs ship in storage capacities ranging from 146GB to 600GB.

*Enterprise Capacity and Archive HDDs.* Our Enterprise Capacity disk drives ship in 2.5-inch and 3.5-inch form factors and in storage capacities of up to 6TB that rotate at 7,200 RPM speeds. These products are designed for bulk data storage and server environments that require high capacity, enterprise reliability, energy efficiency, integrated security, and SATA and SAS interfaces. Our Archive HDDs

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provide up to 8TB of low-cost storage designed specifically for active archive storage environments in cloud data centers where very low cost and power are paramount. Our Kinetic HDDs are the world's first Ethernet-connected HDD with an open source object application program interface ("API") designed specifically for hyper scale and scale-out object storage environments.

*Enterprise SSDs.* Available in capacities up to 800GB, the SSD features 12GB per second SAS, and delivers the speed and consistency needed for demanding enterprise storage and server applications. We also offer Nytro family of accelerator cards with capacity up to 4 TB.

*Client Compute*

*Desktop HDDs and SSHDs.* Our 3.5-inch desktop drives ship in both traditional HDD and SSHD configurations and offer up to 4TB of capacity. Desktop drives are designed for applications such as personal computers and workstations.

*Mobile HDDs and SSHDs.* Our family of laptop drives ship in a variety of form factors (5mm to 9.5mm drive height), capacities (250GB to 2TB) and technologies (HDD and SSHD) to support mobile needs. Used in applications ranging from traditional laptops, tablets, convertible systems, and gaming consoles, our drives are built to address a range of performance needs and sizes for affordable, high capacity storage.

*Client Non-Compute*

*Video HDDs.* Our Video HDDs are used in video applications like DVR's and media centers. These disk drives are optimized for video streaming in always-on applications with capacities up to 4TB to support leading-edge digital entertainment.

*Surveillance HDDs.* Our surveillance drives are built to support the high-write workload of an always-on, always-recording video surveillance system. These surveillance optimized drives are built to support the growing needs of the surveillance market with support for multiple hard drive ("HD") streams and capacities up to 6TB.

*NAS HDDs.* Our network attached storage (NAS) drives are built to support the performance and reliability demanded by small and medium businesses, and incorporate interface software with custom-built error recovery controls, power settings, and vibration tolerance. Our NAS HDD solutions are available in capacities up to 6TB.

*Branded Solutions.* Our external backup storage solutions are shipped under the Backup Plus and Expansion product lines, as well as under the Samsung and LaCie brand names. These product lines are available in capacities ranging from 500GB to 8TB, respectively. Our Seagate and Samsung Wireless drives provide tablet and smartphone users with additional storage for media content, with capacities up to 2TB. Our NAS and Personal Cloud solutions provide centralized network storage in capacities up to 40TB and secure, anywhere file access for users on-the-go.

**Customers**

We sell our products to major OEMs, distributors and retailers.

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The following table summarizes our revenue by channel and by geography:

| | Fiscal Years Ended | | |
|---|---|---|---|
| | July 3, 2015 | June 27, 2014 | June 28, 2013 |
| *Revenues by Channel (%)* | | | |
| OEM | 71% | 68% | 68% |
| Distributors | 17% | 20% | 21% |
| Retail | 12% | 12% | 11% |
| *Revenues by Geography (%)*[1] | | | |
| Americas | 28% | 27% | 27% |
| EMEA | 17% | 19% | 19% |
| Asia Pacific | 55% | 54% | 54% |

(1) Revenue is attributed to countries based on the shipping location.

OEM customers typically enter into master purchase agreements with us. These agreements provide for pricing, volume discounts, order lead times, product support obligations and other terms and conditions including sales programs offered to promote selected products. Deliveries are scheduled only after receipt of purchase orders. In addition, with limited lead-time, customers may defer most purchase orders without significant penalty. Anticipated orders from many of our customers have in the past failed to materialize or OEM delivery schedules have been deferred or altered as a result of changes in their business needs.

Our distributors generally enter into non-exclusive agreements for the resale of our products. They typically furnish us with a non-binding indication of their near-term requirements and product deliveries are generally scheduled accordingly. The agreements and related sales programs typically provide the distributors with limited right of return and price protection rights. In addition, we offer sales programs to distributors on a quarterly and periodic basis to promote the sale of selected products in the sales channel.

Our retail channel consists of our branded storage products sold to retailers either by us directly or by our distributors. Retail sales made by us or our distributors typically require greater marketing support, sales incentives and price protection periods.

In fiscal years 2015, 2014 and 2013, Dell Inc. accounted for approximately 14%, 13% and 13% of consolidated revenue, respectively, while Hewlett-Packard Company accounted for approximately 12%, 13% and 10% of consolidated revenue, respectively. See "Item 1A. Risk Factors-Risks Related to Our Business-We may be adversely affected by the loss of, or reduced, delayed or canceled purchases by, one or more of our larger customers."

**Competition**

We compete primarily with manufacturers of hard drives used in the enterprise, client compute and client non-compute applications, in addition to manufacturers of solid-state drives and PCIe accelerator cards. The markets that we compete in are competitive. Disk drive manufacturers compete for a limited number of major disk drive customers but also compete with other companies in the electronic data storage industry that provide SSDs and PCIe technology. Some of the principal factors used by customers to differentiate among electronic data storage solutions manufacturers are storage capacity, product performance, product quality and reliability, price per unit and price per gigabyte, time-to-market and time-to-volume leadership, storage/retrieval access times, data transfer rates, form factor, product warranty and support capabilities, supply continuity and flexibility, power consumption, total cost of ownership, and brand. While different markets and customers place varying levels of emphasis on these factors, we believe that our products are competitive with respect to each of these factors in the markets that we currently address.

*Principal Disk Drive Competitors.* There are three companies in the electronic data storage industry that manufacture disk drives:

- Seagate, selling the Seagate, LaCie, and Samsung brands;
- Western Digital Corporation, operating the Western Digital and Hitachi Global Storage Technologies subsidiaries; and
- Toshiba Corporation

*Other Competitors.* We may in the future face indirect competition from customers who from time to time evaluate whether to offer electronic data storage products that may compete with our products.

*Price Erosion.* Historically, our industry has been characterized by price declines for disk drive products with comparable capacity, performance and feature sets ("like-for-like products"). Price declines for like-for-like products ("price erosion") have been more pronounced during periods of:

- economic contraction in which competitors may use discounted pricing to attempt to maintain or gain market share;
- few new product introductions when competitors have comparable or alternative product offerings; and
- industry supply exceeding demand.

Disk drive manufacturers typically attempt to offset price erosion with an improved mix of disk drive products characterized by higher capacity, better performance and additional feature sets and/or product cost reductions.

We believe the HDD industry experienced benign price erosion in fiscal years 2013, 2014 and moderate price erosion in fiscal year 2015.

*Product Life Cycles and Changing Technology.* Success in our industry has been dependent to a large extent on the ability to balance the introduction and transition of new products with time-to-volume, performance, capacity and quality metrics at a competitive price, level of service and support that our customers expect. Generally, the drive manufacturer that introduces a new product first benefits from improved product mix, favorable profit margins and less pricing pressure until comparable products are introduced. Changing technology also necessitates on-going investments in research and development, which may be difficult to recover due to rapid product life cycles and economic declines. Further, there is a continued need to successfully execute product transitions and new product introductions, as factors such as quality, reliability and manufacturing yields continue to be of significant competitive importance.

**Seasonality**

The disk drive industry traditionally experiences seasonal variability in demand with higher levels of demand in the second half of the calendar year. This seasonality is driven by consumer spending in the back-to-school season from late summer to fall and the traditional holiday shopping season from fall to winter. In fiscal years 2013 and 2014, our industry experienced muted seasonal patterns as supply and demand were relatively in balance. However, we believe fiscal year 2015 reflected a seasonal pattern consistent with historical patterns.

**Research and Development**

We are committed to developing new component technologies, products and alternative storage technologies. Our research and development focus is designed to bring new products to market in high volume, with quality attributes that our customers expect, before our competitors. Part of our product development strategy is to leverage a design platform and/or subsystem within product families to serve different market needs. This platform strategy allows for more efficient resource utilization, leverages best design practices, reduces exposure to changes in demand, and allows for achievement of lower costs through purchasing economies. Our advanced technology integration effort focuses disk drive and component research on recording subsystems, including read/write heads and recording media; market-specific product technology; and technology focused towards new business opportunities. The primary purpose of our advanced technology integration effort is to ensure timely availability of mature component technologies to our product development teams as well as allowing us to leverage and coordinate those technologies in the design centers across our products in order to take advantage of opportunities in the marketplace. During fiscal years 2015, 2014 and 2013, we had product development expenses of approximately $1,353 million, $1,226 million and $1,133 million, respectively, which represented 10%, 9% and 8% of our consolidated revenue, respectively.

**Patents and Licenses**

As of July 3, 2015, we had 5,194 U.S. patents and 1,207 patents issued in various foreign jurisdictions as well as 1,351 U.S. and 1,296 foreign patent applications pending. The number of patents and patent applications will vary at any given time as part of our ongoing patent portfolio management activity. Due to the rapid technological change that characterizes the electronic data storage industry, we believe that, in addition to patent protection, the improvement of existing products, reliance upon trade secrets, protection of unpatented proprietary know-how and development of new products are also important to our business in establishing and maintaining a competitive advantage. Accordingly, we intend to continue our efforts to broadly protect our intellectual property, including obtaining patents, where available, in connection with our research and development program.

We have patent licenses with a number of companies. Additionally, as part of our normal intellectual property practices, we may be engaged in negotiations with other major electronic data storage companies and component manufacturers with respect to patent licenses.

The electronic data storage industry is characterized by significant litigation relating to patent and other intellectual property rights. Because of rapid technological development in the electronic data storage industry, some of our products have been, and in the future could be, alleged to infringe existing patents of third parties. From time to time, we receive claims that our products infringe patents of third parties. Although we have been able to resolve some of those claims or potential claims by obtaining licenses or rights under the patents in question without a material adverse affect on us, other claims have resulted in adverse decisions or settlements. In addition, other claims are pending, which if resolved unfavorably to us could have a material adverse effect on our business and results of operations. For more information on these claims, see "Item 8. Financial Statements and Supplementary Data-Note 14. Legal, Environmental and Other Contingencies." The costs of engaging in intellectual property litigation in the past have been, and in the future may be, substantial, irrespective of the merits of the claim or the outcome.

**Backlog**

In view of industry practice, whereby customers may cancel or defer orders with little or no penalty, we believe backlog in the disk drive industry is of limited indicative value in estimating future performance and results.

**Environmental Matters**

Our operations are subject to U.S. and foreign laws and regulations relating to the protection of the environment, including those governing discharges of pollutants into the air and water, the management and disposal of hazardous substances and wastes and the cleanup of contaminated sites. Some of our

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operations require environmental permits and controls to prevent and reduce air and water pollution, and these permits are subject to modification, renewal and revocation by issuing authorities.

