CHEGG, INC
Form 10-Q/A
December 21, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
Amendment No. 1

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

For the quarterly period ended June 30, 2015

or

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

For the transition period from to

Commission file number 001-36180

CHEGG, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	20-3237489 (I.R.S. employer identification no.)

3990 Freedom Circle
Santa Clara, CA, 95054
(Address of principal executive offices)
(408) 855-5700
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Common Stock, $0.001 par value per share	The New York Stock Exchange

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

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 (Exchange Act) 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 x No ¨

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

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 definitions of “large accelerated filer,” “accelerated filer,” and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one)

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

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

As of November 30, 2015, the Registrant had 88,085,295 outstanding shares of Common Stock.

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EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (“Amendment No. 1”) amends the Quarterly Report on Form 10-Q of Chegg, Inc. (the “Company”) for the fiscal quarter ended June 30, 2015, filed with the Securities and Exchange Commission (“SEC”) on August 6, 2015 (the “Original 10-Q”). The sole purpose of this Amendment No. 1 is to file corrected certifications required by Rules 13a-14(e) and 15d-15(e) of the Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 (the “302 Certifications”), because certain provisions of the 302 Certifications were inadvertently omitted when the Original 10-Q was filed. The amended 302 Certifications are being filed in their entirety as Exhibits 31.01 and 31.02 to this Amendment No. 1.

Except as described above, no changes have been made to the Original 10-Q and this Amendment No. 1 does not modify, amend, or update in any way any of the financial or other information set forth in the Original 10-Q. This Amendment No. 1 does not reflect any events that have occurred subsequent to August 6, 2015, the filing date of the Original 10-Q. Accordingly, this Amendment No. 1 should be read in conjunction with the Original 10-Q and the Company’s subsequent filings made with the SEC since August 6, 2015.

The filing of this Amendment No. 1 shall not be deemed an admission that the Original 10-Q, when made, included any untrue statement of a material fact or omitted to state a material fact necessary to make a statement not misleading.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CHEGG, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(in thousands, except for number of shares and par value)

	June 30, 2015	December 31, 2014
Assets	(unaudited)	*
Current assets		
Cash and cash equivalents	$35,087	$56,117
Short-term investments	27,409	33,346
Accounts receivable, net of allowance for doubtful accounts of $261 and $559 at June 30, 2015 and December 31, 2014, respectively	12,131	14,396
Prepaid expenses	7,657	3,091
Other current assets	16,872	3,864
Total current assets	99,156	110,814
Long-term investments	4,727	1,451
Textbook library, net	61,260	80,762
Property and equipment, net	18,569	18,369
Goodwill	91,301	91,301
Intangible assets, net	10,629	13,626
Other assets	1,922	1,804
Total assets	$287,564	$318,127
Liabilities and stockholders' equity		
Current liabilities		
Accounts payable	$3,832	$10,945
Deferred revenue	19,752	24,591
Accrued liabilities	23,903	31,183
Total current liabilities	47,487	66,719
Long-term liabilities		
Total other long-term liabilities	4,732	4,365
Total liabilities	52,219	71,084
Commitments and contingencies (Note 7)		
Stockholders' equity:		
Preferred stock, $0.001 par value – 10,000,000 shares authorized, no shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	—	—
Common stock, $0.001 par value 400,000,000 shares authorized at June 30, 2015 and December 31, 2014, respectively; 87,560,103 and 84,008,043 shares issued and outstanding at June 30, 2015 and December 31, 2014, respectively	88	84
Additional paid-in capital	543,789	516,845
Accumulated other comprehensive gain (loss)	14	(13)
Accumulated deficit	(308,546)	(269,873)
Total stockholders' equity	235,345	247,043
Total liabilities and stockholders' equity	$287,564	$318,127

* Derived from audited consolidated financial statements as of and for the year ended December 31, 2014.
See Notes to Condensed Consolidated Financial Statements

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CHEGG, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share amounts)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
Net revenues:				
Rental	$32,782	$42,257	$70,496	$89,113
Services	29,276	18,599	60,643	35,845
Sales	5,003	3,636	20,794	13,927
Total net revenues	67,061	64,492	151,933	138,885
Cost of revenues:				
Rental	21,238	29,889	59,793	77,586
Services	9,975	4,912	21,812	12,568
Sales	5,043	3,795	20,144	13,927
Total cost of revenues	36,256	38,596	101,749	104,081
Gross profit	30,805	25,896	50,184	34,804
Operating expenses:				
Technology and development	13,268	12,189		
Office				
Rental	$133,602	$118,047	$267,118	$234,274
Tenant recoveries	25,038	21,303	42,439	41,836
Parking and other	8,212	5,050	14,111	10,582
Total Office revenues	166,852	144,400	323,668	286,692
Media & Entertainment				
Rental	9,105	6,857	15,790	12,885
Tenant recoveries	129	213	794	412
Other property-related revenue	4,361	2,810	8,403	7,779
Other	53	41	130	90
Total Media & Entertainment revenues	13,648	9,921	25,117	21,166
TOTAL REVENUES	180,500	154,321	348,785	307,858
OPERATING EXPENSES				
Office operating expenses	55,468	49,091	103,422	96,794
Media & Entertainment operating expenses	7,003	6,295	14,254	12,247
General and administrative	14,506	13,016	28,316	25,519
Depreciation and amortization	75,415	66,108	146,182	134,476
TOTAL OPERATING EXPENSES	152,392	134,510	292,174	269,036
INCOME FROM OPERATIONS	28,108	19,811	56,611	38,822
OTHER EXPENSE (INCOME)				
Interest expense	21,695	17,614	43,625	34,865
Interest income	(16)	(73)	(46)	(86)
Unrealized loss on ineffective portion of derivative instruments	51	384	45	2,509
Acquisition-related expenses	—	61	—	61
Other income	(576)	(47)	(1,254)	(23)
TOTAL OTHER EXPENSES	21,154	17,939	42,370	37,326
INCOME BEFORE GAINS ON SALE OF REAL ESTATE	6,954	1,872	14,241	1,496

Gains on sale of real estate	—	2,163	16,866	8,515
NET INCOME	6,954	4,035	31,107	10,011
Net income attributable to preferred units	(159)	(159)	(318)	(318)
Net income attributable to participating securities	(255)	(196)	(495)	(393)
Net income attributable to non-controlling interest in consolidated entities	(2,974)	(2,396)	(6,011)	(4,341)
Net income attributable to units in the operating partnership	(13)	(445)	(215)	(1,867)
Net income attributable to Hudson Pacific Properties, Inc. common stockholders	$3,553	$839	$24,068	$3,092
Basic and diluted per share amounts:				
Net income attributable to common stockholders—basic	$0.02	$0.01	$0.16	$0.03
Net income attributable to common stockholders—diluted	$0.02	$0.01	$0.16	$0.03
Weighted average shares of common stock outstanding—basic	155,290,559	95,145,496	151,640,853	92,168,432
Weighted average shares of common stock outstanding—diluted	156,095,603	95,995,496	152,431,897	93,000,432
Dividends declared per share	$0.250	$0.200	$0.500	$0.400

The accompanying notes are an integral part of these consolidated financial statements.
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HUDSON PACIFIC PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$6,954	$4,035	$31,107	$10,011
Other comprehensive (loss) income: change in fair value of derivative instruments	(2,760)	(8,430)	104	(23,905)
Comprehensive income (loss)	4,194	(4,395)	31,211	(13,894)
Comprehensive income attributable to preferred units	(159)	(159)	(318)	(318)
Comprehensive income attributable to participating securities	(255)	(196)	(495)	(393)
Comprehensive income attributable to non-controlling interest in consolidated entities	(2,974)	(2,396)	(6,011)	(4,341)
Comprehensive (income) loss attributable to units in the operating partnership	(3)	2,474	(233)	7,040
Comprehensive income (loss) attributable to Hudson Pacific Properties, Inc. stockholders	$803	$(4,672)	$24,154	$(11,906)

The accompanying notes are an integral part of these consolidated financial statements.
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HUDSON PACIFIC PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF EQUITY
(Unaudited, in thousands, except share data)

	Hudson Pacific Properties, Inc. Stockholders' Equity							
	Shares of Common Stock	Stock Amount	Additional Paid-in Capital	Accumulated (Deficit) Income	Accumulated Other Comprehensive (Loss) Income	Non-controlling Interest—Units in the Operating Partnership	Non-controlling Interest—Members in Consolidated Entities	Total Equity
Balance at January 1, 2016	89,153,780	$891	$1,710,979	$(44,955)	$(1,081)	$1,800,578	$262,625	$3,729,037
Contributions	—	—	—	—	—	—	33,996	33,996
Distributions	—	—	—	—	—	—	(1,303)	(1,303)
Proceeds from sale of common stock, net of underwriters' discount and transaction costs	47,010,695	470	1,449,111	—	—	—	—	1,449,581
Issuance of unrestricted stock	590,520	6	—	—	—	—	—	6
Shares withheld to satisfy tax withholding	(262,760)	(3)	(8,424)	—	—	—	—	(8,427)
Declared dividend	—	—	(90,005)	—	—	(27,814)	—	(117,819)
Amortization of stock-based compensation	—	—	13,609	—	—	1,045	—	14,654
Net income	—	—	—	27,984	—	5,848	9,290	43,122
Change in fair value of derivatives	—	—	—	—	10,577	(4,635)	—	5,942
Redemption of common units in the operating partnership	—	—	34,124	—	—	(1,480,163)	—	(1,446,039)
Balance at December 31, 2016	136,492,235	1,364	3,109,394	(16,971)	9,496	294,859	304,608	3,702,750
Contributions	—	—	—	—	—	—	3,870	3,870
Distributions	—	—	—	—	—	—	(14,591)	(14,591)
Proceeds from sale of common stock, net of underwriters' discount and transaction costs	18,656,575	187	647,322	—	—	—	—	647,509
Issuance of unrestricted stock	273,301	3	(3)	—	—	—	—	—
	(120,261)	(1)	(4,202)	—	—	—	—	(4,203)

Shares withheld to satisfy tax withholding								
Declared dividend	—	—	(78,835)	—	—	(328)	—	(79,163)
Amortization of stock-based compensation	—	—	6,868	—	—	1,338	—	8,206
Net income	—	—	—	24,563	—	215	6,011	30,789
Change in fair value of derivatives	—	—	—	—	86	18	—	104
Redemption of common units in the operating partnership	—	—	(24,535)	—	(3,622)	(282,698)	—	(310,855)
Balance at June 30, 2017	155,301,850	$1,553	$3,656,009	$7,592	$5,960	$13,404	$299,898	$3,984,416

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

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HUDSON PACIFIC PROPERTIES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Six Months Ended June 30, 2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$31,107	$10,011
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	146,182	134,476
Amortization of deferred financing costs and loan premium, net	2,373	2,134
Amortization of stock-based compensation	7,788	6,643
Straight-line rents	(5,781)	(11,281)
Straight-line rent expenses	160	750
Amortization of above- and below-market leases, net	(10,405)	(9,302)
Amortization of above- and below-market ground lease, net	1,470	1,070
Amortization of lease incentive costs	758	655
Bad debt (recovery) expense	(75)	512
Amortization of discount and net origination fees on purchased and originated loans	—	(208)
Unrealized loss on ineffective portion of derivative instruments	45	2,509
Gains on sale of real estate	(16,866)	(8,515)
Change in operating assets and liabilities:		
Accounts receivable	3,177	10,001
Deferred leasing costs and lease intangibles	(15,216)	(25,725)
Prepaid expenses and other assets	(5,873)	(5,882)
Accounts payable and accrued liabilities	6,304	5,619
Security deposits	3,667	4,214
Prepaid rent	(7,779)	(8,814)
Net cash provided by operating activities	141,036	108,867
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to investment property	(147,476)	(104,112)
Property acquisitions	(257,734)	—
Proceeds from sales of real estate	81,707	283,855
Contributions to unconsolidated entities	(1,071)	(28,393)
Distributions from unconsolidated entities	14,893	—
Deposit for property acquisitions	—	(20,000)
Proceed from repayment of notes receivable	—	28,892
Net cash (used in) provided by investing activities	(309,681)	160,242
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	230,000	677,000
Payments of notes payable	(321,270)	(597,416)
Proceeds from issuance of common stock, net	647,509	293,628
Payment for redemption of common units in the operating partnership	(310,855)	(294,209)
Distributions paid to common stockholders and unitholders	(79,163)	(59,119)
Distributions paid to preferred unitholders	(318)	(318)
Contributions from non-controlling member in consolidated entities	3,870	103
Distributions to non-controlling member in consolidated entities	(14,591)	(663)
Payments to satisfy tax withholding	(4,203)	(1,776)

