

CURIS INC  
Form DEF 14A  
April 13, 2007  
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## SCHEDULE 14A

### Proxy Statement Pursuant to Section 14(a) of the Securities

### Exchange Act of 1934 (Amendment No. )

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- |                                     |                                 |                          |   |
|-------------------------------------|---------------------------------|--------------------------|---|
| <input type="checkbox"/>            | Preliminary Proxy Statement     | <input type="checkbox"/> | Soliciting Material Under Rule 14a-12   |
| <input checked="" type="checkbox"/> | Definitive Proxy Statement      | <input type="checkbox"/> | Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
| <input type="checkbox"/>            | Definitive Additional Materials |                          |   |

## CURIS, INC.

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(Name of Registrant as Specified in Its Charter)

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

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- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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(1) Amount previously paid:

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(4) Date Filed:

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**CURIS, INC.**

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

**TO BE HELD JUNE 6, 2007**

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders of Curis, Inc. will be held on June 6, 2007 at 10:00 a.m. at the offices of Wilmer Cutler Pickering Hale and Dorr LLP, 60 State Street, Boston, Massachusetts 02109 for the purpose of considering and voting upon the following matters:

1. To elect two Class II directors, each for a term of three years; and
2. To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the current fiscal year.

The stockholders will also act on any other business as may properly come before the meeting or any adjournment thereof.

The board of directors has no knowledge of any other business to be transacted at the meeting.

The board of directors has fixed the close of business on April 9, 2007 as the record date for the determination of stockholders entitled to notice of and to vote at the meeting and at any adjournments thereof.

A copy of our 2006 annual report to stockholders, which contains consolidated financial statements and other information of interest to stockholders, accompanies this notice and the enclosed proxy statement.

By Order of the Board of Directors,

/s/ Mary Elizabeth Potthoff

Mary Elizabeth Potthoff, Secretary

April 24, 2007

**WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE PROMPTLY COMPLETE, SIGN AND DATE THE ENCLOSED PROXY CARD AND RETURN IT BY MAIL IN THE ACCOMPANYING ENVELOPE. NO POSTAGE NEED BE AFFIXED IF THE PROXY CARD IS MAILED IN THE UNITED STATES.**

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**CURIS, INC.**

**45 Moulton Street**

**Cambridge, Massachusetts 02138**

**PROXY STATEMENT**

*For the Annual Meeting of Stockholders*

*To Be Held on June 6, 2007*

**GENERAL INFORMATION ABOUT THE ANNUAL MEETING**

This proxy statement is furnished in connection with the solicitation by the board of directors of Curis, Inc. of proxies for use at the annual meeting of stockholders to be held on June 6, 2007 at 10:00 a.m., local time, at the offices of Wilmer Cutler Pickering Hale and Dorr LLP, 60 State Street, Boston, Massachusetts 02109 and at any adjournments thereof. Except where the context otherwise requires, references to Curis, we, us, our, and similar terms refer to Curis, Inc. and any of its subsidiaries.

Proxies will be voted in accordance with the instructions of the stockholders. If a proxy is returned signed with no choices specified, it will be voted in favor of the matters set forth in the accompanying notice of meeting. A proxy may be revoked by a stockholder at any time before its exercise by delivery of a written revocation to our secretary. Attendance at the meeting will not itself be deemed to revoke a proxy unless the stockholder gives affirmative notice at the meeting that the stockholder intends to revoke the proxy and vote in person.

On April 9, 2007, the record date for determination of stockholders entitled to vote at the meeting, an aggregate of 49,373,967 shares of our common stock were outstanding and entitled to vote. As a stockholder, you are entitled to one vote at the meeting for each share of common stock registered in your name at the close of business on the record date. The proxy card states the number of shares you are entitled to vote at the meeting.