We have established environmental management systems and continually update environmental policies and standard operating procedures for our operations worldwide. We believe that our operations are in material compliance with applicable environmental laws, regulations and permits. We budget for operating and capital costs on an ongoing basis to comply with environmental laws. If additional or more stringent requirements are imposed on us in the future, we could incur additional operating costs and capital expenditures.

Some environmental laws, such as the Comprehensive Environmental Response Compensation and Liability Act of 1980 (as amended, the "Superfund" law) and its state equivalents, can impose liability for the cost of cleanup of contaminated sites upon any of the current or former site owners or operators or upon parties who sent waste to these sites, regardless of whether the owner or operator owned the site at the time of the release of hazardous substances or the lawfulness of the original disposal activity. We have been identified as a potentially responsible party at several sites. At each of these sites, we have an assigned portion of the financial liability based on the type and amount of hazardous substances disposed of by each party at the site and the number of financially viable parties. We have fulfilled our responsibilities at some of these sites and remain involved in only a few at this time.

While our ultimate costs in connection with these sites is difficult to predict with complete accuracy, based on current estimates of cleanup costs and our expected allocation of these costs, we do not expect costs in connection with these sites to be material.

We may be subject to various state, federal and international laws and regulations governing the environment, including those restricting the presence of certain substances in electronic products. For example, the European Union ("EU") enacted the Restriction of the Use of Certain Hazardous Substances in Electrical and Electronic Equipment, which prohibits the use of certain substances, including lead, in certain products, including disk drives, put on the market after July 1, 2006. Similar legislation has been or may be enacted in other jurisdictions, including in the United States, Canada, Mexico, Taiwan, China, Japan and others. The European Union REACH Directive (Registration, Evaluation, Authorization, and Restriction of Chemicals, EC 1907/2006) also restricts substances of very high concern ("SVHCs") in products.

**Employees**

At July 3, 2015, we employed approximately 52,350 employees and temporary employees worldwide, of which approximately 41,800 employees were located in our Asian operations. We believe that our future success will depend in part on our ability to attract and retain qualified employees at all levels. We believe that our employee relations are good.

**Financial Information**

Financial information for our reportable business segment and about geographic areas is set forth in "Item 8. Financial Statements and Supplementary Data-Note 13. Business Segment and Geographic Information."

**Corporate Information**

Seagate Technology public limited company, is a public limited company organized under the laws of Ireland.

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**Available Information**

*Availability of Reports.* We are a reporting company under the Securities Exchange Act of 1934, as amended (the "1934 Exchange Act"), and we file reports, proxy statements and other information with the U.S. Securities and Exchange Commission (the "SEC"). The public may read and copy any of our filings at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. Because we make filings to the SEC electronically, the public may access this information at the SEC's website: www.sec.gov. This site contains reports, proxies and information statements and other information regarding issuers that file electronically with the SEC.

*Web Site Access.* Our website is www.seagate.com. We make available, free of charge at the "Investors" section of our website, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the 1934 Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Reports of beneficial ownership filed pursuant to Section 16(a) of the 1934 Exchange Act are also available on our web site.

Investors and others should note that we routinely use the Investors section of our website to announce material information to investors and the marketplace. While not all of the information that the Company posts on its corporate website is of a material nature, some information could be deemed to be material. Accordingly, the Company encourages investors, the media, and others interested in the Company to review the information that it shares on www.seagate.com. Information in, or that can be accessed through, our web site is not incorporated into this Form 10-K.

**Executive Officers**

The following sets forth the name, age and position of each of the persons who were serving as executive officers as of August 11, 2015. There are no family relationships among any of our executive officers.

| Name | Age | Positions |
|---|---|---|
| Stephen J. Luczo | 58 | Chairman and Chief Executive Officer |
| Philip G. Brace | 44 | President, Cloud Systems and Electronics Solutions |
| William D. Mosley | 48 | President, Operations and Technology |
| Albert A. "Rocky" Pimentel | 1,775,189 | |

| | | |
|---|---|---|
| Noncontrolling interests | 506,858 | 505,025 |
| Total equity | 2,306,762 | 2,280,214 |
| Total liabilities and equity | $ 6,145,829 | $ 6,761,034 |

See notes to consolidated financial statements.

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Douglas Emmett, Inc.
Consolidated Statements of Operations
(unaudited and in thousands, except for share data)

| | Three Months Ended June 30, 2009 | Three Months Ended June 30, 2008 | Six Months Ended June 30, 2009 | Six Months Ended June 30, 2008 |
|---|---|---|---|---|
| Revenues: | | | | |
| Office rental | | | | |
| Rental revenues | $ 99,210 | $ 111,213 | $ 207,756 | $ 210,229 |
| Tenant recoveries | 7,134 | 8,179 | 15,100 | 14,188 |
| Parking and other income | 16,404 | 18,229 | 34,038 | 34,805 |
| Total office revenues | 122,748 | 137,621 | 256,894 | 259,222 |
| | | | | |
| Multifamily rental | | | | |
| Rental revenues | 16,007 | 16,423 | 32,194 | 33,647 |
| Parking and other income | 1,040 | 1,019 | 2,124 | 2,002 |
| Total multifamily revenues | 17,047 | 17,442 | 34,318 | 35,649 |
| | | | | |
| Total revenues | 139,795 | 155,063 | 291,212 | 294,871 |
| | | | | |
| Operating Expenses | | | | |
| Office expense | 36,665 | 41,802 | 76,977 | 77,723 |
| Multifamily expense | 4,286 | 4,219 | 8,803 | 8,519 |
| General and administrative | 5,959 | 5,729 | 12,310 | 11,014 |
| Depreciation and amortization | 55,729 | 63,858 | 116,803 | 120,607 |
| Total operating expenses | 102,639 | 115,608 | 214,893 | 217,863 |
| | | | | |
| Operating income | 37,156 | 39,455 | 76,319 | 77,008 |
| | | | | |
| Gain on disposition of interest in unconsolidated real estate fund | - | - | 5,573 | - |
| Interest and other income | 60 | 123 | 2,974 | 532 |
| Loss, including depreciation, from unconsolidated real estate fund | (2,128) | - | (2,806) | - |
| Interest expense | (44,606) | (51,791) | (93,828) | (92,994) |
| Net loss | (9,518) | (12,213) | (11,768) | (15,454) |
| | | | | |
| Less: Net loss attributable to noncontrolling interests | 2,036 | 2,785 | 2,419 | 3,526 |
| Net loss attributable to common stockholders | $ (7,482) | $ (9,428) | $ (9,349) | $ (11,928) |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Net loss attributable to common stockholders | | | | | | | | |
| per share – basic and diluted | $ | (0.06) | $ | (0.08) | $ | (0.08) | $ | (0.10) |
| | | | | | | | | |
| Dividends declared per common share | $ | 0.1000 | $ | 0.1875 | $ | 0.2000 | $ | 0.3750 |
| | | | | | | | | |
| Weighted average shares of common stock | | | | | | | | |
| outstanding – basic and diluted | | 121,319,121 | | 121,313,515 | | 121,579,011 | | 119,798,547 |

See notes to consolidated financial statements.

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Douglas Emmett, Inc.
Consolidated Statements of Cash Flows
(unaudited and in thousands)

| | Six Months Ended June 30, 2009 | 2008 |
|---|---|---|
| Operating Activities | | |
| Net loss | $ (11,768) | $ (15,454) |
| Adjustments to reconcile net loss to net cash provided by operating activities: | | |
| Non-cash profit sharing allocation to consolidated real estate fund | 660 | |
| Loss, including depreciation, from unconsolidated real estate fund | 2,806 | |
| Depreciation and amortization | 116,803 | 120,607 |
| Net accretion of acquired lease intangibles | (17,940) | (21,690) |
| Gain on disposition of interest in unconsolidated real estate fund | (5,573) | |
| Amortization of deferred loan costs | 1,090 | 840 |
| Amortization of loan premium | (2,476) | (2,336) |
| Non-cash market value adjustments on interest rate contracts | 9,989 | 7,339 |
| Non-cash amortization of stock-based compensation | 2,333 | 2,144 |
| Change in working capital components: | | |
| Tenant receivables | 1,068 | 402 |
| Deferred rent receivables | (4,425) | (7,642) |
| Accounts payable, accrued expenses and security deposits | 4,076 | (1,576) |
| Other assets | (979) | 8,145 |
| Net cash provided by operating activities | 95,664 | 90,779 |
| | | |
| Investing Activities | | |
| Capital expenditures and property acquisitions | (21,339) | (642,750) |
| Deconsolidation of Douglas Emmett Fund X, LLC | (6,625) | |
| Net cash used in investing activities | (27,964) | (642,750) |
| | | |
| Financing Activities | | |
| Proceeds from long-term borrowings | 82,640 | 1,052,700 |
| Deferred loan costs | (18) | (3,225) |
| Repayment of borrowings | (106,665) | (383,600) |
| Net change in short-term borrowings | (25,275) | (37,500) |
| Contributions by Douglas Emmett Fund X, LLC investors | 66,074 | |
| Contributions by noncontrolling interests | 450 | 319 |
| Distributions to noncontrolling interests | (9,957) | (14,753) |
| Redemption of noncontrolling interests | | (23,758) |
| Issuance of common stock | | 667 |
| Repurchase of common stock | (5,338) | |
| Cash dividends | (35,005) | (41,958) |
| Net cash (used in) provided by financing activities | (33,094) | 548,892 |
| | | |
| Increase (decrease) in cash and cash equivalents | 34,606 | (3,079) |

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents at beginning of period | | 8,655 | | 5,843 |
| Cash and cash equivalents at end of period | $ | 43,261 | $ | 2,764 |
| | | | | |
| Noncash transactions: | | | | |
| Investing activity related to contribution of properties to unconsolidated real estate fund | $ | 476,852 | $ | |
| Financing activity related to contribution of debt and noncontrolling interest to unconsolidated real estate fund | $ | (483,477) | $ | |

See notes to consolidated financial statements.

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Douglas Emmett, Inc.
Notes to Consolidated Financial Statements
(in thousands, except shares and per share data)

1. Overview

Organization and Description of Business
Douglas Emmett, Inc., a Maryland corporation incorporated on June 28, 2005, is a fully integrated, self-administered and self-managed Real Estate Investment Trust (REIT). Through our interest in Douglas Emmett Properties, LP (our operating partnership) and our subsidiaries, we own, manage, lease, acquire and develop real estate. As of June 30, 2009, we owned a portfolio of 49 office properties (including ancillary retail space) and nine multifamily properties, as well as the fee interests in two parcels of land that we lease to third parties. All of our properties are 100% owned except Honolulu Club (78,000 square feet) which is owned by a joint venture in which we own a 66.7% interest. We also own an interest in six additional properties totaling 1.4 million square feet owned by an unconsolidated real estate fund, Douglas Emmett Fund X, LLC (Fund X) in which we own an equity interest. All of these properties are located in Los Angeles County, California and Honolulu, Hawaii. We qualified as a REIT for federal income tax purposes beginning with our initial taxable year ending December 31, 2006 and expect to maintain such qualification.