Payments of loan costs	—	(1,334)
Net cash provided by financing activities	150,979	15,896
Net (decrease) increase in cash and cash equivalents and restricted cash	(17,666)	285,005
Cash and cash equivalents and restricted cash—beginning of period	108,192	71,561
Cash and cash equivalents and restricted cash—end of period	$90,526	$356,566
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest including amounts capitalized	$42,462	$38,714
NON-CASH INVESTING ACTIVITIES:		
Accounts payable and accrued liabilities for real estate investments	$(3,427)	$(8,866)
Reclassification of investment in unconsolidated entities for real estate investments	$7,835	$—

The accompanying notes are an integral part of these consolidated financial statements.
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HUDSON PACIFIC PROPERTIES, L.P.
CONSOLIDATED BALANCE SHEETS
(in thousands, except unit data)

	June 30, 2017 (unaudited)	December 31, 2016
ASSETS		
Real estate assets		
Land	$1,413,269	$1,265,399
Building and improvements	4,765,915	4,502,235
Tenant improvements	403,359	373,778
Furniture and fixtures	7,230	4,276
Property under development	247,634	295,239
Total real estate held for investment	6,837,407	6,440,927
Accumulated depreciation and amortization	(506,118)	(419,368)
Investment in real estate, net	6,331,289	6,021,559
Cash and cash equivalents	73,242	83,015
Restricted cash	17,284	25,177
Accounts receivable, net	4,088	6,852
Straight-line rent receivables, net	93,093	87,281
Deferred leasing costs and lease intangible assets, net	282,272	309,962
Derivative assets	5,858	5,935
Goodwill	8,754	8,754
Prepaid expenses and other assets, net	32,777	27,153
Investment in unconsolidated entities	15,377	37,228
Assets associated with real estate held for sale	—	66,082
TOTAL ASSETS	$6,864,034	$6,678,998
LIABILITIES		
Notes payable, net	$2,598,780	$2,688,010
Accounts payable and accrued liabilities	134,237	120,444
Lease intangible liabilities, net	66,438	80,130
Security deposits	35,655	31,495
Prepaid rent	33,344	40,755
Derivative liabilities	987	1,303
Liabilities associated with real estate held for sale	—	3,934
TOTAL LIABILITIES	2,869,441	2,966,071
6.25% Series A cumulative redeemable preferred units of the operating partnership	10,177	10,177
CAPITAL		
Hudson Pacific Properties, L.P. partners' capital:		
Common units, 155,870,895 and 145,942,855 issued and outstanding at June 30, 2017 and December 31, 2016, respectively.	3,678,536	3,392,264
Accumulated other comprehensive income	5,982	5,878
Total Hudson Pacific Properties, L.P. partners' capital	3,684,518	3,398,142
Non-controlling interest—members in consolidated entities	299,898	304,608
TOTAL CAPITAL	3,984,416	3,702,750
TOTAL LIABILITIES AND CAPITAL	$6,864,034	$6,678,998

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

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HUDSON PACIFIC PROPERTIES, L.P.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited, in thousands, except unit data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
REVENUES				
Office				
Rental	$133,602	$118,047	$267,118	$234,274
Tenant recoveries	25,038	21,303	42,439	41,836
Parking and other	8,212	5,050	14,111	10,582
Total Office revenues	166,852	144,400	323,668	286,692
Media & Entertainment				
Rental	9,105	6,857	15,790	12,885
Tenant recoveries	129	213	794	412
Other property-related revenue	4,361	2,810	8,403	7,779
Other	53	41	130	90
Total Media & Entertainment revenues	13,648	9,921	25,117	21,166
TOTAL REVENUES	180,500	154,321	348,785	307,858
OPERATING EXPENSES				
Office operating expenses	55,468	49,091	103,422	96,794
Media & Entertainment operating expenses	7,003	6,295	14,254	12,247
General and administrative	14,506	13,016	28,316	25,519
Depreciation and amortization	75,415	66,108	146,182	134,476
TOTAL OPERATING EXPENSES	152,392	134,510	292,174	269,036
INCOME FROM OPERATIONS	28,108	19,811	56,611	38,822
OTHER EXPENSE (INCOME)				
Interest expense	21,695	17,614	43,625	34,865
Interest income	(16)	(73)	(46)	(86)
Unrealized loss on ineffective portion of derivative instruments	51	384	45	2,509
Acquisition-related expenses	—	61	—	61
Other income	(576)	(47)	(1,254)	(23)
TOTAL OTHER EXPENSES	21,154	17,939	42,370	37,326
INCOME BEFORE GAINS ON SALE OF REAL ESTATE	6,954	1,872	14,241	1,496
Gains on sale of real estate	—	2,163	16,866	8,515
NET INCOME	6,954	4,035	31,107	10,011
Net income attributable to non-controlling interest in consolidated entities	(2,974)	(2,396)	(6,011)	(4,341)
Net income attributable to Hudson Pacific Properties, L.P.	3,980	1,639	25,096	5,670
Net income attributable to preferred units	(159)	(159)	(318)	(318)
Net income attributable to participating securities	(255)	(196)	(495)	(393)
Net income available to Hudson Pacific Properties, L.P. common unitholders	$3,566	$1,284	$24,283	$4,959
Basic and diluted per unit amounts:				
Net income attributable to common unitholders—basic	$0.02	$0.01	$0.16	$0.03
Net income attributable to common unitholders—diluted	$0.02	$0.01	$0.16	$0.03
Weighted average shares of common units outstanding—basic	155,859,604	145,549,363	152,647,055	145,518,523
Weighted average shares of common units outstanding—diluted	156,664,648	146,399,363	153,438,100	146,350,523

Dividends declared per unit	$0.250	$ 0.200	$0.500	$ 0.400

The accompanying notes are an integral part of these consolidated financial statements.
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HUDSON PACIFIC PROPERTIES, L.P.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Unaudited, in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income	$6,954	$4,035	$31,107	$10,011
Other comprehensive (loss) income: change in fair value of derivative instruments	(2,760)	(8,430)	104	(23,905)
Comprehensive income (loss)	4,194	(4,395)	31,211	(13,894)
Comprehensive income attributable to preferred units	(159)	(159)	(318)	(318)
Comprehensive income attributable to participating securities	(255)	(196)	(495)	(393)
Comprehensive income attributable to non-controlling interest in consolidated entities	(2,974)	(2,396)	(6,011)	(4,341)
Comprehensive income (loss) attributable to Hudson Pacific Properties, L.P. partners' capital	$806	$(7,146)	$24,387	$(18,946)

The accompanying notes are an integral part of these consolidated financial statements.
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HUDSON PACIFIC PROPERTIES, L.P.
CONSOLIDATED STATEMENTS OF CAPITAL
(Unaudited, in thousands, except unit data)

	Hudson Pacific Properties, L.P. Partners' Capital				
	Number of Common Units	Common Units	Accumulated Other Comprehensive (Loss) Income	Non-controlling Interest—Members in Consolidated Entities	Total Capital
Balance at January 1, 2016	145,450,095	$3,466,476	$ (64)	$ 262,625	$3,729,037
Contributions	—	—	—	33,996	33,996
Distributions	—	—	—	(1,303)	(1,303)
Proceeds from sale of common units, net of underwriters' discount and transaction costs	47,010,695	1,449,581	—	—	1,449,581
Issuance of unrestricted units	590,520	6	—	—	6
Units withheld to satisfy tax withholding	(262,760)	(8,427)	—	—	(8,427)
Declared distributions		(117,819)	—	—	(117,819)
Amortization of unit-based compensation	—	14,654	—	—	14,654
Net income	—	33,832	—	9,290	43,122
Change in fair value of derivative instruments	—	—	5,942	—	5,942
Redemption of common units	(46,845,695)	(1,446,039)	—	—	(1,446,039)
Balance at December 31, 2016	145,942,855	3,392,264	5,878	304,608	3,702,750
Contributions	—	—	—	3,870	3,870
Distributions	—	—	—	(14,591)	(14,591)
Proceeds from sale of common units, net of underwriters' discount and transaction costs	18,656,575	647,509	—	—	647,509
Issuance of unrestricted units	273,301	—	—	—	—
Units withheld to satisfy tax withholding	(120,261)	(4,203)	—	—	(4,203)
Declared distributions	—	(79,163)	—	—	(79,163)
Amortization of unit-based compensation	—	8,206	—	—	8,206
Net income	—	24,778	—	6,011	30,789
Change in fair value of derivative instruments	—	—	104	—	104
Redemption of common units	(8,881,575)	(310,855)	—	—	(310,855)
Balance at June 30, 2017	155,870,895	$3,678,536	$ 5,982	$ 299,898	$3,984,416

The accompanying notes are an integral part of these consolidated financial statements.
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HUDSON PACIFIC PROPERTIES, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited, in thousands)

	Six Months Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$31,107	$10,011
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	146,182	134,476
Amortization of deferred financing costs and loan premium, net	2,373	2,134
Amortization of unit-based compensation	7,788	6,643
Straight-line rents	(5,781)	(11,281)
Straight-line rent expenses	160	750
Amortization of above- and below-market leases, net	(10,405)	(9,302)
Amortization of above- and below-market ground lease, net	1,470	1,070
Amortization of lease incentive costs	758	655
Bad debt (recovery) expense	(75)	512
Amortization of discount and net origination fees on purchased and originated loans	—	(208)
Unrealized loss on ineffective portion of derivative instruments	45	2,509
Gains on sale of real estate	(16,866)	(8,515)
Change in operating assets and liabilities:		
Accounts receivable	3,177	10,001
Deferred leasing costs and lease intangibles	(15,216)	(25,725)
Prepaid expenses and other assets	(5,873)	(5,882)
Accounts payable and accrued liabilities	6,304	5,619
Security deposits	3,667	4,214
Prepaid rent	(7,779)	(8,814)
Net cash provided by operating activities	141,036	108,867
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to investment property	(147,476)	(104,112)
Property acquisitions	(257,734)	—
Proceeds from sales of real estate	81,707	283,855
Contributions to unconsolidated entities	(1,071)	(28,393)
Distributions from unconsolidated entities	14,893	—
Deposit for property acquisitions	—	(20,000)
Proceed from repayment of notes receivable	—	28,892
Net cash (used in) provided by investing activities	(309,681)	160,242
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	230,000	677,000
Payments of notes payable	(321,270)	(597,416)
Proceeds from issuance of common units, net	647,509	293,628
Payment for redemption of common units	(310,855)	(294,209)
Distributions paid to common unitholders	(79,163)	(59,119)
Distributions paid to preferred unitholders	(318)	(318)
Contributions from non-controlling member in consolidated entities	3,870	103
Distributions to non-controlling member in consolidated entities	(14,591)	(663)

Payments to satisfy tax withholding	(4,203)	(1,776)
Payments of loan costs	—	(1,334)
Net cash provided by financing activities	150,979	15,896
Net (decrease) increase in cash and cash equivalents and restricted cash	(17,666)	285,005
Cash and cash equivalents and restricted cash—beginning of period	108,192	71,561
Cash and cash equivalents and restricted cash—end of period	$90,526	$356,566
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid for interest including amounts capitalized	$42,462	$38,714
NON-CASH INVESTING ACTIVITIES:		
Accounts payable and accrued liabilities for real estate investments	$(3,427)	$(8,866)
Reclassification of investment in unconsolidated entities for real estate investments	$7,835	$—

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

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Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.
Notes to Unaudited Consolidated Financial Statements
(Unaudited, tabular amounts in thousands, except square footage, share and unit data)

1. Organization

Hudson Pacific Properties, Inc. is a Maryland corporation formed on November 9, 2009 as a fully integrated, self-administered and self-managed real estate investment trust ("REIT"). Through its controlling interest in the operating partnership and its subsidiaries, Hudson Pacific Properties, Inc. owns, manages, leases, acquires and develops real estate, consisting primarily of office and media and entertainment properties. Unless otherwise indicated or unless the context requires otherwise, all references in these financial statements to the "Company" refer to Hudson Pacific Properties, Inc. together with its consolidated subsidiaries, including Hudson Pacific Properties, L.P. Unless otherwise indicated or unless the context requires otherwise, all references to "our operating partnership" or "the operating partnership" refer to Hudson Pacific Properties, L.P. together with its consolidated subsidiaries.