**The notice of meeting, this proxy statement, the enclosed proxy card and our annual report to stockholders for the year ended December 31, 2006 are first being mailed or provided to stockholders on or about April 24, 2007. We will, upon written request of any stockholder, furnish copies of the exhibits to our 2006 annual report to stockholders. Please address all such requests to us at 45 Moulton Street, Cambridge, Massachusetts 02138, Attention: Secretary.**

**Votes Required**

The holders of a majority of the shares of common stock issued and outstanding and entitled to vote at the meeting will constitute a quorum for the transaction of business at the meeting. Shares of common stock present in person or represented by proxy, including shares which abstain or do not vote with respect to one or more of the matters presented for stockholder approval, will be counted for the purpose of determining whether a quorum exists at the meeting.

The affirmative vote of the holders of a plurality of the votes cast by the stockholders entitled to vote at the meeting is required for the election of directors. The affirmative vote of the holders of a majority of the shares of common stock, present or represented by proxy and voting on the matter, is required to ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the current fiscal year.

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Shares which abstain from voting as to a particular matter, and shares held in street name by brokers or nominees who indicate on their proxies that they do not have discretionary authority to vote such shares as to a particular matter, will not be counted as votes in favor of such matter, and will also not be counted as votes cast or shares voting on such matter. Accordingly, abstentions and broker non-votes will have no effect on the voting on the matters to be voted on at the meeting, each of which requires the affirmative vote of either a plurality of the votes cast, with respect to the election of directors, or a majority of the shares present in person or represented by proxy and voting on the matter, with respect to any matter other than the election of directors.

**Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth certain information, as of December 31, 2006, with respect to the beneficial ownership of shares of our common stock by:

each person known to us to beneficially own more than 5% of the outstanding shares of common stock,

each of our directors and nominees for director,

each of the principal executive officer, the principal financial officer, the two other most highly compensated executive officers who were serving as executive officers on December 31, 2006, and one former executive officer who would have been one of the three most highly compensated executive officers but for the fact that he was not serving as an executive officer at the end of the year, and

all current directors and executive officers as a group.

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The number of shares of common stock beneficially owned by each person is determined under rules promulgated by the United States Securities and Exchange Commission, or SEC. Under these rules, a person is deemed to have beneficial ownership of any shares over which that person has voting or investment power, or shares such power, plus any shares that the person may acquire within 60 days, including through the exercise of stock options. For each person named in the table, the number in the Shares Acquirable Within 60 Days column consists of shares underlying stock options that may be exercised within 60 days after December 31, 2006. Unless otherwise indicated, each person in the table has sole voting and investment power over the shares listed. The inclusion in the table of any shares does not constitute an admission of beneficial ownership of those shares by the named stockholder. For each person, the Number of Shares Beneficially Owned column may include shares of common stock attributable to the person due to that person's voting or investment power or other relationship.

| Name and Address of Beneficial Owner  | Number of Shares Beneficially Owned (1) | + | Shares Acquirable Within 60 Days | = | Total Beneficial Ownership | Percent of Common Stock Beneficially Owned (2) |
|---|---|---|----------------------------------|---|----------------------------|--|
| <b>5% Stockholder:</b>  |   |   |                                  |   |                            |  |
| Biotechnology Value Fund, L.P. (3)  | 2,572,700                               |   |                                  |   | 2,572,700                  | 5.21%  |
| Stephens Investment Management, LLC (4)                                     | 4,279,807                               |   |                                  |   | 4,279,807                  | 8.68%  |
| <b>Directors and Nominees:</b>  |   |   |                                  |   |                            |  |
| James R. McNab, Jr. (5)   | 1,045,010                               |   | 230,000                          |   | 1,275,010                  | 2.57%  |
| Susan B. Bayh (6)   | 11,000                                  |   | 195,625                          |   | 206,625                    | *  |
| Joseph M. Davie   | 10,000                                  |   | 150,937                          |   | 160,937                    | *  |
| Martyn D. Greenacre   | 25,138                                  |   | 328,375                          |   | 353,513                    | *  |
| Kenneth I. Kaitin   | 10,000                                  |   | 55,312                           |   | 65,312                     | *  |
| Douglas A. Melton   | 163,499                                 |   | 442,891                          |   | 606,390                    | 1.22%  |
| Daniel R. Passeri   | 35,000                                  |   | 1,449,212                        |   | 1,484,212                  | 2.92%  |
| James R. Tobin  | 82,477                                  |   | 363,687                          |   | 446,164                    | *  |
| <b>Other Named Executive Officers:</b>                                      |   |   |                                  |   |                            |  |
| Michael P. Gray   |   |   | 367,712                          |   | 367,712                    | *  |
| Lee L. Rubin  | 9,000                                   |   | 50,000                           |   | 59,000                     | *  |
| Mark W. Noel  | 17,797                                  |   | 282,100                          |   | 299,897                    | *  |
| Mary Elizabeth Potthoff   |   |   | 167,187                          |   | 167,187                    | *  |
| <b>All current directors and executive officers as a group (12 persons)</b> | <b>1,408,921</b>                        |   | <b>4,083,038</b>                 |   | <b>5,491,959</b>           | <b>10.28%</b>                                  |