We are one of the largest owners and operators of high-quality office and multifamily properties in Los Angeles County, California and in Honolulu, Hawaii. Our presence in Los Angeles and Honolulu is the result of a consistent and focused strategy of identifying submarkets that are supply constrained, have high barriers to entry and typically exhibit strong economic characteristics such as population and job growth and a diverse economic base. In our office portfolio, we focus primarily on owning and acquiring a substantial share of top-tier office properties within submarkets located near high-end executive housing and key lifestyle amenities. In our multifamily portfolio, we focus primarily on owning and acquiring select properties at premier locations within these same submarkets. Our properties are concentrated in nine premier Los Angeles County submarkets—Brentwood, Olympic Corridor, Century City, Santa Monica, Beverly Hills, Westwood, Sherman Oaks/Encino, Warner Center/Woodland Hills and Burbank—as well as in Honolulu, Hawaii.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements--(continued)
(in thousands, except shares and per share data)

Basis of Presentation
The accompanying consolidated financial statements as of June 30, 2009 and December 31, 2008 and for the three and six months ended June 30, 2009 and 2008 are the consolidated financial statements of Douglas Emmett, Inc. and our subsidiaries including our operating partnership. As described in Note 2 below, the results of the six properties acquired in March 2008 were included in our consolidated results until the end of February 2009, when we completed the transaction to contribute these properties to Fund X in return for an equity interest. All significant intercompany balances and transactions have been eliminated in our consolidated financial statements. Certain prior period amounts have been reclassified to conform with current period presentation.

The accompanying unaudited interim financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission (SEC). Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States (GAAP) may have been condensed or omitted pursuant to SEC rules and regulations, although we believe that the disclosures are adequate to make their presentation not misleading. The accompanying unaudited financial statements include, in our opinion, all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial information set forth therein. The results of operations for the interim periods are not necessarily indicative of the results that may be expected for the year ended December 31, 2009. The interim financial statements should be read in conjunction with the consolidated financial statements in our 2008 Annual Report on Form 10-K and notes thereto. Any reference to the number of properties and square footage are unaudited and outside the scope of our independent registered public accounting firm’s review of our financial statements in accordance with the standards of the United States Public Company Accounting Oversight Board.

The preparation of financial statements in conformity with GAAP requires us to make certain estimates and assumptions, for example with respect to the allocation of the purchase price of acquisitions among land, buildings, improvements, equipment and any related intangible assets and liabilities. These estimates and assumptions are subjective and affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ materially from those estimates.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements--(continued)
(in thousands, except shares and per share data)

2. Acquisitions, Dispositions and Other Transfers

We did not make any acquisitions during the six months ended June 30, 2009.

On February 13, 2008, we acquired a two-thirds interest in a 78,298 square-foot office building located in Honolulu, Hawaii. As part of the same transaction, we also acquired all of the assets of The Honolulu Club, a private membership athletic and social club, which is located in the building. The aggregate contract price was approximately $18 million and the purchase was made through a consolidated joint venture with our local partner. The joint venture financed the acquisition with an $18 million loan. See Note 7 for a description of the debt. On May 1, 2008, the operations of the athletic club were sold to a third party for a nominal cost. Simultaneously, the acquirer leased from us the space occupied by the athletic club. The results of operations and loss on sale of the assets of the athletic club were not material.

On March 26, 2008, we acquired a 1.4 million square foot office portfolio consisting of six Class A buildings all located in our core Los Angeles submarkets – Santa Monica, Beverly Hills, Sherman Oaks/Encino and Warner Center/Woodland Hills – for a contract price of approximately $610 million. Subsequent to acquiring the properties, we entered into a non-recourse $365 million term loan secured by the six-property portfolio.

In connection with the initial closing of Fund X in October 2008, (i) we contributed to Fund X the portfolio of six Class A office properties that we acquired in March 2008 and (ii) we transferred to Fund X the related $365 million term loan. In exchange, we received an interest in the common equity of Fund X. As the net value of the contributed properties (as valued under the Fund X operating agreement) exceeded our required capital contribution, the Fund was obligated to distribute cash to us for the excess. We received part of the cash in October 2008 and the remainder at the end of February 2009, at which point Fund X became an unconsolidated real estate fund in which we retained an equity investment and recognized a gain of $5,573 on the disposition of the interest in Fund X we did not retain.

The results of operations for each of the acquired properties are included in our consolidated statements of operations only from the date of each acquisition, and in the case of the properties contributed to Fund X, only until the end of February 2009, when the properties were deconsolidated from our financial statements.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements--(continued)
(in thousands, except shares and per share data)

3. Segment Reporting

Financial Accounting Standard (FAS) No. 131, Disclosures about Segments of an Enterprise and Related Information, established standards for disclosure about operating segments and related disclosures about products and services, geographic areas and major customers. Segment information is prepared on the same basis that our management reviews information for operational decision-making purposes. We operate in two business segments: (i) the acquisition, redevelopment, ownership and management of office real estate and (ii) the acquisition, redevelopment, ownership and management of multifamily real estate. The products for our office segment primarily include rental of office space and other tenant services including parking and storage space rental. The products for our multifamily segment include rental of apartments and other tenant services including parking and storage space rental.

Asset information by segment is not reported because we do not use this measure to assess performance and make decisions to allocate resources. Therefore, depreciation and amortization expense is not allocated among segments. Interest and other income, management services, general and administrative expenses, interest expense, depreciation and amortization expense and net derivative gains and losses are not included in rental revenues less rental expenses as our internal reporting addresses these items on a corporate level.

Rental revenues less rental expenses is not a measure of operating results or cash flows from operating activities as measured by GAAP, and it is not indicative of cash available to fund cash needs and should not be considered an alternative to cash flows as a measure of liquidity. Not all companies may calculate rental revenues less rental expenses in the same manner. We consider rental revenues less rental expenses to be an appropriate supplemental measure to net income because it assists both investors and management in understanding the core operations of our properties.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements--(continued)
(in thousands, except shares and per share data)

The following table represents operating activity within our reportable segments:

| | Three Months Ended June 30, 2009 | | | Three Months Ended June 30, 2008 | | |
|---|---|---|---|---|---|---|
| | Office | Multifamily | Total | Office | Multifamily | Total |
| Rental revenues | $122,748 | $ 17,047 | $139,795 | $137,621 | $ 17,442 | $ 155,063 |
| Percentage of total | 88% | 12% | 100% | 89% | 11% | 100% |
| Rental expenses | $ 36,665 | $ 4,286 | $ 40,951 | $ 41,802 | $ 4,219 | $ 46,021 |
| Percentage of total | 90% | 10% | 100% | 91% | 9% | 100% |
| Rental revenues less rental expenses | $ 86,083 | $ 12,761 | $ 98,844 | $ 95,819 | $ 13,223 | $ 109,042 |
| Percentage of total | 87% | 13% | 100% | 88% | 12% | 100% |

| | Six Months Ended June 30, 2009 | | | Six Months Ended June 30, 2008 | | |
|---|---|---|---|---|---|---|
| | Office | Multifamily | Total | Office | Multifamily | Total |
| Rental revenues | $ 256,894 | $ 34,318 | $291,212 | $259,222 | $ 35,649 | $ 294,871 |
| Percentage of total | 88% | 12% | 100% | 88% | 12% | 100% |
| Rental expenses | $ 76,977 | $ 8,803 | $ 85,780 | $ 77,723 | $ 8,519 | $ 86,242 |
| Percentage of total | 90% | 10% | 100% | 90% | 10% | 100% |
| Rental revenues less rental expenses | $ 179,917 | $ 25,515 | $205,432 | $181,499 | $ 27,130 | $ 208,629 |
| Percentage of total | 88% | 12% | 100% | 87% | 13% | 100% |

The following is a reconciliation of rental revenues less rental expenses to net loss:

| | Three Months Ended June 30, | Six Months Ended June 30, |
|---|---|---|

| | 2009 | 2008 | 2009 | 2008 |
|---|---|---|---|---|
| Rental revenues less rental expenses | $ 98,844 | $ 109,042 | $ 205,432 | $ 208,629 |
| General and administrative expenses | (5,959) | (5,729) | (12,310) | (11,014) |
| Depreciation and amortization | (55,729) | (63,858) | (116,803) | (120,607) |
| Gain on disposition of interest in unconsolidated real estate fund | - | - | 5,573 | - |
| Interest and other income | 60 | 123 | 2,974 | 532 |
| Loss, including depreciation, from unconsolidated real estate fund | (2,128) | - | (2,806) | - |
| Interest expense | (44,606) | (51,791) | (93,828) | (92,994) |
| Net loss | (9,518) | (12,213) | (11,768) | (15,454) |
| Less: Net loss attributable to noncontrolling interests | 2,036 | 2,785 | 2,419 | 3,526 |
| Net loss attributable to common stockholders | $ (7,482) | $ (9,428) | $ (9,349) | $ (11,928) |

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Douglas Emmett, Inc.
Notes to Consolidated Financial Statements--(continued)
(in thousands, except shares and per share data)

4. Other Assets

Other assets consist of the following at:

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| Deferred loan costs, net of accumulated amortization of $4,061 and $3,336 at June 30, 2009 and December 31, 2008, respectively | $ 5,319 | $ 9,714 |
| Restricted cash | 2,939 | 2,934 |
| Prepaid interest | 670 | 4,360 |
| Prepaid expenses | 1,109 | 3,845 |
| Interest receivable | 9,587 | 5,938 |
| Other indefinite-lived intangible | 1,988 | 1,988 |
| Other | 4,422 | 2,525 |
| Total other assets | $ 26,034 | $ 31,304 |

We incurred deferred loan cost amortization expense of $483 and $478 for the three months ended June 30, 2009 and 2008, and $1,090 and $840 for the six months ended June 30, 2009 and 2008, respectively. Deferred loan cost amortization is included as a component of interest expense in the consolidated statements of operations.

5. Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses consist of the following as of:

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| Accounts payable | $ 26,420 | $ 30,429 |
| Accrued interest payable | 26,088 | 22,982 |
| Deferred revenue | 12,912 | 16,034 |
| Total accounts payable and accrued expenses | $ 65,420 | $ 69,445 |

6. Acquired Lease Intangibles

The following summarizes our acquired lease intangibles related to above/below-market leases as of:

| | June 30, 2009 | December 31, 2008 |
|---|---|---|
| Above-market tenant leases | $ 32,770 | $ 34,227 |
| Accumulated amortization | (21,522) | (19,094) |
| Below-market ground leases | 3,198 | 3,198 |
| Accumulated amortization | (206) | (168) |
| Acquired lease intangible assets, net | $ 14,240 | $ 18,163 |

| | | |
|---|---|---|
| Below-market tenant leases | $ 261,523 | $ 288,437 |
| Accumulated accretion | (118,554) | (106,950) |
| Above-market ground leases | 16,200 | 16,200 |
| Accumulated accretion | (2,751) | (2,651) |
| Acquired lease intangible liabilities, net | $ 156,418 | $ 195,036 |

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Douglas Emmett, Inc.
Notes to Consolidated Financial Statements--(continued)
(in thousands, except shares and per share data)

7. Secured Notes Payable

The following summarizes our secured notes payable at:

| Type of Debt | Maturity Date (1) | June 30, 2009 | December 31, 2008 | Variable Rate | Effective Annual Fixed Rate (2) | Swap Maturity Date (1) |
|---|---|---|---|---|---|---|
| Variable Rate Swapped to Fixed Rate: | | | | | | |
| Fannie Mae Loan I (3) | 06/01/12 | $ 293,000 | $ 293,000 | DMBS + 0.60% | 4.70% | 08/01/11 |
| Fannie Mae Loan II (3) | 06/01/12 | 95,080 | 95,080 | DMBS + 0.60% | 5.78 | 08/01/11 |
| Modified Term Loan (4)(5) | 08/31/12 | 2,300,000 | 2,300,000 | LIBOR + 0.85% | 5.13 | 08/01/10-08/01/12 |
| Term Loan (6) | 08/18/13 | - | 365,000 | -- | -- | -- |
| Fannie Mae Loan III (3) | 02/01/15 | 36,920 | 36,920 | DMBS + 0.60% | 5.78 | 08/01/11 |
| Fannie Mae Loan IV (3) | 02/01/15 | 75,000 | 75,000 | DMBS + 0.76% | 4.86 | 08/01/11 |
| Term Loan (7) | 04/01/15 | 340,000 | 340,000 | LIBOR + 1.50% | 4.77 | 01/02/13 |
| Fannie Mae Loan V (3) | 02/01/16 | 82,000 | 82,000 | LIBOR + 0.62% | 5.62 | 03/01/12 |
| Fannie Mae Loan VI (3) | 06/01/17 | 18,000 | 18,000 | LIBOR + 0.62% | 5.82 | 06/01/12 |
| Subtotal | | 3,240,000 | 3,605,000 | | 5.10% | |
| | | | | | | |
| Variable Rate: | | | | | | |
| Wells Fargo Loan (8) | 03/01/10(9) | 18,000 | 18,000 | LIBOR + 1.25% | -- | -- |
| Secured Revolving Credit Facility | 10/30/09(11) | - | 49,300 | LIBOR / Fed Funds+(12) | -- | -- |
| Subtotal | | 3,258,000 | 3,672,300 | | | |
| Unamortized Loan Premium (13) | | 18,009 | 20,485 | | | |
| Total | | $ 3,276,009 | $ 3,692,785 | | | |

(1) As of June 30, 2009, the weighted average remaining life of our total outstanding debt is 3.6 years, and the weighted average remaining life of the interest rate swaps is 1.9 years.
(2) Includes the effect of interest rate contracts. Based on actual/360-day basis and excludes amortization of loan fees and unused fees on credit line. The total effective rate on an actual/365-day basis is 5.17% at June 30, 2009.
(3) Secured by four separate collateralized pools. Fannie Mae Discount Mortgage-Backed Security (DMBS) generally tracks 90-day LIBOR, although volatility may exist between the two rates, resulting in an immaterial

amount of swap ineffectiveness.

(4) Secured by seven separate collateralized pools. Requires monthly payments of interest only, with outstanding principal due upon maturity.

(5) Includes $1.11 billion swapped to 4.89% until August 1, 2010; $545.0 million swapped to 5.75% until December 1, 2010; $322.5 million swapped to 4.98% until August 1, 2011; and $322.5 million swapped to 5.02% until August 1, 2012. Each of these rates is based on actual/360-day basis.

(6) This loan was transferred to an unconsolidated real estate fund in which our operating partnership holds an equity interest. Secured by six properties in a collateralized pool. These properties were also transferred to the same unconsolidated real estate fund.

(7) Secured by four properties in a collateralized pool. Requires monthly payments of interest only, with outstanding principal due upon maturity.

(8) This loan is held by a consolidated entity in which our operating partnership holds a two-thirds interest. The loan has a one-year extension option.

(9) Represents maturity date of March 1, 2010 which we may extend to March 1, 2011.

(10) This $370 million secured revolving credit facility is secured by nine properties and has no borrowings outstanding. The facility has two one-year extension options available.

(11) Represents maturity date of October 30, 2009 which we may extend to October 30, 2011.

(12) This revolver bears interest at either LIBOR +0.70% or Fed Funds +0.95% at our election. If the amount outstanding exceeds $262.5 million, the credit facility bears interest at either LIBOR +0.80% or Fed Funds +1.05% at our election.

(13) Represents non-cash mark-to-market adjustment on variable rate debt associated with office properties.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements--(continued)
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The minimum future principal payments due on our secured notes payable at June 30, 2009, excluding the non-cash loan premium amortization were as follows:

| Twelve months ending June 30: | |
|---|---|
| 2010 | $ 18,000 |
| 2011 | |
| 2012 | 388,080 |
| 2013 | 2,300,000 |
| 2014 | |
| Thereafter | 551,920 |
| Total future principal payments | $ 3,258,000 |

Secured Revolving Credit Facility
We have a revolving credit facility with a group of banks led by Bank of America, N.A. and Banc of America Securities, LLC totaling $370 million. At June 30, 2009, there were no borrowings outstanding, so the entire balance was available to us under this credit facility. It bears interest at a rate per annum equal to either LIBOR plus 70 basis points or Federal Funds Rate plus 95 basis points if the amount outstanding is $262.5 million or less. However, if the amount outstanding is greater than $262.5 million, the credit facility bears interest at a rate per annum equal to either LIBOR plus 80 basis points or Federal Funds Rate plus 105 basis points. The credit facility bears interest at 15 basis points on the undrawn balance. The credit facility expires during the fourth quarter of 2009, with two one-year extensions at our option.

8. Interest Rate Contracts

Risk Management Objective of Using Derivatives
We manage our interest rate risk associated with borrowings by obtaining interest rate swap and interest rate cap contracts. The interest rate swap agreements we utilize effectively modify our exposure to interest rate risk by converting our floating-rate debt to a fixed-rate basis, thus reducing the impact of interest-rate changes on future interest expense and cash flows. These agreements involve the receipt of floating-rate amounts in exchange for fixed-rate interest payments over the life of the agreements without an exchange of the underlying principal amount. We do not use any other derivative instruments.

Cash Flow Hedges of Interest Rate Risk
Our objective in using derivatives is to add stability to interest expense and to manage our exposure to interest rate movements or other identified risks. To accomplish this objective, we primarily use interest rate swaps as part of our cash flow hedging strategy. FAS No. 133, Accounting for Derivative and Hedging Activities (FAS 133), as amended and interpreted establishes accounting and reporting standards for derivative instruments. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (loss) (outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings. The ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. The ineffectiveness attributable to a mismatch in the underlying rate indices of the hedged item and the related derivative resulted in our recording a gain of $271 and $32 for the three months ended June 30, 2009 and 2008, respectively, and recording a loss of $280 and a gain of $86 for the six months ended June 30, 2009 and 2008, respectively. We assess the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated

hedged item or transaction. For derivatives not designated as hedges, changes in fair value are recognized in earnings. The fair value of these hedges is obtained through independent third-party valuation sources that use conventional valuation algorithms.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements--(continued)
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Amounts accumulated in other comprehensive income (loss) related to derivatives will be reclassified to interest expense as interest payments are made on our variable-rate debt. For derivatives designated as cash flow hedges, we estimate an additional $132.3 million will be reclassified within the next 12 months from accumulated other comprehensive income (loss) to interest expense as an increase to interest expense.

As of June 30, 2009, approximately 99% of our outstanding debt had interest payments designated as hedged transactions to receive-floating/pay-fixed interest rate swap agreements, which qualify as highly effective cash flow hedges under FAS 133, as summarized below:

| Interest Rate Derivative | Number of Instruments (Actual) | Notional |
|---|---|---|
| Interest Rate Swaps | 36 | $3,240,000 |

Non-designated Hedges
Derivatives not designated as hedges are not speculative. Our predecessor originally entered into $2.2 billion notional of pay-fixed swaps at swap rates ranging between 4.04% and 5.00%, as well as $600 million of purchased caps to manage our exposure to interest rate movements and other identified risks. At the time of our IPO, we entered into offsetting $2.2 billion notional of receive-fixed swaps at swap rates ranging between 4.96% and 5.00%, as well as $600 million of sold caps, which were intended to largely offset the future cash flows and future change in fair value of our predecessor's pay-fixed swaps and purchased caps to reduce the effect on our reported earnings. Accordingly, as of June 30, 2009, we had the following outstanding interest rate derivatives that were not designated as hedging instruments under FAS 133, but were used to hedge our economic exposure to interest rate risk:

| Interest Rate Derivative | Number of Instruments (Actual) | Notional |
|---|---|---|
| Pay-Fixed Swaps | 25 | $2,205,000 |
| Receive-Fixed Swaps | 25 | $2,205,000 |
| Purchased Caps | 19 | $600,000 |
| Sold Caps | 15 | $600,000 |

None of the swaps or caps in the preceding table was designated as hedges under FAS 133 and as a result, the changes in fair value of these interest rate swaps have been recognized in earnings for all periods. The aggregate net asset fair value of these swaps decreased $5.3 million and $5.5 million for the three months ended June 30, 2009 and 2008, and $9.7 million and $7.4 million for the six months ended June 30, 2009 and 2008, respectively. The decrease in net asset fair value was recorded as additional interest expense. Included in the net $7.4 million decrease is a $1.2 million increase related to the credit value adjustment resulting from our initial application of FAS No. 157, Fair Value Measurements (FAS 157) in the first quarter of 2008.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements--(continued)
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Accounting for Interest Rate Contracts
As required by FAS 133, we record all derivatives on the balance sheet at fair value, using the framework for measuring fair value established in FAS 157. Hedge accounting generally provides for the timing of gain or loss recognition on the hedging instrument to match the earnings effect of the hedged forecasted transactions in a cash flow hedge. All other changes in fair value measured in accordance with FAS 157, with the exception of hedge ineffectiveness, are recorded in accumulated other comprehensive income (loss), which is a component of equity outside of earnings. Amounts reported in accumulated other comprehensive income (loss) related to derivatives designated as hedges under FAS 133 will be reclassified to interest expense as interest payments are made on our hedged variable-rate debt. We may enter into derivative contracts that are intended to hedge certain economic risks, even though hedge accounting does not apply, or for which we elect to not apply hedge accounting under FAS 133.

The change in net unrealized gains and losses on cash flow hedges reflects a reclassification from accumulated other comprehensive income (loss) to interest expense, which increased interest expense by $35.0 million and $17.0 million for the three months ended June 30, 2009 and 2008, respectively and $70.3 million and $26.2 million for the six months ended June 30, 2009 and 2008, respectively.