On April 1, 2015, the Company completed the acquisition of the EOP Northern California Portfolio ("EOP Acquisition") from Blackstone Real Estate Partners V and VI ("Blackstone"). The EOP Acquisition consisted of 26 high-quality office assets totaling approximately 8.2 million square feet and two development parcels located throughout the Northern California region. The total consideration paid for the EOP Acquisition before certain credits, prorations and closing costs included a cash payment of $1.75 billion and an aggregate of 63,474,791 shares of common stock of Hudson Pacific Properties, Inc. and common units in the operating partnership.

The Company's portfolio consists of properties located throughout Northern and Southern California and the Pacific Northwest. The following table summarizes our portfolio as of June 30, 2017:

	Number of Properties	Square Feet (unaudited)
Office properties:		
Northern California(1)	29	9,595,286
Southern California(2)	16	2,817,509
Pacific Northwest(3)	7	1,490,613
Total Office properties	52	13,903,408
Media & Entertainment properties:		
Southern California(2)	3	1,256,577
Total Media & Entertainment properties	3	1,256,577
Total	55	15,159,985

(1) Includes the San Francisco, Redwood Shores, Palo Alto, Milpitas, North San Jose, San Mateo, Foster City and Santa Clara submarkets.
(2) Includes the Burbank, Hollywood, Torrance, West Los Angeles and Downtown Los Angeles submarkets.
(3) Includes the Lynnwood, South Lake Union and Pioneer Square submarkets.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements of the Company and the operating partnership are prepared in accordance with generally accepted accounting principles in the United States ("GAAP") applicable to interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Certain information and footnote disclosures required for annual financial statements have been condensed or excluded pursuant to SEC rules and regulations. Accordingly, the interim financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying interim financial statements reflect all adjustments of a normal and recurring nature that are considered necessary for a fair presentation of the results for the interim periods presented.

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, 2017. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements in the 2016 Annual Report on Form 10-K of Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P. and the notes thereto.

Certain amounts in the consolidated financial statements for the prior period have been reclassified to conform to the current period presentation. Specifically, in the Consolidated Balance Sheets for the prior period, certain amounts have been reclassified to held for sale. These amounts relate to 3402 Pico Boulevard, which was sold on March 21, 2017.

Principles of Consolidation

The unaudited interim consolidated financial statements of the Company include the accounts of the Company, the operating partnership and all wholly owned subsidiaries and variable interest entities ("VIEs"), of which the Company is the primary beneficiary. The unaudited interim consolidated financial statements of the operating partnership include the accounts of the operating partnership, and all wholly owned subsidiaries and VIEs of which the operating partnership is the primary beneficiary. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

The Company consolidates all VIEs of which the Company is considered the primary beneficiary. VIEs are defined as entities in which equity investors (i) do not have the characteristics of a controlling financial interest and/or (ii) do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. The entity that consolidates a VIE is known as its primary beneficiary and is generally the entity with (i) the power to direct the activities that most significantly affect the VIE's economic performance and (ii) the right to receive benefits from the VIE or the obligation to absorb losses of the VIE that could be significant to the VIE. Four of the Company's joint ventures and its operating partnership meet the definition of a VIE. The Company is the primary beneficiary of and consolidates three of the joint ventures and the operating partnership. Refer to Note 16 for details. Substantially all of the assets and liabilities of the Company are related to these VIEs. As of June 30, 2017, the Company is not consolidating one of its joint ventures, of which it is not the primary beneficiary. As of December 31, 2016, the Company was not consolidating one of its joint ventures, of which it is not the primary beneficiary, and an interest in land. Due to its significant influence over non-consolidated entities, the Company accounts for them using the equity method of accounting. Refer to Note 7 for details.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of commitments and contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, the Company evaluates its estimates, including those related to acquiring, developing and assessing the carrying values of its real estate properties, its accrued liabilities and its performance-based equity compensation awards. The Company bases its estimates on historical experience, current market conditions and various other assumptions that are believed to be reasonable under the circumstances. Actual results could materially differ from these estimates.

Recently Issued Accounting Pronouncements

Changes to GAAP are established by the Financial Accounting Standards Board (the "FASB") in the form of Accounting Standards Update ("ASU"). The following ASUs were adopted by the Company in 2017:

Standard	Description	Effect on the Financial Statements or Other Significant Matters
ASU 2017-04, Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment	This guidance removes step two from the goodwill impairment test. As a result, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit.	The Company early adopted this guidance during the second quarter of 2017 and applied it prospectively. The adoption did not have an impact on the Company's consolidated financial statements.

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Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.
Notes to Unaudited Consolidated Financial Statements—(Continued)
(Unaudited, tabular amounts in thousands, except square footage and share/unit data)

Standard	Description	Effect on the Financial Statements or Other Significant Matters
ASU 2017-03, Accounting Changes and Error Corrections (Topic 250) and Investments—Equity Method and Joint Ventures (Topic 323): Amendments to SEC Paragraphs Pursuant to Staff Announcements at the September 22, 2016 and November 17, 2016 EITF Meetings (SEC Update)	The guidance in this ASU is based on two SEC staff announcements made at the September 2016 and November 2016 EITF meetings. In the September meeting, the SEC announced that a registrant should disclose the potential material effects of the ASUs related to revenues, leases and credit losses on financial instruments. As a result of the November meeting, the ASU conforms Accounting Standards Codification (“ASC”) 323 to the guidance issued in ASU 2014-01 related to investments in qualified affordable housing projects.	The Company adopted this guidance during the first quarter of 2017 and applied it prospectively. With the adoption, the Company provided updates on its implementation of the ASUs related to revenue, leases and credit losses on financial instruments. Please refer to sections below for updates on the implementation of revenue and lease ASUs. The ASU related to credit losses on financial instruments could have a material impact on trade receivables and the Company is currently assessing the impact of this ASU on its consolidated financial statements and notes to the consolidated financial statements.
ASU 2016-19, Technical Corrections and Improvements	The technical corrections make minor change to certain aspects of the FASB ASC, including changes to resolve differences between current and pre-Codification guidance, updates to wording, references to avoid misapplication and textual simplifications to increase the Codification’s utility and understandability and minor amendments to guidance that are not expected to have a significant effect on current accounting practice or create a significant administrative cost to most entities.	The Company adopted this guidance during the first quarter of 2017 and applied it prospectively. The adoption did not have a material impact on the Company’s consolidated financial statements.
ASU 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)	This guidance requires entities to include restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning of period and end of period total amounts shown on the statement of cash flows.	The Company early adopted this guidance during the second quarter of 2017 and applied it retrospectively. Pursuant to the adoption, the Company revised the Consolidated Statement of Cash Flows and disclosed the reconciliation to the related captions in the Consolidated Balance Sheets in Note 19.
ASU 2016-17, Consolidation (Topic 810): Interests Held through Related Parties That Are under Common Control	This guidance outlines how a single decisionmaker of a VIE should treat indirect interests held through other related parties that are under common control with the reporting entity when determining whether it is the primary beneficiary of that VIE.	The Company adopted this guidance during the first quarter of 2017 and applied it retrospectively. The adoption did not have a material impact on the Company’s consolidated financial statements

		and did not change the consolidation conclusion.
ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments	This ASU clarifies how certain transactions should be classified in the statement of cash flows, including debt prepayment costs, contingent consideration payments made after a business combination and distributions received from equity method investments. The ASU provides two approaches to determine the classification of cash distributions received from equity method investments: (i) the "cumulative earnings" approach, under which distributions up to the amount of cumulative equity in earnings recognized will be classified as cash inflows from operating activities, and those in excess of that amount will be classified as cash inflows from investing activities and (ii) the "nature of the distribution" approach, under which distributions will be classified based on the nature of the underlying activity that generated cash distributions. The guidance requires a Company to elect either the "cumulative earnings" approach or the "nature of the distribution" approach at the time of adoption.	The Company early adopted this guidance during the second quarter of 2017 and applied it retrospectively. Pursuant to the adoption, the Company elected the "nature of the distribution" approach related to the distributions received from its equity method investments. The adoption did not have an impact on the Company's Consolidated Statements of Cash Flows.

Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.
Notes to Unaudited Consolidated Financial Statements—(Continued)
(Unaudited, tabular amounts in thousands, except square footage and share/unit data)

Standard	Description	Effect on the Financial Statements or Other Significant Matters
ASU 2016-07, Investments—Equity Method and Joint Ventures (Topic 323), Simplifying the Transition to the Equity Method of Accounting	The guidance eliminates the requirement that an investor retrospectively apply equity method accounting when an investment that it had accounted for by another method initially qualifies for use of the equity method. The guidance also requires an investor that has an available-for-sale security that subsequently qualifies for the equity method to recognize in net income the unrealized holding gains or losses in accumulated other comprehensive income related to that security when it begins applying the equity method. It is required to apply this guidance prospectively.	The Company adopted this guidance during the first quarter of 2017 and applied it prospectively. The adoption did not have a material impact on the Company’s consolidated financial statements.
ASU 2016-05, Derivatives and Hedging (Topic 815), Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships	The guidance states that the novation of a derivative contract (e.g., a change in the counterparty) in a hedge accounting relationship does not, in and of itself, require de-designation of that hedge accounting relationship. The hedge accounting relationship could continue uninterrupted if all of the other hedge accounting criteria are met, including the expectation that the hedge will be highly effective when the creditworthiness of the new counterparty to the derivative contract is considered. Either a prospective or a modified retrospective approach can be applied.	The Company adopted this guidance during the first quarter of 2017 and applied it prospectively. The adoption did not have a material impact on the Company’s consolidated financial statements.

Update on ASC 606, Revenue from Contracts with Customers (“ASC 606”), implementation

On May 28, 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers. This guidance outlines a single comprehensive model for entities to use in accounting for revenues arising from contracts with customers and specifically notes that lease contracts with customers are a scope exception. FASB has subsequently issued other ASUs to amend and provide further guidance related to ASC 606. These ASUs are effective for annual reporting periods (including interim periods) beginning after December 15, 2017. Either the full retrospective basis (to the beginning of its contracts) or modified retrospective method (from the beginning of the latest fiscal year of adoption) is permitted.

The Company has formed an implementation team, completed training of the new standards with the implementation team and begun review and documentation. Additionally, the Company has developed a project plan and is in the process of refining the project plan. The Company has preliminarily identified three revenue streams. Two of these revenue streams will be accounted for under ASC 606 when it becomes effective on January 1, 2018. The remaining one revenue stream integral to the Company’s leasing revenues will be accounted for under ASC 606, effective with the adoption of ASC 842 on January 1, 2019. The Company plans on adopting ASC 606 on January 1, 2018 using the modified retrospective approach.

Update on ASC 842, Leases (“ASC 842”), implementation

On February 25, 2016, the FASB issued ASU 2016-02 to amend the accounting guidance for leases. Under this guidance, lessor can capitalize only those costs that are defined as initial direct costs. The Company anticipates that indirect leasing costs will be expensed as incurred. For lessee accounting, this guidance requires all lessees to record a lease liability at lease inception, with a corresponding right-of-use asset, except for short-term leases. ASC 842 also provides practical expedients that allow entities to not (i) reassess whether any expired or existing contracts are or contain leases; (ii) reassess the lease classification for any expired or existing leases; (iii) reassess initial direct costs for any existing leases. This ASU is effective for annual reporting periods (including interim periods) beginning after December 15, 2018. It is required to use a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest comparative period presented in the consolidated financial statements.

The Company has formed an implementation team, completed training of the new standards with the implementation team and begun review and documentation. As a lessor, the Company will expense indirect leasing costs as incurred under the new guidance. During the three and six months ended June 30, 2017, the Company capitalized $1.7 million and $3.2 million of indirect leasing costs, respectively. The Company continues to evaluate the amounts of right-of-use asset and lease liability that will need to be recorded with respect to its ground leases where it is the lessee. As of June 30, 2017, the future undiscounted minimum lease payments under the Company’s ground leases totaled $458.2 million. The Company plans on adopting the standard on January 1, 2019 and expects to adopt using the practical expedience elections.

Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.
Notes to Unaudited Consolidated Financial Statements—(Continued)
(Unaudited, tabular amounts in thousands, except square footage and share/unit data)

Other recently issued ASUs

The Company considers the applicability and impact of all ASUs. The following table lists the recently issued ASUs that have not been disclosed in the Company's 2016 Annual Report on Form 10-K and have not been adopted by the Company. The list excludes those ASUs that are not expected to have a material impact on the Company's consolidated financial statements.