\* Less than 1% of the outstanding common stock.

- (1) None of our directors or named executive officers have pledged any of their shares as security.
- (2) The percent of ownership for each stockholder on December 31, 2006 is calculated by dividing (1) the total number of shares beneficially owned by the stockholder by (2) the sum of 49,333,854 shares of our common stock that were outstanding on December 31, 2006, plus shares of common stock subject to options, warrants or other rights held by such person that will be exercisable within 60 days of December 31, 2006.
- (3) On March 8, 2007, Biotechnology Value Fund, L.P., jointly with Biotechnology Value Fund II, L.P., BVF Investments, L.L.C., Investment 10, L.L.C., BVF Partners L.P. and BVF Inc. became a 5% stockholder of our common stock. This information is taken from a Schedule 13G filed on March 19, 2007 by

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- Biotechnology Value Fund, L.P., jointly with Biotechnology Value Fund II, L.P., BVF Investments, L.L.C, Investment 10, L.L.C., BVF Partners L.P. and BVF Inc. Each of the reporting persons may be deemed to beneficially own and to have sole voting and dispositive power of the balance of shares reported as beneficially owned by the reporting persons. Each of the reporting persons disclaims beneficial ownership of these shares, except to the extent of its pecuniary interests therein. The principal business address of each reporting person is 900 North Michigan Avenue, Suite 1100, Chicago, Illinois 60611.
- (4) On October 20, 2006, Stephens Investment Management, LLC, jointly with its affiliates, Paul H. Stephens, P. Bartlett Stephens and W. Bradford Stephens became a 5% stockholder of our common stock. This information is taken from a Schedule 13G filed on February 13, 2007 by Stephens Investment Management, LLC, jointly with its affiliates, Paul H. Stephens, P. Bartlett Stephens and W. Bradford Stephens. In addition to these shares, Paul Stephens holds 300,000 shares personally. Each of the reporting persons may be deemed to beneficially own and to have sole voting and dispositive power of the balance of shares reported as beneficially owned by the reporting persons. Each of the reporting persons disclaims beneficial ownership of these shares, except to the extent of his or its pecuniary interests therein. The principal business address of each reporting person is One Sansome Street, Suite 2900, San Francisco, California 94104.
- (5) The number of shares owned by Mr. McNab consists of 814,035 shares held directly by Mr. McNab, 130,975 shares held by the McNab Family LLC, and 100,000 shares held by the JR & MW McNab Operating LP.
- (6) The number of shares owned by Ms. Bayh consists of 10,000 shares held directly by Ms. Bayh and 1,000 shares held by Ms. Bayh's spouse. Ms. Bayh disclaims beneficial ownership of the 1,000 shares held by her spouse, and this report should not be deemed an admission that Ms. Bayh is the beneficial owner of her spouse's shares for Section 16 of the Securities Exchange Act of 1934 or any other purpose.