The following table represents the fair values of derivative instruments as of June 30, 2009:

| Derivative fair values, disclosed as “Interest Rate Contracts”: | Assets | Liabilities |
|---|---|---|
| Derivatives designated as hedging instruments under FAS 133 | $ | $ 191,302 |
| Derivatives not designated as hedging instruments under FAS 133 | 139,015 | 105,850 |
| Total derivatives | $ 139,015 | $ 297,152 |

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements--(continued)
(in thousands, except shares and per share data)

The following table represents the effect of derivative instruments on our consolidated statements of operations for the three and six months ended June 30, 2009:

| | Interest Rate Contracts | |
|---|---|---|
| Derivatives in FAS 133 Cash Flow Hedging Relationships: | Three months ended June 30, 2009 | Six months ended June 30, 2009 |
| Amount of gain (loss) recognized in OCI on derivatives (effective portion) | $ (9,492) | $ 8,953 |
| Amount of gain (loss) reclassified from accumulated OCI into earnings (effective portion) | $ (35,017) | $ (70,315) |
| Location of gain (loss) reclassification from accumulated OCI into earnings (effective portion) | Interest expense | Interest expense |
| Amount of gain (loss) recognized in earnings on derivatives (ineffective portion and amount excluded from effectiveness testing) | $ 271 | $ (280) |
| Location of gain (loss) recognized in earnings on derivatives (ineffective portion and amount excluded from effectiveness testing) | Interest expense | Interest expense |

| | Interest Rate Contracts | |
|---|---|---|
| Derivatives Not Designated as Cash Flow Hedges Under FAS 133: | Three months ended June 30, 2009 | Six months ended June 30, 2009 |
| Amount of gain (loss) recognized in earnings on derivatives | $ (5,297) | $ (9,710) |
| Location of gain (loss) recognized in earnings on derivatives | Interest expense | Interest expense |

Credit-risk-related Contingent Features

We have agreements with each of our derivative counterparties that contain a provision, under which we could also be declared in default on our derivative obligations if we default on any of our indebtedness, including any default where repayment of the indebtedness has not been accelerated by the lender. We have agreements with certain of our derivative counterparties that contain a provision under which, if we fail to maintain a minimum cash and cash equivalents balance of $1 million, then the derivative counterparty would have the right to terminate the derivative. There have been no events of default on any of our derivatives.

As of June 30, 2009, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements, was $173.4 million.

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Douglas Emmett, Inc.
Notes to Consolidated Financial Statements--(continued)
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Fair Value Measurement

FAS 157 defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair value measurements. FAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, FAS 157 establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy). Level 1 inputs utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that we have the ability to access. Level 2 inputs are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs may include quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals.

Currently, we use interest rate swaps and caps to manage interest rate risk resulting from variable interest payments on our floating rate debt. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities.

To comply with the provisions of FAS 157, we incorporate credit valuation adjustments to appropriately reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees. We have determined that our derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. We do not have any fair value measurements using significant unobservable inputs (Level 3) as of June 30, 2009.

The table below presents the derivative assets and liabilities, presented in our financial statements on a gross basis without reflecting any net settlement positions with the same counterparty. The derivatives shown below are measured at fair value as of June 30, 2009 and aggregated by the level in the fair value hierarchy within which those measurements fall:

| | Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance at June 30, 2009 |
|---|---|---|---|---|
| Assets | | | | |
| Interest Rate Contracts | $ | $ 139,015 | $ | $ 139,015 |
| Liabilities | | | | |
| Interest Rate Contracts | $ | $ 297,152 | $ | $ 297,152 |

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Douglas Emmett, Inc.
Notes to Consolidated Financial Statements--(continued)
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9. Stockholders' Equity

Noncontrolling Interests
Noncontrolling interests in our operating partnership relate to interests in that partnership which are not owned by us. Noncontrolling interests in our operating partnership amounted to approximately 22% at June 30, 2009. A unit in our operating partnership and a share of our common stock have essentially the same economic characteristics as they share equally in the total net income or loss distributions of our operating partnership. Investors who own units in our operating partnership have the right to cause our operating partnership to redeem any or all of their units in our operating partnership for cash equal to the then-current market value of one share of common stock, or, at our election, shares of our common stock on a one-for-one basis. Prior to the adoption of FAS No. 160, Noncontrolling Interests in Consolidated Financial Statements-an Amendment of Accounting Research Bulletin No. 51 (FAS 160), we calculated the book value of net assets allocable to noncontrolling interests (formerly referred to as minority interests), and adjusted the balance to reflect the calculated amount with a reclass to or from the retained earnings (accumulated deficit) balance.

Noncontrolling interests also includes the interest of a minority partner in a joint venture formed during the first quarter of 2008 to purchase an office building in Honolulu, Hawaii. The joint venture is two-thirds owned by our operating partnership and is consolidated in our financial statements as of June 30, 2009.

The table below represents our condensed consolidated statement of stockholders' equity:

| | Total Equity | Douglas Emmett, Inc. Stockholders' Equity | Noncontrolling Interests |
|---|---|---|---|
| Balance, January 1, 2009, as reported | $ 2,280,214 | $ 1,775,189 | $ 505,025 |
| Comprehensive income (loss): | | | |
| Net loss | (11,768) | (9,349) | (2,419) |
| Other comprehensive income (loss) | 61,362 | 45,347 | 16,015 |
| Comprehensive income (loss) | 49,594 | 35,998 | 13,596 |
| Contributions | 450 | - | 450 |
| Dividends and distributions | (34,108) | (24,290) | (9,818) |
| Redemption of operating partnership units | (5,338) | (597) | (4,741) |
| Stock compensation | 4,050 | 1,714 | 2,336 |
| Deconsolidation of Douglas Emmett Fund X, LLC | 11,900 | 11,890 | 10 |
| Balance, June 30, 2009 | $ 2,306,762 | $ 1,799,904 | $ 506,858 |

The table below represents our consolidated statements of comprehensive income (loss):

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Net loss | $ (9,518) | $ (12,213) | $ (11,768) | $ (15,454) |
| Cash flow hedge adjustment | 40,938 | 103,831 | 59,858 | 12,985 |
| Equity interest in other comprehensive income (loss) | | | | |

| | | | | |
|---|---|---|---|---|
| of unconsolidated real estate fund | 3,571 | - | 1,504 | - |
| Comprehensive income (loss) | 34,991 | 91,618 | 49,594 | (2,469) |
| Less: Comprehensive income (loss) attributable to | | | | |
| noncontrolling interests | (7,682) | 2,785 | (13,596) | 3,526 |
| Comprehensive income (loss) attributable to | | | | |
| common stockholders | $ 27,309 | $ 94,403 | $ 35,998 | $ 1,057 |

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Douglas Emmett, Inc.
Notes to Consolidated Financial Statements--(continued)
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Dividends
During the first six months of 2009 and 2008, we declared quarterly dividends of $0.10 and $0.1875 per share, respectively, which equals an annualized rate of $0.40 and $0.75 per share, respectively.

Taxability of Dividends
Earnings and profits, which determine the taxability of distributions to stockholders, will differ from income reported for financial reporting purposes due to the differences for federal income tax purposes in the treatment of loss on extinguishment of debt, revenue recognition, compensation expense and in the basis of depreciable assets and estimated useful lives used to compute depreciation.

Equity Conversions and Repurchases
During the six months ended June 30, 2009, investors converted approximately 320,000 operating partnership units to shares of common stock. During the six months ended June 30, 2009, we repurchased approximately 820,000 share equivalents in open market transactions for a total consideration of approximately $5.3 million. We may make additional purchases of our share equivalents from time to time in private transactions or in the public markets, but have no commitments to do so.

The table below represents the net income attributable to common stockholders and transfers (to) from the noncontrolling interests:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 2009 | 2008 | 2009 | 2008 |
| Net loss attributable to common stockholders | $ (7,482) | $ (9,428) | $ (9,349) | $ (11,928) |
| Transfers from the noncontrolling interests: | | | | |
| Increase in common stockholders paid-in capital for redemption of operating partnership units | 1,473 | 1,498 | 4,737 | 188,623 |
| Change from net income attributable to common stockholders and transfers from noncontrolling interests | $ (6,009) | $ (7,930) | $ (4,612) | $ 176,695 |

Stock-Based Compensation
The Douglas Emmett, Inc. 2006 Omnibus Stock Incentive Plan, our stock incentive plan, was adopted by our board of directors and approved by our stockholders prior to the consummation of our IPO, and was amended in 2009 to increase the maximum number of shares of our stock available for issuance under that plan by 24,080,163 shares and to make certain other amendments. Our stock incentive plan is administered by the compensation committee of our board of directors. All full-time and part-time officers, employees, directors and other key persons (including consultants and prospective employees) are eligible to participate in our stock incentive plan. For more information

on our stock incentive plan, please refer to the notes to the consolidated financial statements in our 2008 Annual Report on Form 10-K and our proxy statement, which was filed with the SEC on April 30, 2009.

During the first quarter of 2009, we granted approximately 3.6 million long-term incentive units and stock options with a total fair market value of $6.5 million. No additional grants were made during the first six months of 2009. Upon the vesting of equity awards, we recognized non-cash compensation expense of $1.2 million and $1.0 million for the three months ended June 30, 2009 and 2008, respectively, and $2.2 million and $2.1 million for the six months ended June 30, 2009 and 2008, respectively. An additional $1.4 million of immediately-vested equity awards were granted during the first quarter of 2009 to satisfy a portion of the bonuses accrued during 2008 and an additional $2.2 million of immediately-vested equity awards were granted during the first quarter of 2008 to satisfy a portion of the bonuses accrued during 2007.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements--(continued)
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10. Future Minimum Lease Receipts and Payments

Future Minimum Lease Receipts
We lease space to tenants primarily under noncancelable operating leases that generally contain provisions for a base rent plus reimbursement for certain operating expenses. Operating expense reimbursements are reflected in our consolidated statements of operations as tenant recoveries.

We lease space to certain tenants under noncancelable leases that provide for percentage rents based upon tenant revenues. Percentage rental income for the three months ended June 30, 2009 and 2008 totaled $112 and $185, respectively, and $309 and $429 for the six months ended June 30, 2009 and 2008, respectively.

Future minimum base rentals on our non-cancelable office and ground operating leases at June 30, 2009 were as follows:

| Twelve months ending June 30: | |
|---|---|
| 2010 | $ 353,141 |
| 2011 | 310,179 |
| 2012 | 261,718 |
| 2013 | 217,200 |
| 2014 | 156,741 |
| Thereafter | 417,205 |
| Total future minimum base rentals | $1,716,184 |

The above future minimum lease payments exclude residential leases, which typically have a term of one year or less, as well as tenant reimbursements, amortization of deferred rent receivables and above/below-market lease intangibles. Some leases are subject to termination options, generally upon payment of a termination fee. The preceding table assumes that these options are not exercised.

Future Minimum Lease Payments
We currently lease portions of the land underlying two of our office properties after acquiring, in December 2008, the fee title to a third parcel of land that we leased during 2008 as more fully described in the notes to consolidated financial statements contained in our 2008 Annual Report on Form 10-K. We expensed ground lease payments in the amount of $543 and $805 for the three months ended June 30, 2009 and 2008, respectively, and $1,056 and $1,591 for the six months ended June 30, 2009 and 2008, respectively.