Standard	Description	Effective Date	Effect on the Financial Statements or Other Significant Matters
ASU 2017-09, Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting	The guidance clarifies when changes to the terms or conditions of a share-based payment award must be accounted for as modifications. It is required to apply this guidance prospectively.	Effective for annual reporting periods (including interim periods) beginning after December 15, 2017	The Company does not currently expect a material impact of this ASU on its consolidated financial statements and notes to the consolidated financial statements. The Company plans to adopt this guidance during the first quarter in 2018.
ASU 2017-05, Other Income—Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets	The guidance updates the definition of an in substance nonfinancial asset and clarifies the scope of ASC 610-20 on the sale or transfer of nonfinancial assets to noncustomers, including partial sales. It also clarifies the derecognition guidance for nonfinancial assets to conform with the new revenue recognition standard. Either a full or modified retrospective approach can be applied.	Effective for annual reporting periods (including interim periods) beginning after December 15, 2017	The Company currently expects that the adoption of this ASU could have a material impact on its consolidated financial statements; however, such impact will not be known until the Company disposes of any of its investments in real estate properties, which would all be sales of nonfinancial assets. The Company plans to adopt this guidance during the first quarter in 2018 and apply it using the modified retrospective approach.

3. Investment in Real Estate

Acquisitions

The Company's acquisitions are accounted for using the acquisition method. The results of operations for each of these acquisitions are included in the Company's Consolidated Statements of Operations from the date of acquisition.

The Company assesses fair value based on Level 2 and Level 3 inputs within the fair value framework, which includes estimated cash flow projections that utilize appropriate discount, capitalization rates, renewal probability and available market information, which includes market rental rate and market rent growth rates. Estimates of future cash flows are based on a number of factors, including historical operating results, known and anticipated trends and market and economic conditions.

The fair value of tangible assets of an acquired property considers the value of the property as if it was vacant. The fair value of acquired “above- and below-” market leases are based on the estimated cash flow projections utilizing discount rates that reflect the risks associated with the leases acquired. The amount recorded is based on the present value of the difference between (i) the contractual amounts to be paid pursuant to each in-place lease and (ii) management’s estimate of fair market lease rates for each in-place lease, measured over a period equal to the remaining term of the lease for above-market leases and the initial term plus the extended below-market term for any leases with below-market renewal options. Other intangible assets acquired include amounts for in-place lease values that are based on the Company’s evaluation of the specific characteristics of each tenant’s lease. Factors considered include estimates of carrying costs during hypothetical expected lease-up periods, market conditions and costs to execute similar leases. In estimating carrying costs, the Company includes estimates of lost rents at market rates during the hypothetical expected lease-up periods, which are dependent on local market conditions. In estimating costs to execute similar leases, the Company considers leasing commissions and legal and other related costs.

Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.
Notes to Unaudited Consolidated Financial Statements—(Continued)
(Unaudited, tabular amounts in thousands, except square footage and share/unit data)

The following table summarizes the information on the acquisitions completed during the six months ended June 30, 2017:

Property	Submarket	Segment	Date of Acquisition	Square Feet (unaudited)	Purchase Price[(1)] (in millions)
Sunset Las Palmas Studios[(2)]	Hollywood	Media and Entertainment	5/1/2017	369,000	$ 200.0
11601 Wilshire land[(3)]	West Los Angeles	Office	6/15/2017	N/A	50.0
6666 Santa Monica[(4)]	Hollywood	Media and Entertainment	6/29/2017	4,150	3.2
Total acquisitions				373,150	$ 253.2

(1) Represents purchase price before certain credits, prorations and closing costs.
(2) The property consists of stages, production office and support space on 15 acres near Sunset Gower Studios and Sunset Bronson Studios. The purchase price above does not include equipment purchased by the Company for $2.8 million, which purchase was transacted separately from the studio acquisition. In April 2017, the Company drew $150.0 million under the unsecured revolving credit facility to fund the acquisition.
(3) On July 1, 2016 the Company purchased a partial interest in land held as a tenancy in common in conjunction with its acquisition of the 11601 Wilshire property. The land interest held as a tenancy in common was accounted for as an equity method investment. On June 15, 2017, the Company purchased the remaining interest which was re-measured and allocated to land and building.
(4) This parcel is adjacent to the Sunset Las Palmas Studios property.

The Company evaluated each acquisition to determine if the integrated set of assets and activities acquired meet the definition of a business and need to be accounted for as a business combination in accordance with ASC 805, Business Combinations. An integrated set of assets and activities would fail to qualify as a business if either (i) substantially all of the fair value of the gross assets acquired is concentrated in either a single identifiable asset or a group of similar identifiable assets or (ii) the integrated set of assets and activities is lacking, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs (i.e., revenue generated before and after the transaction). An acquired process is considered substantive if (i) the process includes an organized workforce (or includes an acquired contract that provides access to an organized workforce) that is skilled, knowledgeable and experienced in performing the process, (ii) the process cannot be replaced without significant cost, effort, or delay or (iii) the process is considered unique or scarce. These acquisitions did not meet the definition of a business and were therefore accounted for as asset acquisitions.

The following table represents the Company’s final aggregate purchase price accounting, as of the respective acquisition dates, for each of the Company’s acquisitions completed in the six months ended June 30, 2017:

	Sunset Las Palmas Studios[(1)]	11601 Wilshire land	6666 Santa Monica	Total
Investment in real estate, net	$ 202,723	$ 50,034	$ 3,091	$ 255,848
Deferred leasing costs and in-place lease intangibles[(2)]	1,741	—	145	1,886
Total asset assumed	$ 204,464	$ 50,034	$ 3,236	$ 257,734

(1) The purchase price allocation includes equipment purchased by the Company of $2.8 million.
(2) Represents weighted-average amortization period of 1.21 years.

Dispositions

The following table summarizes the properties sold during the six months ended June 30, 2017. These properties were non-strategic assets to the Company's portfolio:

Property	Date of Disposition	Square Feet (unaudited)	Sales Price[1] (in millions)
222 Kearny Street	February 14, 2017	148,797	$ 51.8
3402 Pico Boulevard	March 21, 2017	50,687	35.0
Total dispositions		199,484	$ 86.8

(1) Represents gross sales price before certain credits, prorations and closing costs.

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Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.
Notes to Unaudited Consolidated Financial Statements—(Continued)
(Unaudited, tabular amounts in thousands, except square footage and share/unit data)

The dispositions of these properties resulted in gains of $16.9 million for the six months ended June 30, 2017. This amount is included in gains on sale of real estate in the Consolidated Statements of Operations. There were no dispositions for the three months ended June 30, 2017.

Held for Sale

The Company had two properties classified as held for sale as of December 31, 2016. Both properties were disposed of during the first quarter of 2017. The Company had no properties classified as held for sale as of June 30, 2017.

Impairment of Long-Lived Assets

No impairment indicators have been noted and the Company recorded no impairment charges for the six months ended June 30, 2017.

4. Deferred Leasing Costs and Lease Intangibles, net

The following summarizes the Company’s deferred leasing costs and lease intangibles as of:

	June 30, 2017	December 31, 2016
Above-market leases	$21,881	$ 23,430
Accumulated amortization	(14,706)	(12,989)
Above-market leases, net	7,175	10,441
Deferred leasing costs and in-place lease intangibles	371,813	378,540
Accumulated amortization	(161,756)	(145,551)
Deferred leasing costs and in-place lease intangibles, net	210,057	232,989
Below-market ground leases	71,210	71,423
Accumulated amortization	(6,170)	(4,891)
Below-market ground leases, net	65,040	66,532
Deferred leasing costs and lease intangible assets, net	$282,272	$ 309,962
Below-market leases	$134,472	$ 141,676
Accumulated amortization	(69,018)	(62,552)
Below-market leases, net	65,454	79,124
Above-market ground leases	1,095	1,095
Accumulated amortization	(111)	(89)
Above-market ground leases, net	984	1,006
Lease intangible liabilities, net	$66,438	$ 80,130

Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.
Notes to Unaudited Consolidated Financial Statements—(Continued)
(Unaudited, tabular amounts in thousands, except square footage and share/unit data)

The Company recognized the following amortization related to deferred leasing costs and lease intangibles:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Above-market leases(1)	$1,911	$3,695	$3,267	$7,414
Below-market leases(1)	6,584	8,146	13,672	16,716
Deferred leasing costs and in-place lease intangibles(2)	20,644	22,098	40,437	44,666
Above-market ground leases(3)	11	11	22	22
Below-market ground leases(3)	844	546	1,492	1,092

(1) Amortization is recorded in revenues in the Consolidated Statements of Operations.
(2) Amortization is recorded in depreciation and amortization expense and office rental revenues in the Consolidated Statements of Operations.
(3) Amortization is recorded in office operating expenses in the Consolidated Statements of Operations.

5. Accounts Receivable, net

The Company's accounting policy and methodology used to estimate the allowance for doubtful accounts is discussed in the Company's 2016 Annual Report on Form 10-K. The following table summarizes the Company's accounts receivable, net of allowance for doubtful accounts as of:

	June 30, 2017	December 31, 2016
Accounts receivable	$5,857	$ 8,697
Allowance for doubtful accounts	(1,769)	(1,845)
Accounts receivable, net	$4,088	$ 6,852

6. Straight-line Rent Receivables, net

The Company's accounting policy and methodology used to estimate the allowance for doubtful accounts is discussed in the Company's 2016 Annual Report on Form 10-K. The following table represents the Company's straight-line rent receivables, net of allowance for doubtful accounts as of:

	June 30, 2017	December 31, 2016
Straight-line rent receivables	$93,210	$ 87,417
Allowance for doubtful accounts	(117)	(136)
Straight-line rent receivables, net	$93,093	$ 87,281

7. Investment in Unconsolidated Entities

Investment in unconsolidated real estate in which the Company has the ability to exercise significant influence (but not control) is accounted for under the equity method of investment. Under the equity method, the Company initially records the investment at cost and subsequently adjusts for equity in earnings or losses and cash contributions and distributions. The Company's net equity investment is reflected within investment in unconsolidated entities on the Consolidated Balance Sheets and the Company's share of net income or loss from the entity is included within other income on the Consolidated Statements of Operations.

On June 16, 2016, the Company entered into a joint venture to co-originate a loan secured by land in Santa Clara, California. The Company holds a 21% interest in the joint venture. The assets of the joint venture consist of the notes receivable. The Company’s investment in this joint venture was $15.4 million and $29.4 million as of June 30, 2017 and December 31, 2016, respectively, which represents the maximum exposure for loss for the Company. On June 13, 2017, the

(Unaudited, tabular amounts in thousands, except square footage and share/unit data)

Company received a return of capital of $14.9 million. The joint venture meets the criteria of a VIE and the Company accounts for this investment under the equity method of accounting since the Company is not the primary beneficiary.

On July 1, 2016, the Company entered into an agreement with an unaffiliated third party related to the land on which its 11601 Wilshire property is located. The Company holds a 28% interest in the land held as a tenancy in common. The agreement does not meet the definition of a VIE and the Company accounts for its interest in the land held as a tenancy in common under the equity method of accounting. The Company's interest in the land was $7.8 million as of December 31, 2016. On June 15, 2017, the Company purchased the remaining interest for $50.0 million. See Note 3 for details. As a result of this transaction, $7.8 million is included within land on the consolidated balance sheets.

8. Goodwill

The Company's goodwill balance as of June 30, 2017 and December 31, 2016 was $8.8 million. The Company does not amortize this asset but instead analyzes it on a quarterly basis for impairment. No impairment indicators have been noted during the six months ended June 30, 2017.

9. Notes Payable, net

The following table summarizes the balances of the Company's indebtedness as of:

	June 30, 2017	December 31, 2016
Notes payable	$2,616,568	$2,707,839
Deferred financing costs, net[1]	(17,788)	(19,829)
Notes payable, net	$2,598,780	$2,688,010

(1) Excludes deferred financing costs related to establishing the Company's unsecured revolving credit facility of $1.2 million and $1.5 million as of June 30, 2017 and December 31, 2016, respectively, which are included in prepaid expenses and other assets, net in the Consolidated Balance Sheets.

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Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.
Notes to Unaudited Consolidated Financial Statements—(Continued)
(Unaudited, tabular amounts in thousands, except square footage and share/unit data)

The following table sets forth information with respect to the amounts included in notes payable, net as of:

	June 30, 2017		December 31, 2016				
	Principal Amount	Deferred Financing Costs, net	Principal Amount	Deferred Financing Costs, net	Interest Rate[1]	Contractual Maturity Date	
UNSECURED LOANS							
Unsecured Revolving Credit Facility[2]	$210,000	$—	$300,000	$—	LIBOR+ 1.15% to 1.85%	4/1/2019	(3)
5-Year Term Loan due April 2020[2][4]	450,000	(2,972)	450,000	(3,513)	LIBOR+ 1.30% to 2.20%	4/1/2020	
5-Year Term Loan due November 2020[2]	175,000	(650)	175,000	(745)	LIBOR +1.30% to 2.20%	11/17/2020	
7-Year Term Loan due April 2022[2][5]	350,000	(2,049)	350,000	(2,265)	LIBOR+ 1.60% to 2.55%	4/1/2022	
7-Year Term Loan due November 2022[2][6]	125,000	(852)	125,000	(931)	LIBOR +1.60% to 2.55%	11/17/2022	
Series A Notes	110,000	(852)	110,000	(930)	4.34%	1/2/2023	
Series E Notes	50,000	(277)	50,000	(300)	3.66%	9/15/2023	
Series B Notes	259,000	(2,144)	259,000	(2,271)	4.69%	12/16/2025	
Series D Notes	150,000	(851)	150,000	(898)	3.98%	7/6/2026	
Series C Notes	56,000	(515)	56,000	(539)	4.79%	12/16/2027	
TOTAL UNSECURED LOANS	1,935,000	(11,162)	2,025,000	(12,392)			
MORTGAGE LOANS							
Mortgage Loan secured by Rincon Center[7]	99,392	(119)	100,409	(198)	5.13%	5/1/2018	
Mortgage Loan secured by Sunset Gower Studios/Sunset Bronson Studios	5,001	(1,180)	5,001	(1,534)	LIBOR+2.25%	3/4/2019	(3)
Mortgage Loan secured by Met Park North[8]	64,500	(342)	64,500	(398)	LIBOR+1.55%	8/1/2020	
Mortgage Loan secured by 10950 Washington[7]	27,675	(320)	27,929	(354)	5.32%	3/11/2022	
Mortgage Loan secured by Pinnacle I[9][10]	129,000	(542)	129,000	(593)	3.95%	11/7/2022	
Mortgage Loan secured by Element LA	168,000	(2,190)	168,000	(2,321)	4.59%	11/6/2025	
Mortgage Loan secured by Pinnacle II[10]	87,000	(682)	87,000	(720)	4.30%	6/11/2026	
Mortgage Loan secured by Hill7[11]	101,000	(1,251)	101,000	(1,319)	3.38%	11/6/2026	
TOTAL MORTGAGE LOANS	681,568	(6,626)	682,839	(7,437)			
TOTAL	$2,616,568	$(17,788)	$2,707,839	$(19,829)			

(1)

Interest rate with respect to indebtedness is calculated on the basis of a 360-day year for the actual days elapsed. Interest rates are as of June 30, 2017, which may be different than the interest rates as of December 31, 2016 for corresponding indebtedness.

(2) The Company has the option to make an irrevocable election to change the interest rate depending on the Company's credit rating. As of June 30, 2017, no such election had been made.

(3) The maturity date may be extended once for an additional one-year term.

(4) Effective July 2016, $300.0 million of the term loan has been effectively fixed at 2.75% to 3.65% per annum through the use of two interest rate swaps. See Note 10 for details.

(5) Effective July 2016, the outstanding balance of the term loan has been effectively fixed at 3.36% to 4.31% per annum through the use of two interest rate swaps. See Note 10 for details.

(6) Effective June 1, 2016, the outstanding balance of the term loan has been effectively fixed at 3.03% to 3.98% per annum through the use of an interest rate swap. See Note 10 for details.

(7) Monthly debt service includes annual debt amortization payments based on a 30-year amortization schedule with a balloon payment at maturity.

(8) This loan bears interest only. Interest on the full loan amount has been effectively fixed at 3.71% per annum through the use of an interest rate swap. See Note 10 for details.

(9) This loan bears interest only for the first five years. Beginning with the payment due December 6, 2017, monthly debt service will include annual debt amortization payments based on a 30-year amortization schedule with a balloon payment at maturity.

(10) The Company owns 65% of the ownership interests in the consolidated joint venture that owns the Pinnacle I and II properties. The full amount of the loan is shown.

(11) The Company owns 55% of the ownership interest in the consolidated joint venture that owns the Hill7 property. The full amount of the loan is shown. The maturity date of this loan can be extended for an additional two years at a higher interest rate and with principal amortization.

Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.
Notes to Unaudited Consolidated Financial Statements—(Continued)
(Unaudited, tabular amounts in thousands, except square footage and share/unit data)

Indebtedness

The Company presents its financial statements on a consolidated basis. Notwithstanding such presentation, except to the extent expressly indicated, such as in the case of the project financing for Sunset Gower Studios and Sunset Bronson Studios, the Company's separate property-owning subsidiaries are not obligors of the debt of their respective affiliates and each property-owning subsidiary's separate liabilities do not constitute obligations of its respective affiliates.

Loan agreements include events of default that the Company believes are usual for loan and transactions of this type. As of the date of this filing, there have been no events of default associated with the Company's loans.

The following table summarizes the minimum future principal payments due (before the impact of extension options, if applicable) on the operating partnership's secured and unsecured notes payable as of June 30, 2017:

Year	Annual Principal Payments
Remaining 2017	$1,443
2018	101,157
2019	217,886
2020	692,493
2021	3,142
Thereafter	1,600,447
Total	$2,616,568

Unsecured Revolving Credit Facility

The operating partnership's unsecured revolving credit facility is amended from time to time. The terms of the arrangement are more fully described in the Company's 2016 Annual Report on Form 10-K. The Company uses the unsecured revolving credit facility to finance the acquisition of other properties, to provide funds for tenant improvements and capital expenditures and to provide for working capital and other corporate purposes. The following table summarizes the balance and key terms of the unsecured revolving credit facility as of:

	June 30, 2017	December 31, 2016
Outstanding borrowings	$210,000	$ 300,000
Remaining borrowing capacity	190,000	100,000
Total borrowing capacity	$400,000	$ 400,000
Interest rate(1)	LIBOR+ 1.15% to 1.85%	
Facility fee-annual rate(1)	0.20% or 0.35%	
Contractual maturity date(2)	4/1/2019	

(1) The rate is based on the operating partnership's leverage ratio.
(2) The maturity date may be extended once for an additional one-year term.

Debt Covenants

The operating partnership’s ability to borrow under its unsecured loan arrangements remains subject to ongoing compliance with financial and other covenants as defined in the respective agreements. Certain financial covenant ratios are subject to change in the occurrence of material acquisitions as defined in the respective agreements. Other covenants include certain limitations on dividend payouts and distributions, limits on certain types of investments outside of the operating partnership’s primary business and other customary affirmative and negative covenants.

Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.
Notes to Unaudited Consolidated Financial Statements—(Continued)
(Unaudited, tabular amounts in thousands, except square footage and share/unit data)

The following table summarizes existing covenants and their covenant levels, when considering the most restrictive terms:

Covenant Ratio	Covenant Level
Leverage ratio	maximum of 0.60:1.00
Unencumbered leverage ratio	maximum of 0.60:1.00
Fixed charge coverage ratio	minimum of 1.50:1.00
Secured indebtedness leverage ratio	maximum of 0.45:1.00
Unsecured interest coverage ratio	minimum of 2.00:1.00

The operating partnership was in compliance with its financial covenants as of June 30, 2017.

Repayment Guarantees

Sunset Gower Studios and Sunset Bronson Studios Loan

In connection with the loan secured by the Sunset Gower Studios and Sunset Bronson Studios properties, the Company has guaranteed in favor of and promised to pay to the lender 19.5% of the principal payable under the loan in the event the borrower, a wholly-owned entity of the operating partnership, does not do so. As of June 30, 2017, the outstanding balance was $5.0 million, which results in a maximum guarantee amount for the principal under this loan of $1.0 million. Furthermore, the Company agreed to guarantee the completion of the construction improvements, including tenant improvements, as defined in the agreement, in the event of any default of the borrower. If the borrower fails to complete the remaining required work, the guarantor agrees to perform timely all of the completion obligations, as defined in the agreement. As of the date of this filing, there has been no event of default associated with this loan.

Other Loans

Although the rest of the operating partnership's loans are secured and non-recourse, the operating partnership provides limited customary secured debt guarantees for items such as voluntary bankruptcy, fraud, misapplication of payments and environmental liabilities.

Interest Expense

The following table represents a reconciliation from the gross interest expense to the amount of the interest expense line item in the Consolidated Statements of Operations:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Gross interest expense[1]	$23,047	$19,179	$46,238	$38,185
Capitalized interest	(2,539)	(2,828)	(4,986)	(5,454)
Amortization of deferred financing costs and loan premium, net	1,187	1,263	2,373	2,134
Interest expense	$21,695	$17,614	$43,625	$34,865

(1) Includes interest on the Company's notes payable and hedging activities.

10. Derivative Instruments

The Company enters into derivative instruments in order to hedge interest rate risk. The Company had six interest rate swaps with aggregate notional amounts of $839.5 million as of June 30, 2017 and December 31, 2016. These derivative instruments were designated as effective cash flow hedges for accounting purposes. There is no impact on the Company's Consolidated Statements of Cash Flows.

The Company's derivative instruments are classified as Level 2 and their fair values are derived from estimated values obtained from observable market data for similar instruments.

5-Year Term Loan due April 2020 and 7-Year Term Loan due April 2022

On April 1, 2015, the Company effectively hedged $300.0 million of the 5-Year Term Loan due April 2020 through two interest rate swaps, each with a notional amount of $150.0 million, which, effective as of May 1, 2015, swapped one-month LIBOR to a fixed rate of 1.36% through the loan's maturity. Therefore, the interest rate is effectively fixed at 2.66% to 3.56%, depending on the operating partnership's leverage ratio. The unhedged portion bears interest at a rate equal to one-month LIBOR plus 1.30% to 2.20%, depending on the operating partnership's leverage ratio.

The Company also effectively hedged its $350.0 million 7-Year Term Loan due April 2022 through two interest rate swaps, which, effective as of May 1, 2015, swapped one-month LIBOR to a fixed rate of 1.61% through the loan's maturity. Therefore, the interest rate is effectively fixed at 3.21% to 4.16% depending on the operating partnership's leverage ratio.

In July 2016, the derivative instruments described above were amended to include a 0.00% floor to one-month LIBOR and then de-designated the original swap and designated the amended swap as a hedge in order to minimize the ineffective portion of the original derivative instruments. Therefore, the effective interest rate increased to a range of 2.75% to 3.65% with respect to $300.0 million of the 5-Year Term Loan due April 2020 and 3.36% to 4.31% with respect to the 7-year Term Loan due April 2022, in each case, per annum. The interest rate within the range is based on the operating partnership's leverage ratio. The amount included in accumulated other comprehensive income (loss) prior to the de-designation is amortized into interest expense over the remaining original terms of the derivative instruments.

For the three and six months ended June 30, 2017, the Company recognized an unrealized loss of $51 thousand and $45 thousand, respectively, on the Consolidated Statement of Operations related to the ineffective portion of these derivative instruments. For the three and six months ended June 30, 2016, the Company recognized an unrealized loss of $0.4 million and $2.5 million, respectively.

7-Year Term Loan due November 2022

On May 3, 2016, the Company entered into a derivative instrument with respect to $125.0 million of the 7-Year Term Loan due November 2022. This derivative instrument became effective on June 1, 2016 and swapped one-month LIBOR, which includes a 0.00% floor, to a fixed rate of 1.43% through the loan's maturity.

Met Park North

On July 31, 2013, the Company closed a seven-year loan totaling $64.5 million with Union Bank, N.A., secured by the Met Park North property. The loan bears interest at a rate equal to one-month LIBOR plus 1.55%. The full loan is subject to an interest rate contract that swaps one-month LIBOR to a fixed rate of 2.16% through the loan's maturity on August 1, 2020.

Overall

The fair market value of derivative instruments is presented on a gross basis in the Consolidated Balance Sheets. The derivative assets as of June 30, 2017 and December 31, 2016 were $5.9 million and $5.9 million, respectively. The derivative liabilities as of June 30, 2017 and December 31, 2016 were $1.0 million and $1.3 million, respectively.

The Company reclassifies into earnings in the same period during which the hedged forecasted transaction affects earnings. As of June 30, 2017, the Company expects $1.9 million of unrealized loss included in accumulated other comprehensive loss will be reclassified to interest expense in the next 12 months.

11. Income Taxes

Hudson Pacific Properties, Inc. has elected to be taxed as a REIT under the Internal Revenue Code of 1986, as amended (the "Code"), commencing with its taxable year ended December 31, 2010. Provided that it continues to qualify for taxation as a REIT, Hudson Pacific Properties, Inc. is generally not subject to corporate level income tax on the earnings distributed currently to its stockholders. The Company has elected, together with one of its subsidiaries, to treat such subsidiary as a taxable REIT subsidiary ("TRS") for federal income tax purposes.