The following is a schedule of our minimum ground lease payments as of June 30, 2009:

| Twelve months ending June 30: | |
|---|---|
| 2010 | $ 733 |
| 2011 | 733 |
| 2012 | 733 |
| 2013 | 733 |
| 2014 | 733 |
| Thereafter | 3,421 |
| Total future minimum lease payments | $ 7,086 |

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Douglas Emmett, Inc.
Notes to Consolidated Financial Statements--(continued)
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11. Fair Value of Financial Instruments

FAS No. 107, Disclosures about Fair Value of Financial Instruments (FAS 107), requires us to disclose fair value information about all financial instruments, whether or not recognized in the balance sheets, for which it is practicable to estimate fair value.

Our estimates of the fair value of financial instruments at June 30, 2009 were determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts.

The carrying amounts for cash and cash equivalents, restricted cash, rents and other receivables, due from affiliates, accounts payable and other liabilities approximate fair value because of the short-term nature of these instruments. We calculate the fair value of our secured notes payable based on a currently available market rate; assuming the loans are outstanding through maturity and considering the collateral. At June 30, 2009, the aggregate fair value of our secured notes payable and secured revolving credit facility is estimated to be approximately $3.2 billion, based on a credit-adjusted present value of the principal and interest payments which are at floating rates.

Currently, we use interest rate swaps and caps to manage interest rate risk resulting from variable interest payments on our floating rate debt. These financial instruments are carried on our balance sheet at fair value as determined under FAS157, based on the assumptions that market participants would use in pricing the asset or liability. See Note 8.

12. Related Party Transactions

On March 26, 2008, we acquired a 1.4 million square foot office portfolio consisting of six Class A buildings. Subsequent to acquiring the properties, we entered into a 5-year non-recourse $365 million interest-only floating rate term loan secured by the six-property portfolio. At the time we entered into the loan, we entered into an interest rate swap agreement to mitigate interest rate risk by converting the floating-rate debt to a fixed-rate basis, thus reducing the impact of interest-rate changes on future interest expense and cash flows. The swap agreement involves the receipt of floating-rate amounts in exchange for fixed-rate interest payments over the life of the agreements without an exchange of the underlying principal amount.

In October 2008, we contributed these six properties and the related $365 million term loan, and the benefits and burdens of the related swap agreement to Fund X in exchange for an interest in the common equity of Fund X as well as certain cash and the right to further cash. We received the balance of the cash in February 2009, at which point Fund X became an unconsolidated real estate fund in which we retained an equity investment.

In addition, if Fund X fails to perform any obligations under the related swap agreement, we remain liable to the swap counterparties. The maximum future payments under the swap agreements was approximately $45.5 million as of June 30, 2009. As of June 30, 2009, all obligations under the swap agreements have been performed by Fund X in accordance with the terms of the agreements.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements--(continued)
(in thousands, except shares and per share data)

13. Commitments and Contingencies

We are subject to various legal proceedings and claims that arise in the ordinary course of business. These matters are generally covered by insurance. We believe that the ultimate outcome of these actions will not have a material adverse effect on our financial position and results of operations or cash flows.

Concentration of Credit Risk
Our properties are located in premier submarkets within Los Angeles County, California and Honolulu, Hawaii. The ability of the tenants to honor the terms of their respective leases is dependent upon the economic, regulatory and social factors affecting the markets in which the tenants operate. We perform ongoing credit evaluations of our tenants for potential credit losses. Financial instruments that subject us to credit risk consist primarily of cash, accounts receivable, deferred rents receivable and interest rate contracts. We maintain our cash and cash equivalents with high quality financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to $250 under the increased limit that the U.S. Congress has temporarily granted until December 31, 2009. We have not experienced any losses to date on our deposited cash. All of our deposits are maintained at banks with investment grade ratings as evaluated by the predominant rating agencies.

Asset Retirement Obligations
Financial Accounting Standards Board (FASB) Interpretation No. 47, Accounting for Conditional Asset Retirement Obligations—an interpretation of FASB Statement No. 143 clarifies that the term “conditional asset retirement obligation” as used in FAS No. 143, Accounting for Asset Retirement Obligations, represents a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement is conditional on a future event that may or may not be within a company’s control. Under this standard, a liability for a conditional asset retirement obligation must be recorded if the fair value of the obligation can be reasonably estimated. Environmental site assessments and investigations have identified 23 properties in our portfolio containing asbestos, which would have to be removed in compliance with applicable environmental regulations if these properties undergo major renovations or are demolished. As of June 30, 2009, the obligations to remove the asbestos from these properties have indeterminable settlement dates, and therefore, we are unable to reasonably estimate the fair value of the associated conditional asset retirement obligation.

Tenant Concentrations
For the six months ended June 30, 2009 and 2008, no tenant accounted for more than 10% of our total rental revenue and tenant recoveries.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements--(continued)
(in thousands, except shares and per share data)

14. Summary of Significant Accounting Policies

Cash and Cash Equivalents
For purposes of the consolidated statements of cash flows, we consider short-term investments with maturities of three months or less when purchased to be cash equivalents.

Income Taxes
We have elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (IRC) commencing with our initial taxable year ending December 31, 2006. To qualify as a REIT, we are required to distribute at least 90% of our REIT taxable income to our stockholders and meet the various other requirements imposed by the IRC relating to such matters as operating results, asset holdings, distribution levels and diversity of stock ownership. Provided we qualify for taxation as a REIT, we are generally not subject to corporate-level income tax on the earnings distributed currently to our stockholders that we derive from our REIT qualifying activities. We are subject to corporate-level tax on the earnings we derive through our taxable REIT subsidiary (TRS). If we fail to qualify as a REIT in any taxable year, and are unable to avail ourselves of certain savings provisions set forth in the IRC, all of our taxable income would be subject to federal income tax at regular corporate rates, including any applicable alternative minimum tax.

In addition, we are subject to taxation by various state and local (and potentially foreign) jurisdictions, including those in which we transact business or reside. Our non-TRS subsidiaries, including the operating partnership, are either partnerships or disregarded entities for federal income tax purposes. Under applicable federal and state income tax rules, the allocated share of net income or loss from the limited partnerships and S-Corporation is reportable in the income tax returns of the respective partners and stockholders. Accordingly, no income tax provision is included in the accompanying consolidated financial statements.

Earnings Per Share (EPS)
Basic EPS is calculated by dividing the net income applicable to common stockholders for the period by the weighted average of common shares outstanding during the period. Diluted EPS is calculated by dividing the net income applicable to common stockholders for the period by the weighted average number of common and dilutive instruments outstanding during the period using the treasury stock method. Since we were in a net loss position during the three and six months ended June 30, 2009 and 2008, all potentially dilutive instruments are anti-dilutive and have been excluded from our computation of weighted average dilutive shares outstanding.

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(in thousands, except shares and per share data)

Recently Issued Accounting Literature

On January 1, 2009, we adopted FAS No. 141 (Revised 2007), Business Combinations (FAS 141R). FAS 141R changes the method of accounting for business combinations. Under FAS 141R, an acquiring entity is required to recognize all the assets acquired and liabilities assumed in a transaction at the acquisition-date fair value with limited exceptions. FAS 141R requires that transaction costs such as legal, accounting and advisory fees be expensed. FAS 141R also includes a substantial number of new disclosure requirements. The adoption of FAS 141R did not have a material effect on our financial position or results of operations.

On January 1 2009, we adopted FAS 160, which establishes new accounting and reporting standards for noncontrolling interests in a subsidiary and for the deconsolidation of a subsidiary. Specifically, this statement requires the recognition of a noncontrolling interest (minority interest) as equity in the consolidated financial statements separate from the parent’s equity. The amount of net income attributable to the noncontrolling interest is included in consolidated net income on the face of the income statement. FAS 160 clarifies that changes in a parent’s ownership interest in a subsidiary that do not result in deconsolidation are equity transactions if the parent retains its controlling financial interest. In addition, this statement requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated. Such gain or loss will be measured using the fair value of the noncontrolling equity investment on the deconsolidation date. FAS 160 also includes expanded disclosure requirements regarding the interests of the parent and its noncontrolling interests. The adoption of FAS 160 did not have a material effect on our financial position or results of operations, other than presentation differences.

On January 1, 2009, we adopted FAS No. 161, Disclosures about Derivative Instruments and Hedging Activities (FAS 161), an amendment of FAS 133, to expand disclosure requirements for an entity's derivative and hedging activities. Under FAS 161, entities are required to provide enhanced disclosures about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under FAS 133 and its related interpretations, and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. In order to meet these requirements, entities must include quantitative disclosures about derivative fair values and gains/losses on derivative instruments, qualitative disclosures about objectives and strategies for using derivatives, and disclosures about credit-risk-related contingent features in derivative agreements. The adoption of FAS 161 did not have a material effect on our financial position or results of operations as this statement only addresses disclosures.

On January 1, 2009, we adopted FASB Staff Position (FSP) No. EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities (FSP EITF 03-6-1), which clarifies that unvested share-based payment awards which contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities, and as participating securities, they must be included in the computation of EPS pursuant to the two-class method. The adoption of FSP EITF 03-6-1 did not have a material effect on our financial position or results of operations.

On April 1, 2009, we adopted FSP 107-1, Interim Disclosures about Fair Value of Financial Instruments (FSP 107-1). FSP 107-1 amends FAS 107 which requires disclosures about fair value of financial instruments for interim reporting periods of publicly-traded companies as well as in annual financial statements. The adoption of FSP 107-1 did not have a material effect on our financial position or results of operations as this statement only addresses disclosures.

On April 1, 2009, we adopted FAS No. 165, Subsequent Events (FAS 165). This standard establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The adoption of FAS 165 did not have a material effect on our financial position or results of operations as this statement only addresses disclosures. See Note 15 for subsequent events disclosure.

Douglas Emmett, Inc.
Notes to Consolidated Financial Statements--(continued)
(in thousands, except shares and per share data)

In June 2009, the FASB issued FAS No. 167, Amendments to FASB Interpretation No. 46(R) (FAS 167). This standard requires an enterprise to perform an analysis to determine whether an enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance. FAS 167 is effective for fiscal years, and interim periods within those fiscal years, beginning on or after November 15, 2009, which for us means January 1, 2010. We are currently evaluating the impact that FAS 167 will have on our financial statements.

In June 2009, the FASB issued FAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles—a replacement of FASB Statement No. 162 (FAS 168). The FASB Accounting Standards Codification (Codification) will become the single source of authoritative GAAP recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative GAAP for SEC registrants. On the effective date of this statement, the Codification will supersede all then-existing non-SEC accounting and reporting standards. Any other accounting literature issued by an entity other than the SEC will become non-authoritative. This statement is effective for financial statements issued for interim and annual periods ending after September 15, 2009, which for us means July 1, 2009. We do not believe adoption of FAS 168 will have a material effect on our financial position or results of operations as this statement only addresses the hierarchy of GAAP, and the manner in which we refer to and disclose the accounting principles used.

15. Subsequent Events

We evaluated subsequent events through August 6, 2009, the date on which these financial statements were issued, and were not aware of any which were material.