The Company's property-owning subsidiaries are limited liability companies and are treated as pass-through entities or disregarded entities (or, in the case of the entities that own the 1455 Market Street and Hill7 properties, REITs) for federal income tax purposes. Accordingly, no provision has been made for federal income taxes in the accompanying consolidated financial statements for the activities of these entities.

The Company periodically evaluates its tax positions to determine whether it is more likely than not that such positions would be sustained upon examination by a tax authority for all open tax years, as defined by the statute of limitations, based on their technical merits. As of June 30, 2017, the Company has not established a liability for uncertain tax positions.

The Company and its TRS file income tax returns with the U.S. federal government and various state and local jurisdictions. The Company and its TRS are no longer subject to tax examinations by tax authorities for years prior to 2012. Generally, the Company has assessed its tax positions for all open years, which include 2012 to 2016, and concluded that there are no material uncertainties to be recognized.

Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.
Notes to Unaudited Consolidated Financial Statements—(Continued)
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12. Future Minimum Lease Payments

The following table summarizes the Company’s ground lease terms related to properties that are held subject to long-term noncancellable ground lease obligations:

Property	Expiration Date	Notes
3400 Hillview	10/31/2040	The ground rent is the greater of the minimum annual rent or percentage annual rent. The minimum annual rent until October 31, 2017 is the lesser of 10% of Fair Market Value (“FMV”) of the land or $1.0 million grown at 75% of the cumulative increases in consumer price index (“CPI”) from October 1989. Thereafter, minimum annual rent is the lesser of 10% of FMV of the land or the minimum annual rent as calculated as of November 1, 2017 plus 75% of subsequent cumulative CPI changes. Percentage annual rent is gross income multiplied by 24.125%. This lease has been prepaid through October 31, 2017.
9300 Wilshire	8/14/2032	The ground rent is the greater of minimum annual rent or percentage annual rent. Percentage annual rent is gross income multiplied by 6%.
Clocktower Square	9/26/2056	The ground rent is minimum annual rent (adjusted every 10 years) plus 25% of adjusted gross income (“AGI”) less minimum annual rent.
Del Amo Office	6/30/2049	Rent under the ground sublease is $1.00 per year, with the sublessee being responsible for all impositions, insurance premiums, operating charges, maintenance charges, construction costs and other charges, costs and expenses that arise or may be contemplated under any provisions of the ground sublease.
Foothill Research Center	6/30/2039	The ground rent is the greater of the minimum annual rent or percentage annual rent. The minimum annual rent is the lesser of 10% of FMV of the land or the previous year’s minimum annual rent plus 75% of CPI increase. Percentage annual rent is gross income multiplied by 24.125%.
Lockheed	7/31/2040	The ground rent is the greater of the minimum annual rent or percentage annual rent. The minimum annual rent is the lesser of 10% of FMV of the land or the previous year’s minimum annual rent plus 75% of CPI increase. Percentage annual rent is Lockheed’s base rent multiplied by 24.125%.
Metro Center	4/29/2054	Every 10 years rent adjusts to 7.233% of FMV of the land (since 2008) and adjusts to reflect the change in CPI from the preceding FMV adjustment date (since 2013).
Page Mill Center	11/30/2041	The ground rent is minimum annual rent (adjusted on 1/1/2019 and 1/1/2029) plus 25% of AGI, less minimum annual rent.
Page Mill Hill	11/17/2049	The ground rent is minimum annual rent (adjusted every 10 years) plus 60% of the average of the percentage annual rent for the previous 7 lease years.
Palo Alto Square	11/30/2045	The ground rent is minimum annual rent (adjusted every 10 years starting 1/1/2022) plus 25% of AGI less minimum annual rent.
Sunset Gower Studios	3/31/2060	Every 7 years rent adjusts to 7.5% of FMV of the land.
Techmart Commerce Center	5/31/2053	Subject to a 10% increase every 5 years.

Contingent rental expense is recorded in the period in which the contingent event becomes probable. The Company recognized rent for ground leases and a corporate office lease as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Contingent rental expense	$1,650	$2,110	$3,834	$4,447
Minimum rental expense	3,055	3,497	6,251	6,994

Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.
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The following table provides information regarding the Company's future minimum lease payments for its ground leases (before the impact of extension options, if applicable) as of June 30, 2017:

Year	Ground Leases (1)
Remaining 2017	$6,385
2018	14,063
2019	14,113
2020	14,113
2021	14,113
Thereafter	395,386
Total	$458,173

(1) In situations where ground lease obligation adjustments are based on third-party appraisals of fair market land value, CPI adjustments and/or percentage of gross income that exceeds the minimum annual rent, the future minimum lease amounts above include the lease rental obligations in effect as of June 30, 2017.

13. Fair Value of Financial Instruments

The GAAP fair value framework uses a three-tiered approach. Fair value measurements are classified and disclosed in one of the following three categories:

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

- Level 2: quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and

- Level 3: prices or valuation techniques where little or no market data is available that require inputs that are both significant to the fair value measurement and unobservable.

The Company measures fair value of financial instruments using Level 2 inputs categorized within the fair value framework. The Company's financial assets and liabilities measured and reported at fair value on a recurring basis include the following as of:

	June 30, 2017				December 31, 2016			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Derivative assets	$—	$5,858	$ —	$5,858	$—	$5,935	$ —	$5,935
Derivative liabilities	—	987	—	987	—	1,303	—	1,303

Other Financial Instruments

The carrying values of cash and cash equivalents, restricted cash, accounts receivable, accounts payable and accrued liabilities are reasonable estimates of fair value, using Level 1 inputs, because of the short-term nature of these instruments. Fair values for notes payable are estimates based on rates currently prevailing for similar instruments of similar maturities using Level 2 inputs. The table below represents the carrying value and fair value of the Company's notes payable as of:

	June 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Unsecured notes payable(1)	$1,935,000	$1,921,880	$2,025,000	$2,011,210
Secured notes payable(1)	681,568	669,651	682,839	669,924

(1) Amounts represent notes payable excluding net deferred financing costs.

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Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.
Notes to Unaudited Consolidated Financial Statements—(Continued)
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14. Stock-Based Compensation

The Company has various stock compensation arrangements, which are more fully described in the 2016 Annual Report on Form 10-K. Under the 2010 Incentive Plan, as amended (the "2010 Plan"), the Company's board of directors (the "Board") has the ability to grant, among other things, restricted stock, restricted stock units and performance-based awards.

The Board awards restricted shares to non-employee board members on an annual basis as part of such board members' annual compensation and to newly elected non-employee board members in accordance with the Board compensation program. The time-based awards are generally issued in the second quarter and the individual share awards vest in equal annual installments over the applicable service vesting period, which is three years.

The Board awards time-based restricted shares to employees on an annual basis as part of the employees' annual compensation. The time-based awards are generally issued in the fourth quarter and the individual share awards vest in equal annual installments over the applicable service vesting period, which is generally three years. Additionally, certain restricted share awards are subject to a mandatory holding period upon vesting if the grantee is a named executive officer.

In December 2015, the Compensation Committee of the Board awarded a one-time special retention award to certain executives. The grants consist of time-based awards and performance-based awards. The time-based awards vest in equal 25% installments over four years, subject to the participant's continued employment. The performance-based awards vest over a four-year period, subject to the achievement of applicable performance goals and the participant's continued employment.

The Compensation Committee of the Board annually adopts a Hudson Pacific Properties, Inc. Outperformance Program ("OPP Plan") under the 2010 Plan. An award under the OPP Plan is ultimately earned to the extent the Company outperforms a predetermined total shareholder return ("TSR") goal and/or achieves goals with respect to the outperformance of its peers in a particular REIT index. The ultimate aggregate award cannot exceed the predetermined maximum bonus pool. With respect to OPP Plan awards granted prior to 2017, to the extent an award is earned following the completion of a three-year performance period, 50% of the earned award will vest in full at the end of the three-year performance period and 25% of the earned award will vest in equal annual installments over the two years thereafter, subject to the participant's continued employment. OPP Plan awards granted are settled in common stock or, in the case of certain executives, in performance units in the operating partnership. In February 2017, the Compensation Committee adopted the 2017 OPP Plan. The 2017 OPP Plan is substantially similar to the previous OPP Plans except for (i) the performance period is January 1, 2017 to December 31, 2019 (ii) the maximum bonus pool is $20.0 million and (iii) the two-year post-performance vesting period was replaced with a two-year mandatory holding period upon vesting.

The per unit fair value of 2017 OPP award granted was estimated on the date of grant using the following assumptions in the Monte Carlo valuation:

	Assumption
Expected price volatility for the Company	24.00%
Expected price volatility for the particular REIT index	17.00%
Risk-free rate	1.47%
Dividend yield	2.30%

The following table presents the classification and amount recognized for stock-based compensation related to the Company's awards:

	Three Months Ended June 30,		Six Months Ended June 30,		Consolidated Financial Statement Classification
	2017	2016	2017	2016	
Expensed stock compensation	$3,886	$3,301	$7,788	$6,643	General and administrative expenses
Capitalized stock compensation	219	106	418	188	Deferred leasing costs and lease intangibles, net and tenant improvements
Total stock compensation	$4,105	$3,407	$8,206	$6,831	Additional paid-in capital and non-controlling interest—units in the operating partnership

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15. Earnings Per Share

Earnings Per Share of Hudson Pacific Properties, Inc.

Hudson Pacific Properties, Inc. calculates basic earnings per share by dividing the net income available to common stockholders for the period by the weighted average number of common shares outstanding during the period. Hudson Pacific Properties, Inc. calculates diluted earnings per share by dividing the diluted net income available to common stockholders for the period by the weighted average number of common shares and dilutive instruments outstanding during the period using the treasury stock method or the if-converted method, whichever is more dilutive. Unvested time-based RSUs and unvested OPP awards that contain nonforfeitable rights to dividends are participating securities and are included in the computation of earnings per share pursuant to the two-class method. The following table reconciles the numerator and denominator in computing Hudson Pacific Properties, Inc.'s basic and diluted earnings per share for net income available to common stockholders:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Numerator:				
Net income	$6,954	$ 4,035	$31,107	$ 10,011
Income attributable to preferred units	(159)	(159)	(318)	(318)
Income attributable to participating securities	(255)	(196)	(495)	(393)
Income attributable to non-controlling interest in consolidated entities	(2,974)	(2,396)	(6,011)	(4,341)
Income attributable to non-controlling units of the operating partnership	(13)	(445)	(215)	(1,867)
Basic and diluted net income available to common stockholders	$3,553	$ 839	$24,068	$ 3,092
Denominator:				
Basic weighted average common shares outstanding	155,290,559	95,145,496	151,640,853	92,168,432
Effect of dilutive instruments[1]	805,044	850,000	791,044	832,000
Diluted weighted average common shares outstanding	156,095,603	95,995,496	152,431,897	93,000,432
Basic earnings per common share	$0.02	$ 0.01	$0.16	$ 0.03
Diluted earnings per common share	$0.02	$ 0.01	$0.16	$ 0.03

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(1) The Company includes unvested awards and convertible common units as contingently issuable shares in the computation of diluted earnings per share once the market criteria are met, assuming that the end of the reporting period is the end of the contingency period. Any anti-dilutive securities are excluded from the diluted earnings per share calculation.

Earnings Per Share of Hudson Pacific Properties, L.P.

Hudson Pacific Properties, L.P. calculates basic earnings per share by dividing the net income available to common unitholders for the period by the weighted average number of common units outstanding during the period. Hudson Pacific Properties, L.P. calculates diluted earnings per share by dividing the diluted net income available to common unitholders for the period by the weighted average number of common units and dilutive instruments outstanding during the period using the treasury stock method or the if-converted method, whichever is more dilutive. Unvested time-based RSUs and unvested OPP awards that contain nonforfeitable rights to dividends are participating securities and are included in the computation of earnings per unit pursuant to the two-class method. The following table reconciles the numerator and denominator in computing Hudson Pacific Properties, L.P.'s basic and diluted earnings per unit for net income available to common unitholders:

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Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.
Notes to Unaudited Consolidated Financial Statements—(Continued)
(Unaudited, tabular amounts in thousands, except square footage and share/unit data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Numerator:				
Net income	$6,954	$ 4,035	$31,107	$ 10,011
Income attributable to preferred units	(159)	(159)	(318)	(318)
Income attributable to participating securities	(255)	(196)	(495)	(393)
Income attributable to non-controlling interest in consolidated entities	(2,974)	(2,396)	(6,011)	(4,341)
Basic and diluted net income available to common unitholders	$3,566	$ 1,284	$24,283	$ 4,959
Denominator:				
Basic weighted average common units outstanding	155,859,604	145,549,363	152,647,055	145,518,523
Effect of dilutive instruments[1]	805,044	850,000	791,045	832,000
Diluted weighted average common units outstanding	156,664,648	146,399,363	153,438,100	146,350,523
Basic earnings per common unit	$0.02	$ 0.01	$0.16	$ 0.03
Diluted earnings per common unit	$0.02	$ 0.01	$0.16	$ 0.03

(1) The operating partnership includes unvested awards as contingently issuable units in the computation of diluted earnings per unit once the market criteria are met, assuming that the end of the reporting period is the end of the contingency period. Any anti-dilutive securities are excluded from the diluted earnings per unit calculation.

16. Equity

The table below presents the effect of the Company's derivative instruments on accumulated other comprehensive income ("OCI"):

	Hudson Pacific Properties, Inc. Stockholders' Equity	Non-controlling Interest—Units in the Operating Partnership	Total Equity
Balance at January 1, 2017	$ 9,496	$ (3,618)	$5,878
Unrealized loss recognized in OCI due to change in fair value	(2,833)	(3)	(2,836)
Loss reclassified from OCI into income (as interest expense)	2,919	21	2,940
Net change in OCI related to derivative instruments	86	18	104
Reclassification related to redemption of common units in the operating partnership	(3,622)	3,622	—
Balance at June 30, 2017	$ 5,960	$ 22	$5,982

Non-controlling Interests

Common units in the operating partnership

Common units of the operating partnership and shares of common stock of the Company have essentially the same economic characteristics, as they share equally in the total net income or loss distributions of the operating partnership. Investors who own common units have the right to cause the operating partnership to repurchase any or all of their common units for cash equal to the then-current market value of one share of common stock or, at the Company's election, issue shares of the Company's common stock in exchange for common units on a one-for-one basis.

Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.
Notes to Unaudited Consolidated Financial Statements—(Continued)
(Unaudited, tabular amounts in thousands, except square footage and share/unit data)

The following table summarizes the ownership of common units, excluding unvested restricted units as of:

	June 30, 2017		December 31, 2016	
Company-owned common units in the operating partnership	155,301,850		136,492,235	
Company's ownership interest percentage	99.6	%	93.5	%
Non-controlling common units in the operating partnership[(1)]	569,045		9,450,620	
Non-controlling ownership interest percentage[(1)]	0.4	%	6.5	%

(1) Represents common units held by certain of the Company's executive officers and directors, certain of their affiliates and other outside investors.

On January 10, 2017, common unitholders required the operating partnership to repurchase 8,881,575 common units and the Company elected, in accordance with the limited partnership agreement of the operating partnership, to settle in cash to satisfy the repurchase. The Company funded the repurchase using the proceeds from a registered underwritten public offering of common stock.

Performance units are partnership interests in the operating partnership. Each performance unit awarded will be deemed equivalent to an award of one share of common stock under the 2010 Plan, reducing the availability for other equity awards on a one-for-one basis. Under the terms of the performance units, the operating partnership will revalue its assets for tax purposes upon the occurrence of certain specified events and any increase in valuation from the time of grant until such event will be allocated first to the holders of performance units to equalize the capital accounts of such holders with the capital accounts of common unitholders. Subject to any agreed upon exceptions, once vested and having achieved parity with common unitholders, performance units are convertible into common units in the operating partnership on a one-for-one basis.

The operating partnership meets the criteria of a VIE and the Company is the primary beneficiary of the operating partnership.

Non-controlling interest—members in consolidated entities

The Company has an interest in a joint venture with Media Center Partners, LLC (the "Pinnacle JV"). The Pinnacle JV owns the Pinnacle, a two-building (Pinnacle I and Pinnacle II), 625,640-square-foot office property located in Burbank, California. The Company initially owned a 98.25% interest in the Pinnacle JV. Beginning June 2013, the Company owns a 65% interest in the Pinnacle JV.

In January 2015, the Company entered into a joint venture with Canada Pension Plan Investment Board, ("CPPIB") through which CPPIB purchased a 45% interest in the 1455 Market Street office property located in San Francisco, California, for a purchase price of $219.2 million (before certain credits, proration and closing costs). The Company owns a 55% interest in the 1455 Market Street office property.

In October 2016, the Company entered into another joint venture with CPPIB to purchase the Hill7 office property located in Seattle, Washington for a purchase price of $179.8 million (before credits, prorations and closing costs). The Company owns a 55% interest in the Hill7 office property.

These joint ventures, of which the Company is the primary beneficiary, meet the criteria of a VIE.

6.25% Series A cumulative redeemable preferred units of the operating partnership

There are 407,066 Series A preferred units of partnership interest in the operating partnership, or Series A preferred units, which are not owned by the Company. These Series A preferred units are entitled to preferential distributions at a rate of 6.25% per annum on the liquidation preference of $25.00 per unit and became convertible at the option of the holder into common units or redeemable into cash or, at the Company's election, exchangeable for registered shares of common stock after June 29, 2013. For a description of the conversion and redemption rights of the Series A preferred units, please see "Description of the Partnership Agreement of Hudson Pacific Properties, L.P.—Material Terms of Our Series A Preferred Units" in the Company's June 23, 2010 Prospectus.

Common Stock Activity

On January 10, 2017, the Company completed a public offering of 8,881,575 shares of common stock of Hudson Pacific Properties, Inc. Proceeds from the offering were used to repurchase common units in the operating partnership.

On March 3, 2017, the Company completed another public offering of 9,775,000 shares of common stock. Proceeds from the offering were used to fully repay a $255.0 million balance outstanding under its unsecured revolving credit facility, with the remaining proceeds used for general corporate purposes.

The Company's at-the-market, or ATM, program permits sales of up to $125.0 million of common stock. The Company did not utilize the ATM program during the six months ended June 30, 2017. A cumulative total of $20.1 million has been sold as of June 30, 2017.

Share repurchase program

On January 20, 2016, the Board authorized a share repurchase program to buy up to $100.0 million of the outstanding common stock of Hudson Pacific Properties, Inc. No share repurchases have been made as of June 30, 2017.

Dividends

During the second quarter of 2017, the Company declared dividends on its common stock and non-controlling interest in common units in the operating partnership of $0.250 per share and unit. The Company also declared dividends on its Series A preferred units of $0.3906 per unit. The second quarter dividends were paid on June 30, 2017 to stockholders and unitholders of record on June 20, 2017.

Taxability of Dividends

Earnings and profits, which determine the taxability of distributions to stockholders, may 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 and compensation expense and in the basis of depreciable assets and estimated useful lives used to compute depreciation.

17. Related Party Transactions

Employment Agreements

The Company has entered into employment agreements with certain executive officers, effective January 1, 2016, that provide for various severance and change in control benefits and other terms and conditions of employment.

Lease and Subsequent Purchase of Corporate Headquarters from Blackstone

On July 26, 2006, the Company's predecessor, Hudson Capital, LLC, entered into a lease agreement and subsequent amendments with landlord Trizec Holdings Cal, LLC (an affiliate of Blackstone) for the Company's corporate headquarters at 11601 Wilshire Boulevard. The Company amended the lease to increase its occupancy to 40,120 square feet commencing on September 1, 2015. On December 16, 2015, the Company entered into an amendment of that lease to expand the space to approximately 42,371 square feet and to extend the term by an additional three years, to a total of ten years, through August 31, 2025. On July 1, 2016, the Company purchased the 11601 Wilshire property from affiliates of Blackstone for $311.0 million (before credits, prorations and closing costs).

JMG Capital Lease at 11601 Wilshire

JMG Capital Management LLC leases approximately 6,638 square feet at the Company's 11601 Wilshire property pursuant to an eight-year lease at an aggregate rate of approximately $279 thousand annualized rent per year. Jonathan M. Glaser, a director on the Board, is the founder and managing member of JMG Capital Management LLC. JMG Capital Management LLC was a tenant of the property at the time it was purchased by the Company.

222 Kearny Street Disposition

On February 14, 2017, the Company sold its 222 Kearny Street property to a joint venture, a partner of which is an affiliate of the Farallon Funds. Richard B. Fried, a director on the Board, is a managing member of the Farallon Funds.

Agreements Related to EOP Acquisition

On April 1, 2015, the Company completed the EOP Acquisition from certain affiliates of Blackstone, which consisted of 26 high-quality office assets totaling approximately 8.2 million square feet and two development parcels located throughout the San Francisco Peninsula, Redwood Shores, Palo Alto, Silicon Valley and North San Jose submarkets. The total consideration paid for the EOP Acquisition before certain credits, prorations and closing costs included a cash payment of $1.75 billion and an aggregate of 63,474,791 shares of common stock of Hudson Pacific Properties, Inc. and common units in the operating partnership. In connection with the EOP Acquisition, the Company, the operating partnership and Blackstone entered into a stockholders agreement, which conferred Blackstone certain rights, including the right to nominate up to three of the Company’s directors. Additionally, the Company entered into a registration rights agreement with Blackstone providing for customary registration rights with respect to the equity consideration paid in the EOP Acquisition. Following a common stock offering and common unit repurchase on January 10, 2017, the stockholders agreement and the registration rights agreement automatically terminated on that date.

Common Stock Offerings and Common Unit Redemptions

On January 10, 2017, the Company, Blackstone and the Farallon Funds completed a public offering of 18,673,808 shares of common stock, consisting of 8,881,575 shares offered by the Company and 9,792,233 shares offered by the selling stockholders. The offering generated net proceeds for the Company and the selling stockholders of approximately $310.9 million and $342.7 million, respectively, before expenses. The Company used the net proceeds that it received from the offering to redeem 8,881,575 common units held by Blackstone and the Farallon Funds.

The Company did not receive any proceeds from the sale of the common stock by the selling stockholders in the offerings described above but it paid approximately half of the expenses of the offerings with respect to the shares of common stock sold by the Farallon Funds and all of the expenses with respect to the shares of common stock sold by Blackstone, in each case, other than underwriting discounts, which were borne by the selling stockholders.

18. Commitments and Contingencies

Legal

From time to time, the Company is party to various lawsuits, claims and other legal proceedings arising out of, or incident to, the ordinary course of business. Management believes, based in part upon consultation with legal counsel, that the ultimate resolution of all such claims will not have a material adverse effect on the Company’s results of operations, financial position or cash flows. As of June 30, 2017, the risk of material loss from such legal actions impacting the Company’s financial condition or results from operations has been assessed as remote.

Concentrations

As of June 30, 2017, the majority of the Company’s properties were located in California, which exposes the Company to greater economic risks than if it owned a more geographically dispersed portfolio.

A significant portion of the Company’s rental revenue is derived from tenants in the media and entertainment and technology industries. As of June 30, 2017, approximately 17.2% and 26.4% of rentable square feet were related to the media and entertainment and technology industries, respectively.

As of June 30, 2017, the Company’s 15 largest tenants represented approximately 23.2% of its rentable square feet and no single tenant accounted for more than 10%.

(Unaudited, tabular amounts in thousands, except square footage and share/unit data)

Letters of Credit

As of June 30, 2017, the Company has an outstanding letter of credit totaling approximately $2.0 million under the unsecured revolving credit facility. The letter of credit is related to utility company security deposit requirements.

19. Cash Flow Reconciliation

Restricted cash primarily consists of amounts held by lenders to fund reserves such as capital improvements, taxes, insurance, debt service and operating expenditures. Pursuant to the adoption of ASU 2016-18, the Company included restricted cash with cash and cash equivalents in the Consolidated Statements of Cash Flows, which resulted in an increase of $1.2 million in the net cash provided by operating activities line item in the Consolidated Statements of Cash Flows for the six months ended June 30, 2016. The following table provides a reconciliation of cash and cash equivalents and restricted cash at the beginning and end of the periods presented:

	Six Months Ended June 30,	
	2017	2016
Beginning of period:		
Cash and cash equivalents	$83,015	$53,551
Restricted cash	25,177	18,010
Total	$108,192	$71,561
End of period:		
Cash and cash equivalents	$73,242	$337,400
Restricted cash	17,284	19,166
Total	$90,526	$356,566

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

Certain written and oral statements made or incorporated by reference from time to time by us or our representatives in this Quarterly Report on Form 10-Q, other filings or reports filed with the SEC, press releases, conferences, or otherwise, are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 (set forth in Section 27A of the Securities Act of 1933, as amended, or the Securities Act, as amended, and Section 21E of the Exchange Act). In particular, statements relating to our liquidity and capital resources, portfolio performance and results of operations contain forward-looking statements. Furthermore, all of the statements regarding future financial performance (including anticipated funds from operations, or FFO, market conditions and demographics) are forward-looking statements. We are including this cautionary statement to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any such forward-looking statements. We caution investors that any forward-looking statements presented in this Quarterly Report on Form 10-Q, or that management may make orally or in writing from time to time, are based on management's beliefs and assumptions made by, and information currently available to, management. When used, the words "anticipate," "believe," "expect," "intend," "may," "might," "plan," "estimate," "project," "should," "will," "result" and expressions that do not relate solely to historical matters are intended to identify forward-looking statements. Such statements are subject to risks, uncertainties and assumptions and may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those anticipated, estimated or projected. We expressly disclaim any responsibility to update forward-looking statements, whether as a result of new information, future events or otherwise. Accordingly, investors should use caution in relying on past forward-looking statements, which were based on results and trends at the time they were made, to anticipate future results or trends. Additional information concerning these and other risks and uncertainties is contained in our other periodic filings with the SEC.