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

Forward Looking Statements.
This Quarterly Report on Form 10-Q (Report) contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). You can find many (but not all) of these statements by looking for words such as "approximates," "believes," "expects," "anticipates," "estimates," "intends," "plans," "would," "may" or other similar expressi Report. We claim the protection of the safe harbor contained in the Private Securities Litigation Reform Act of 1995. We caution investors that any forward-looking statements presented in this Report, or those that we may make orally or in writing from time to time, are based on our beliefs and assumptions. The actual outcome will be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control or ability to predict. Although we believe that our assumptions are reasonable, they are not guarantees of future performance and some will inevitably prove to be incorrect. As a result, our actual future results can be expected to differ from our expectations, and those differences may be material. Accordingly, investors should use caution in relying on previously reported forward-looking statements, which are based on results and trends at the time they are made, to anticipate future results or trends.

Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements include the following: adverse economic or real estate developments in Southern California and Honolulu; decreased rental rates or increased tenant incentive and vacancy rates; defaults on, early termination of, or non-renewal of leases by tenants; increased interest rates and operating costs; failure to generate sufficient cash flows to service our outstanding indebtedness; difficulties in identifying properties to acquire and completing acquisitions; failure to successfully operate acquired properties and operations; failure to maintain our status as a Real Estate Investment Trust (REIT) under the Internal Revenue Code of 1986, as amended; possible adverse changes in rent control laws and regulations; environmental uncertainties; risks related to natural disasters; lack or insufficient amount of insurance; inability to successfully expand into new markets and submarkets; risks associated with property development; conflicts of interest with our officers; changes in real estate zoning laws and increases in real property tax rates; and the consequences of any possible future terrorist attacks. For further discussion of these and other factors, see "Item 1A. Risk Factors" in our 2008 Annual Report on Form 10-K.

This Report and all subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We do not undertake any obligation to release publicly any revisions to our forward-looking statements to reflect events or circumstances after the date of this Report.

Critical Accounting Policies

Our discussion and analysis of our historical financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements in conformity with GAAP requires us to make estimates of certain items and judgments as to certain future events, for example with respect to the allocation of the purchase price of acquired property among land, buildings, improvements, equipment, and any related intangible assets and liabilities, or the effect of a property tax reassessment of our properties. These determinations, even though inherently subjective and prone to change, affect the reported amounts of our assets, liabilities, revenues and expenses. While we believe that our estimates are based on reasonable assumptions and judgments at the time they are made, some of our assumptions, estimates and judgments will inevitably prove to be incorrect. As a result, actual outcomes will likely differ from our accruals, and those differences—positive or negative—could be material. Some of our accruals are subject to adjustment, as we believe appropriate based on revised estimates and reconciliation to the actual results when available.

In addition, we identified certain critical accounting policies that affect certain of our more significant estimates and assumptions used in preparing our consolidated financial statements in our 2008 Annual Report on Form 10-K. We have not made any material changes to these policies during the periods covered by this Report.

Historical Results of Operations

Overview

Our results of operations for the three and six months ended June 30, 2008 and 2009 consists of the rental operations for 48 office properties and nine multifamily properties that we owned during both comparable periods as well as seven office properties that were owned for less than both comparable periods as described in Note 2 to the consolidated financial statements in Item 1 of this Report. One of the seven properties was acquired in February 2008. The other six properties were acquired in March 2008 and subsequently contributed to Douglas Emmett Fund X, LLC (Fund X), an institutional real estate fund that we manage and in which we own an equity interest. The results of all seven properties are only included following their respective dates of acquisition and the six contributed properties' results are included only through the end of February 2009, when Fund X was deconsolidated, and thereafter only as equity income from our investment in Fund X.

Comparison of three months ended June 30, 2009 to three months ended June 30, 2008

Revenues

Total Office Revenue. Total office revenue consists of rental revenue, tenant recoveries and parking and other income. For the reasons described below, total office revenue decreased by $14.9 million, or 10.8%, to $122.7 million for the three months ended June 30, 2009 compared to $137.6 million for the three months ended June 30, 2008.

Rental Revenue. Rental revenue includes rental revenues from our office properties, percentage rent on the retail space contained within office properties, and lease termination income. Total office rental revenue decreased by $12.0 million, or 10.8%, to $99.2 million for the three months ended June 30, 2009 compared to $111.2 million for the three months ended June 30, 2008. The decrease is primarily due to $12.2 million of rent reflected in the 2008 consolidated results from the six properties we contributed to an unconsolidated real estate fund during the first quarter of 2009.

Tenant Recoveries. Total office tenant recoveries decreased by $1.0 million, or 12.8%, to $7.1 million for the three months ended June 30, 2009 compared to $8.2 million for the three months ended June 30, 2008. The decrease is primarily due to $0.7 million in recoveries reflected in the 2008 consolidated results from the six properties we contributed to an unconsolidated real estate fund during the first quarter of 2009.

Parking and Other Income. Total office parking and other income decreased by $1.8 million, or 10.0%, to $16.4 million for the three months ended June 30, 2009 compared to $18.2 million for the three months ended June 30, 2008. The decrease is primarily due to parking of $1.7 million reflected in the 2008 consolidated results from the six properties we contributed to an unconsolidated real estate fund during the first quarter of 2009.

Total Multifamily Revenue. Total multifamily revenue consists of rent, parking income and other income. Total multifamily revenue decreased by $0.4 million, 2.3%, to $17.0 million for the three months ended June 30, 2009, compared to $17.4 million for the three months ended June 30, 2008. The decrease is primarily due to a decline in rental income attributable to a slight decline in occupancy levels and rates for the comparable periods.

Operating Expenses

Office Rental Expenses. Total office rental expense decreased by $5.1 million, or 12.3%, to $36.7 million for the three months ended June 30, 2009, compared to $41.8 million for the three months ended June 30, 2008. The decrease is primarily due to $5.1 million of operating expenses and property taxes reflected in the 2008 consolidated results from the six properties we contributed to an unconsolidated real estate fund during the first quarter of 2009.

Depreciation and Amortization.  Depreciation and amortization expense decreased $8.1 million, or 12.7%, to $55.7 million for the three months ended June 30, 2009, compared to $63.9 million for the three months ended June 30, 2008.  The decrease is primarily due to $8.0 million of depreciation and amortization reflected in the 2008 consolidated results from the six properties we contributed to an unconsolidated real estate fund during the first quarter of 2009.

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Non-Operating Income and Expenses

Loss, including Depreciation, from Unconsolidated Real Estate Fund. The loss, including depreciation, from unconsolidated real estate fund totaled $2.1 million for the three months ended June 30, 2009. The loss represents our equity interest in the net income from the six properties owned by Fund X, including the operating income net of historical cost-basis depreciation. During the second quarter of 2008, these six properties were contained in our consolidated results, so there was no comparable amount recorded in this line until the properties were deconsolidated at the end of February 2009.

Interest Expense. Interest expense decreased $7.2 million, or 13.9%, to $44.6 million for the three months ended June 30, 2009, compared to $51.8 million for the three months ended June 30, 2008. This decrease is primarily due to lower levels of outstanding debt during the second quarter of 2009 in comparison to the prior year, including our revolving credit facility, which had no outstanding borrowings as of June 30, 2009, and the deconsolidation of debt associated with the six properties contributed to an unconsolidated real estate fund in the first quarter of 2009.

Comparison of six months ended June 30, 2009 to six months ended June 30, 2008
Revenues

Total Office Revenue. Total office revenue decreased by $2.3 million, or 0.9%, to $256.9 million for the six months ended June 30, 2009 compared to $259.2 million for the six months ended June 30, 2008. The decrease is primarily due to $5.9 million in rent reflected in the 2008 consolidated results related to the six properties we contributed to an unconsolidated real estate fund during the first quarter of 2009 offset by increases totaling $3.4 million in rental revenues for the remainder of our portfolio. The increase of $3.4 million is a result of rate increases for new and renewal tenants offset by lower occupancy.

Total Multifamily Revenue. Total multifamily revenue consists of rent, parking income and other income. Total multifamily revenue decreased by $1.3 million, 3.7%, to $34.3 million for the six months ended June 30, 2009, compared to $35.6 million for the six months ended June 30, 2008. The decrease is primarily due to lower amortization of below-market leases for certain multifamily units initially recorded at the time of our IPO, thus causing a decline when comparing 2009 to 2008.

Operating Expenses

Office Rental Expenses. Total office rental expense decreased by $0.7 million, or 1.0%, to $77.0 million for the six months ended June 30, 2009, compared to $77.7 million for the six months ended June 30, 2008. The decrease is primarily due to $3.3 million in office rental expenses reflected in the 2008 consolidated results to the six properties we contributed to an unconsolidated real estate fund during the first quarter of 2009 offset by an increase in office rental expenses in our portfolio. Total office expenses increased in our portfolio by $2.6 million primarily as a result of lower comparable property tax accruals in the prior period, partially offset by lower janitorial costs in the current period.

General and Administrative Expenses. General and administrative expenses increased $1.3 million, or 11.8%, to $12.3 million for the six months ended June 30, 2009, compared to $11.0 million for the six months ended June 30, 2008. The increase is primarily due to various expenses, including higher legal fees and equity awards that are expensed over the multi-year vesting period.

Depreciation and Amortization. Depreciation and amortization expense decreased $3.8 million, or 3.2%, to $116.8 million for the six months ended June 30, 2009, compared to $120.6 million for the six months ended June 30,

2008. The decrease is primarily due to $3.1 million in depreciation and amortization reflected in the 2008 consolidated results related to the six properties we contributed to an unconsolidated real estate fund during the first quarter of 2009.



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Non-Operating Income and Expenses

Gain on Disposition of Interest in Unconsolidated Real Estate Fund. In February 2009, we recorded a gain of $5.6 million related to the contribution of six properties to Fund X as described in Note 2 to our consolidated financial statements in Item 1 of this Report.

Interest and Other Income. Interest and other income increased $2.4 million to $3.0 million for the six months ended June 30, 2009, compared to $0.5 million for the six months ended June 30, 2008. The increase for the comparable periods was attributable to $2.8 million of interest income relating to the contribution of properties to an unconsolidated real estate fund in the first quarter of 2009. See Note 2 to our consolidated financial statements in Item 1 of this Report for a discussion about the contribution to Fund X.

Loss, including Depreciation, from Unconsolidated Real Estate Fund. The loss, including depreciation, from unconsolidated real estate fund totaled $2.8 million for the six months ended June 30, 2009. The loss represents our equity interest in the net income from the six properties owned by Fund X, including the operating income net of historical cost-basis depreciation. During the first six months of 2008, subsequent to acquiring the six properties, the operating results from the properties were contained in our consolidated results, so there was no comparable amount recorded in this line until the properties were deconsolidated at the end of February 2009.

Interest Expense. Interest expense increased $0.8 million, or 0.9%, to $93.8 million for the six months ended June 30, 2009, compared to $93.0 million for the six months ended June 30, 2008. The increase for the comparable period is attributable to higher interest expense related to the change in the net asset fair value of our derivatives not designated as cash flow hedges under FAS 133. This increase was partially offset by lower interest expense from the decrease in borrowings on our revolving credit facility, which had no outstanding borrowings as of June 30, 2009.