Some of the risks and uncertainties that may cause our actual results, performance, liquidity or achievements to differ materially from those expressed or implied by forward-looking statements include, among others, the following:

- adverse economic or real estate developments in our target markets;
- general economic conditions;
- defaults on, early terminations of or non-renewal of leases by tenants;
- fluctuations in interest rates and increased operating costs;
- our failure to obtain necessary outside financing or maintain an investment grade rating;
- our failure to generate sufficient cash flows to service our outstanding indebtedness and maintain dividend payments;
- lack or insufficient amounts of insurance;
- decreased rental rates or increased vacancy rates;
- difficulties in identifying properties to acquire and completing acquisitions;

- our failure to successfully operate acquired properties and operations;
- our failure to maintain our status as a REIT;
- environmental uncertainties and risks related to adverse weather conditions and natural disasters;
- financial market fluctuations;

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- risks related to acquisitions generally, including the diversion of management’s attention from ongoing business operations and the impact on customers, tenants, lenders, operating results and business;

- the inability to successfully integrate acquired properties, realize the anticipated benefits of acquisitions or capitalize on value creation opportunities;

- changes in real estate and zoning laws and increases in real property tax rates; and

- other factors affecting the real estate industry generally.

Additionally, we operate in a highly competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can it assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results.

Historical Results of Operations

This Quarterly Report on Form 10-Q of Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P. represents an update to the more detailed and comprehensive disclosures included in the 2016 Annual Report on Form 10-K of Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P. Accordingly, you should read the following discussion in conjunction with the information included in our 2016 Annual Report on Form 10-K, as well as the unaudited financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

In addition, some of the statements and assumptions in this Quarterly Report on Form 10-Q are forward-looking statements within the meaning of Section 27A of the Securities Act or Section 21E of the Exchange Act, including, in particular, statements about our plans, strategies and prospects as well as estimates of industry growth for the quarter and beyond. See “Forward-Looking Statements.”

Overview

The following table identifies the properties in our portfolio as of June 30, 2017:

Properties	Acquisition Date	Acquisition/Estimated Square Feet	Consideration Paid (in thousands)
Predecessor properties:			
875 Howard Street	2/15/2007	286,270	$ —
Sunset Gower Studios	8/17/2007	545,673	—
Sunset Bronson Studios	1/30/2008	308,026	—
Technicolor Building(1)	6/1/2008	114,958	—
Properties acquired after IPO:			
Del Amo Office	8/13/2010	113,000	27,327
9300 Wilshire	8/24/2010	61,224	14,684
1455 Market Street(2)	12/16/2010	1,025,833	92,365
Rincon Center	12/16/2010	580,850	184,571
10950 Washington	12/22/2010	159,024	46,409
604 Arizona	7/26/2011	44,260	21,373
275 Brannan Street	8/19/2011	54,673	12,370
625 Second Street	9/1/2011	138,080	57,119
6922 Hollywood	11/22/2011	205,523	92,802
6050 Sunset Blvd. & 1445 N. Beachwood Drive	12/16/2011	20,032	6,502
10900 Washington	4/5/2012	9,919	2,605
901 Market Street	6/1/2012	206,199	90,871
Element LA	9/5/2012	247,545	88,436
1455 Gordon Street	9/21/2012	5,921	2,385
Pinnacle I(3)	11/8/2012	393,777	209,504
3401 Exposition	5/22/2013	63,376	25,722
Pinnacle II(3)	6/14/2013	230,000	136,275
Seattle Portfolio (83 King Street, 505 First Avenue, Met Park North and Northview Center)	7/31/2013	844,980	368,389
1861 Bundy	9/26/2013	36,492	11,500
Merrill Place	2/12/2014	193,153	57,034
EOP Northern California Portfolio (see table on next page for property list)	4/1/2015	7,120,686	3,489,541
4th & Traction(4)	5/22/2015	120,937	49,250
MaxWell (formerly known as 405 Mateo)(5)	8/17/2015	83,285	40,000
11601 Wilshire(6)	7/1/2016 & 6/15/2017	500,475	361,000
Hill7(7)	10/7/2016	285,680	179,800
Page Mill Hill	12/12/2016	182,676	150,000
Sunset Las Palmas Studios (includes 6666 Santa Monica)	5/1/2017 & 6/29/2017	373,150	203,200
Development properties(8):			
Icon(9)	N/A	325,757	N/A
CUE(10)	N/A	91,953	N/A
450 Alaskan Way(11)	N/A	166,800	N/A
Total		15,140,187	$ 6,021,034

(1) We acquired this property in August 2007 and the development was completed in June 2008.

(2) We own a 55% joint venture interest in the 1455 Market Street property as of January 2015.
(3) We own a 65% joint venture interest in the Pinnacle I and Pinnacle II properties as of June 2013.
(4) This development was completed in the second quarter of 2017 and is estimated to be stabilized in the third quarter of 2018.
(5) We estimate this development will be completed in the fourth quarter of 2018 and is estimated to be stabilized in the second quarter of 2019.
(6) We acquired the building and partial interest in the land on July 1, 2016 and acquired the remaining interest in the land on June 15, 2017.
(7) We own a 55% joint venture interest in the Hill7 property as of October 2016.

(8) The development properties were included within acquisitions above.
(9) This development was completed in the fourth quarter of 2016 and was stabilized in the second quarter of 2017.
(10) We estimate this development will be completed in the third quarter of 2017 and is estimated to be stabilized in the second quarter of 2019.
(11) We estimate this development will be completed in the fourth quarter of 2017 and is estimated to be stabilized in the second quarter of 2018.

The following table identifies the properties we own as of June 30, 2017 that were acquired as part of the EOP Acquisition:

Properties	Acquisition Square Feet
1740 Technology	206,876
2180 Sand Hill Road	45,613
333 Twin Dolphin Plaza	182,789
3400 Hillview	207,857
555 Twin Dolphin Plaza	198,936
Campus Center	471,580
Clocktower Square	100,344
Concourse	944,386
Embarcadero Place	197,402
Foothill Research Center	195,376
Gateway	609,093
Lockheed	42,899
Metro Center	730,215
Metro Plaza	456,921
Page Mill Center	176,245
Palo Alto Square	328,251
Peninsula Office Park	510,789
Shorebreeze	230,932
Skyport Plaza	418,086
Skyway Landing	247,173
Techmart Commerce Center	284,440
Towers at Shore Center	334,483
Total	7,120,686

The following table identifies the properties that were disposed through June 30, 2017:

Properties	Disposition Date	Square Feet	Sales Price[1] (in millions)
City Plaza	7/12/2013	333,922	$ 56.0
Tierrasanta	7/16/2014	112,300	19.5
First Financial	3/6/2015	223,679	89.0
Bay Park Plaza	9/29/2015	260,183	90.0
Bayhill Office Center	1/14/2016	554,328	215.0
Patrick Henry Drive	4/7/2016	70,520	19.0
One Bay Plaza	6/1/2016	195,739	53.4
12655 Jefferson	11/4/2016	100,756	80.0
222 Kearny Street	2/14/2017	148,797	51.8
3402 Pico Boulevard	3/21/2017	50,687	35.0
Total[2][3]		2,050,911	$ 708.7

(1) Represents gross sales price before certain credits, prorations and closing costs.
(2) Excludes the disposition of 45% interest in 1455 Market Street office property on January 7, 2015.
(3) Excludes our sale of an option to acquire land at 9300 Culver on December 6, 2016.

All amounts and percentages used in this discussion of our results of operations are calculated using the numbers presented in the financial statements contained in Part I, Item 1 of this Quarterly Report rather than the rounded numbers appearing in this discussion. The dollar amounts included in the tables in this discussion of our results of operations are presented in thousands.

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Comparison of the three months ended June 30, 2017 to the three months ended June 30, 2016

Net Operating Income

We evaluate performance based upon property net operating income ("NOI") from continuing operations. NOI is not a measure of operating results or cash flows from operating activities or cash flows as measured by GAAP and should not be considered an alternative to income from continuing operations, as an indication of our performance, or as an alternative to cash flows as a measure of liquidity, or our ability to make distributions. All companies may not calculate NOI in the same manner. We consider NOI to be a useful performance measure to investors and management because when compared across periods, NOI reflects the revenues and expenses directly associated with owning and operating our properties and the impact to operations from trends in occupancy rates, rental rates and operating costs, providing a perspective not immediately apparent from income from continuing operations. We calculate NOI as net income (loss) excluding corporate general and administrative expenses, depreciation and amortization, impairments, gains/losses on sales of real estate, interest expense, acquisition-related expenses and other non-operating items. We define NOI as operating revenues (including rental revenues, other property-related revenue, tenant recoveries and other operating revenues), less property-level operating expenses (which includes external management fees, if any, and property-level general and administrative expenses). NOI on a cash basis is NOI on a GAAP basis, adjusted to exclude the effect of straight-line rent and other non-cash adjustments required by GAAP. We believe that NOI on a cash basis is helpful to investors as an additional measure of operating performance because it eliminates straight-line rent and other non-cash adjustments to revenue and expenses.

Management further analyzes NOI by evaluating the performance from the following property groups:

- Same-Store properties, which includes all of the properties owned and included in our stabilized portfolio as of April 1, 2016 and still owned and included in the stabilized portfolio as of June 30, 2017;

- Non-Same-Store properties, development projects, redevelopment properties and lease-up properties as of June 30, 2017 and other properties not owned or not in operation from April 1, 2016 through June 30, 2017.

The following table reconciles net income to NOI:

	Three Months Ended June 30,			
	2017	2016	Dollar Change	Percent Change
Net income	$6,954	$4,035	$2,919	72.3 %
Adjustments:				
Interest expense	21,695	17,614	4,081	23.2
Interest income	(16)	(73)	57	(78.1)
Unrealized loss on ineffective portion of derivative instruments	51	384	(333)	(86.7)
Acquisition-related expenses	—	61	(61)	(100.0)
Other income	(576)	(47)	(529)	1,125.5
Gains on sale of real estate	—	(2,163)	2,163	(100.0)
Income from operations	28,108	19,811	8,297	41.9
Adjustments:				
General and administrative	14,506	13,016	1,490	11.4
Depreciation and amortization	75,415	66,108	9,307	14.1
NOI	$118,029	$98,935	$19,094	19.3 %
Same-Store NOI	$82,701	$74,924	$7,777	10.4 %

Non-Same-Store NOI	35,328	24,011	11,317	47.1	
NOI	$118,029	$98,935	$19,094	19.3	%

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The following table summarizes certain statistics of our Same-Store Office and Media and Entertainment properties:

	Three Months Ended June 30,	
	2017	2016
Same-Store Office statistics:		
Number of properties	34	34
Rentable square feet	8,466,955	8,466,955
Ending % leased	95.4 %	96.5 %
Ending % occupied	94.8 %	95.1 %
Average % occupied for the period	94.7 %	94.3 %
Average annual rental rate per square foot	$41.52	$40.51
Same-Store Media and Entertainment statistics:		
Number of properties	2	2
Rentable square feet	879,652	879,652
Average % occupied for the period	89.9 %	85.3 %

The following table gives further detail on our NOI:

	Three Months Ended June 30,					
	2017			2016		
	Same-Store	Non-Same-Store	Total	Same-Store	Non-Same-Store	Total
Revenues						
Office						
Rental	$85,823	$ 47,779	$133,602	$82,770	$ 35,277	$118,047
Tenant recoveries	19,582	5,456	25,038	17,703	3,600	21,303
Parking and other	6,037	2,175	8,212			