Liquidity and Capital Resources

Available Borrowings, Cash Balances and Capital Resources

We had total indebtedness of $3.3 billion at June 30, 2009, excluding a loan premium representing the mark-to-market adjustment on variable rate debt assumed from our predecessor. See Note 7 to our consolidated financial statements in Item 1 of this Report.

We have a revolving credit facility with a group of banks led by Bank of America, N.A. and Banc of America Securities LLC totaling $370 million. Historically, we have used our revolving credit facility for general corporate purposes, including acquisition funding, redevelopment and repositioning opportunities, tenant improvements and capital expenditures, share equivalent repurchases, recapitalizations and working capital. At June 30, 2009, there were no borrowings outstanding, so the entire balance was available to us under this credit facility. This revolving credit facility bears interest at a rate per annum equal to either LIBOR plus 70 basis points or Federal Funds Rate plus 95 basis points if the amount outstanding is $262.5 million or less. However, if the amount outstanding is greater than $262.5 million, the credit facility bears interest at a rate per annum equal to either LIBOR plus 80 basis points or Federal Funds Rate plus 105 basis points. The facility is scheduled to mature on October 30, 2009 but we have two one-year extensions available to us. However, it is possible that we may not satisfy specified criteria, which could result in the reduction of the availability under the facility upon extension.

We have typically financed our capital needs through short-term lines of credit and long-term secured mortgages at floating rates. To mitigate the impact of fluctuations in short-term interest rates on our cash flow from operations, we generally enter into interest rate swap or interest rate cap agreements with respect to our long-term secured mortgages. At June 30, 2009, 99% of our debt was effectively fixed at an overall rate of 5.10% (on an actual /

360-day basis) by virtue of interest rate swap and interest rate cap agreements in place at the end of the reporting period. See Notes 7 and 8 to our consolidated financial statements in Item 1 of this Report.

None of our term loans with swapped-to-fixed interest rates mature until 2012. Our other loan obligations, which remain at variable rates, are our $370 million revolving credit facility described above, whose maturity can be extended, under certain conditions, by two years to October 30, 2011, and an $18 million secured acquisition loan, whose maturity can be extended, under certain conditions, by one year to March 1, 2011.

In October 2008, we completed the initial closing of Fund X. Fund X initially contemplated a fund raising period through July 2009, which has now been extended until later this year. The Fund will have an investment period of up to four years from the initial closing, followed by a ten-year value creation period. With limited exceptions, Fund X will be our exclusive investment vehicle during its investment period, using the same underwriting and leverage principles and focusing primarily on the same markets as we have.

At June 30, 2009, our total borrowings under secured loans, including the portion of debt attributable to our equity interest in Fund X, and excluding the portion of consolidated debt attributable to our minority partner on the Honolulu Club joint venture, represented 71.1% of our total market capitalization of $4.8 billion. Total market capitalization includes our portion of the consolidated debt and the value of common stock and operating partnership units each based on our common stock closing price at June 30, 2009 on the New York Stock Exchange of $8.99 per share.

The nature of our business will cause us to have substantial liquidity needs over both the short term and the long term. We expect to meet our short-term liquidity requirements generally through cash provided by operations and, if necessary, by drawing upon our secured revolving credit facility. We anticipate that cash provided by operations and borrowings under our secured revolving credit facility will be sufficient to meet our liquidity requirements for at least the next 12 months.

Our long-term liquidity needs consist primarily of funds necessary to pay for acquisitions, redevelopment and repositioning of properties, non-recurring capital expenditures, and repayment of indebtedness at maturity. We will seek to satisfy these needs through cash flow from operations, long-term secured and unsecured indebtedness, the issuance of debt and equity securities, including units in our operating partnership, property dispositions and joint venture transactions. The availability of liquidity over the long-term will be impacted by the magnitude and duration of the current economic downturn and unfavorable credit market conditions, among other things. This could impact the availability of capital in the future and could impact the interest rates and other terms of borrowings or equity that we do obtain, which could materially and adversely effect our liquidity, capital resources, and results of operations.

Contractual Obligations

During the first six months of 2009, there were no material changes outside the ordinary course of business in the information regarding specified contractual obligations contained in our 2008 Annual Report on Form 10-K.

Off-Balance Sheet Arrangements

At June 30, 2009, we had an equity investment of $102.2 million in Fund X, an unconsolidated real estate fund to which we contributed six properties. Fund X has debt outstanding, which is secured by the six properties we contributed, totaling $365 million at June 30, 2009 as summarized in the following table:

| Type of Debt | Maturity Date | Variable Rate | Effective Annual Fixed Rate(1) | Swap Maturity Date |
|---|---|---|---|---|
| Variable rate term loan (swapped to fixed rate) (2) | 08/18/13 | LIBOR + 1.65% | 5.52% | 09/14/12 |

(1) Includes the effect of interest rate contracts. Based on actual/360-day basis and excludes amortization of loan fees. The total effective rate on an actual/365-day basis is 5.59% at June 30, 2009.
(2) The loan is secured by six properties in a collateralized pool. Requires monthly payments of interest only, with outstanding principal due upon maturity.

Cash Flows

Our cash flow from operating activities is primarily dependent upon the occupancy level of our portfolio, the rental rates achieved on our leases, the collectability of rent and recoveries from our tenants and the level of operating expenses and other general and administrative costs. Net cash provided by operating activities increased by $4.9 million to $95.7 million for the six months ended June 30, 2009, compared to $90.8 million for the six months ended June 30, 2008. The increase reflects higher net cash flow from existing properties that generated improved results.

Our net cash used in investing activities is generally used to fund property acquisitions, development and redevelopment projects and recurring and non-recurring capital expenditures. Net cash used in investing activities decreased $614.8 million to $28.0 million for the six months ended June 30, 2009 compared to $642.8 million for the six months ended June 30, 2008. The decrease was attributable to the absence of any property acquisitions during the six months ended June 30, 2009 in comparison to the seven properties acquired during the comparable period of 2008. See Note 2 to our consolidated financial statements in Item 1 of this Report.

Our net cash related to financing activities is generally impacted by our borrowings, capital activities net of dividends and distributions paid to common stockholders and noncontrolling interests. Net cash used in financing activities totaled $33.1 million for the six months ended June 30, 2009 compared to net cash provided by financing activities totaling $548.9 million for the six months ended June 30, 2008. The comparative difference was primarily due to the increased level of borrowings associated with property acquisitions in 2008. See Note 2 to our consolidated financial statements in Item 1 of this Report.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

At June 30, 2009, 99%, or $3.2 billion of our debt was hedged with derivative instruments. Based on the level of variable rate debt outstanding at June 30, 2009, by virtue of the mitigating effect of our interest rate contracts, a 50 basis point change in LIBOR would result in an annual impact to earnings of approximately $90. We calculate interest sensitivity by computing the amount of floating rate debt not mitigated by interest rate contracts by the respective change in rate. The sensitivity analysis does not take into consideration possible changes in the balances of fair value of our floating rate debt.

By using derivative instruments to hedge exposure to changes in interest rates, we expose ourselves to credit risk and the potential inability of our counterparties to perform under the terms of the agreements. We attempt to minimize this credit risk by contracting with high-quality bank financial counterparties.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures (as such term is defined in Rule 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and regulations and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As of June 30, 2009, the end of the period covered by this Report, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, regarding the effectiveness in design and operation of our disclosure controls and procedures at the end of the period covered by this Report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded, as of that time, that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in reports filed or submitted under the Exchange Act (i) is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and (ii) is accumulated and communicated to our management including our Chief Executive Officer and our Chief Financial Officer, to allow timely decisions regarding required disclosure.

No changes to our internal control over financial reporting were identified in connection with the evaluation referenced above that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



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## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

We are subject to various legal proceedings and claims that arise in the ordinary course of business. Most of these matters are generally covered by insurance and we do not believe that the ultimate outcome of these actions will have a material adverse effect on our financial position, results of operations or cash flows.

### Item 1A. Risk Factors

There have been no material changes to the risk factors included in Item 1A. “Risk Factors” in our 2008 Annual Report on Form 10-K.

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

Sales. We did not make any unregistered sales of our securities during the quarter ended June 30, 2009.

Purchases. We made the following purchases of our share equivalents during the three months ended June 30, 2009.

ISSUER PURCHASES OF EQUITY SECURITIES

| Period | (a) Total Number of Share Equivalents Purchased | (b) Average Price Paid per Share (or Unit) |
|---|---|---|
| April 2009 | 200,000 | 7.18 |
| May 2009 | | |
| June 2009 | | |
| Total | 200,000 | 7.18 |

All purchases were made in open market transactions, and were not made pursuant to a publicly announced program.

### Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

Our annual meeting of stockholders was held on June 11, 2009. Approximately 87% of the eligible shares were voted. A detailed description of the matters voted upon at the meeting is contained in our proxy statement, which was filed with the SEC on April 30, 2009. The voting results for each of the proposals are as follows:

| Proposal | For | Withheld/ Against | Abstain | Broker Non-Votes |
|---|---|---|---|---|
| 1. Election of directors: | | | | |
| Dan A. Emmett | 104,928,209 | 781,504 | | |
| Jordan L. Kaplan | 105,188,956 | 520,757 | | |
| Kenneth M. Panzer | 105,038,956 | 670,757 | | |
| Leslie E. Bider | 102,668,322 | 3,041,391 | | |
| Victor J. Coleman | 102,171,048 | 3,538,665 | | |
| Ghebre Selassie Mehreteab | 104,661,168 | 1,048,545 | | |
| Thomas E. O'Hern | 104,661,268 | 1,048,445 | | |
| Dr. Andrea Rich | 102,665,668 | 3,044,045 | | |
| William Wilson III | 105,194,461 | 515,252 | | |
| 2. Ratification of Ernst & Young LLP as independent registered public accounting firm: | 104,653,813 | 1,045,511 | 10,387 | |
| 3. To approve amendments to the Company's 2006 Omnibus Stock Incentive Plan: | 79,712,455 | 16,817,560 | 187,171 | 8,988,385 |

Item 5. Other Information

(a) Additional Disclosures. None.

(b) Stockholder Nominations. There have been no material changes to the procedures by which stockholders may recommend nominees to our board of directors during the quarter ended June 30, 2009. Please see the discussion of our procedures in our most recent proxy statement.

Item 6. Exhibits

| Exhibit Number | Description |
|---|---|
| 10.1 | Amendment #1 to the Douglas Emmett, Inc. 2006 Omnibus Stock Incentive Plan. (+) |
| 31.1 | Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certificate of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.(1) |
| 32.2 | Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (1) |

(1) In accordance with SEC Release No. 33-8212, the following exhibit is being furnished, and is not being filed as part of this Report on Form 10-Q or as a separate disclosure document, and is not being incorporated by reference into any Securities Act of 1933 registration statement.
(+) Denotes management contract or compensatory plan, contract or arrangement.

Signatures

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

| | | |
|---|---|---|
| | DOUGLAS EMMETT, INC. | |
| Date: August 6, 2009 | By: | /s/ JORDAN L. KAPLAN<br>Jordan L. Kaplan<br>President and Chief Executive Officer |
| Date: August 6, 2009 | By: | /s/ WILLIAM KAMER<br>William Kamer<br>Chief Financial Officer |