**BOARD OF DIRECTORS AND CORPORATE GOVERNANCE INFORMATION**

**Members of the Board of Directors**

We have a classified board of directors currently consisting of three Class II directors, Joseph M. Davie, Douglas A. Melton and Daniel R. Passeri, three Class III directors, Susan B. Bayh, Martyn D. Greenacre and Kenneth I. Kaitin, and two Class I directors, James R. McNab, Jr. and James R. Tobin. The Class II, Class III and Class I directors will serve until the annual meetings of stockholders to be held in 2007, 2008 and 2009, respectively, and until their respective successors are elected and qualified. At each annual meeting of stockholders, directors are elected for three-year terms to succeed those directors whose terms are expiring. Dr. Melton, one of the Class II directors, has decided not to stand for reelection as a director at the 2007 annual meeting.

For each member of the board whose term of office as a director continues after the meeting, including those who are nominees for election as Class II directors, there follows information given by each concerning his or her principal occupation and business experience for at least the past five years, the names of other publicly-held companies for which he or she serves as a director, and his or her age and length of service as our director. There are no familial relationships among any of our directors, nominees for director and executive officers.

*Nominees for Terms Expiring in 2010 (Class II Directors)*

**Joseph M. Davie**, age 67, has served on our board since July 2003. From 1993 until his retirement in 2000, Dr. Davie was the Senior Vice President of Research at Biogen, Inc. (now Biogen Idec), a biotechnology



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company. From 1987 to 1993, Dr. Davie held several senior positions at G.D. Searle & Co., a pharmaceutical company, including Senior Vice President of Science and Technology and President of Research and Development. Dr. Davie was professor and head of the Department of Microbiology and Immunology at Washington University School of Medicine from 1975 to 1987. He currently serves as a director of Targeted Genetics Corporation and CV Therapeutics, Inc. as well as several privately-held companies. Dr. Davie received his A.B., M.A. and Ph.D. in bacteriology from Indiana University and his M.D. from Washington University School of Medicine.

**Daniel R. Passeri**, age 46, has served as our President and Chief Executive Officer and as a director since September 2001. From November 2000 to September 2001, Mr. Passeri served as our Senior Vice President, Corporate Development and Strategic Planning. From March 1997 to November 2000, Mr. Passeri was employed by GeneLogic Inc., a biotechnology company, most recently as Senior Vice President, Corporate Development and Strategic Planning. From February 1995 to March 1997, Mr. Passeri was employed by Boehringer Mannheim, a pharmaceutical, biotechnology and diagnostic company, as Director of Technology Management. Mr. Passeri received a J.D. from the National Law Center at George Washington University, an M.Sc. in biotechnology from the Imperial College of Science, Technology and Medicine at the University of London and a B.S. in biology from Northeastern University.

*Directors Whose Terms Expire in 2009 (Class I Directors)*

**James R. McNab, Jr.**, age 63, has served on our board since February 2000 and has served as Chairman of our board since May 2002. Mr. McNab is a co-founder and served as the chairman of the board of directors of Reprogenesis, a predecessor life science company, from July 1996 to July 2000. Since 1998, Mr. McNab has served as Chief Executive Officer and Chairman of eNOS Pharmaceuticals, Inc., a privately-held drug discovery company of which he is a co-founder. In addition, Mr. McNab is a co-founder of other privately-held companies, including Sontra Medical Corporation, a drug delivery company, and Parker Medical Associates, a manufacturer and worldwide supplier of orthopedic and sports-related products. Since July 2006, Mr. McNab has served as Executive Chairman of Argolyn Bioscience, Inc., privately-held biopharmaceutical company. Mr. McNab received a B.A. in economics from Davidson College and an M.B.A. from the University of North Carolina at Chapel Hill.

**James R. Tobin**, age 62, has served on our board since February 2000. From 1995 to July 2000, Mr. Tobin was a member of the board of directors of Creative BioMolecules, Inc., a predecessor life science company. Since 1999, Mr. Tobin has served as Chief Executive Officer and President of Boston Scientific Corporation, a medical device company. Mr. Tobin was employed by Biogen, Inc. (now Biogen Idec), as President and Chief Executive Officer from February 1997 to December 1998 and President and Chief Operating Officer from February 1994 to February 1997. Prior to joining Biogen, Mr. Tobin was employed by Baxter International Inc., a health care products company, where he served as President and Chief Operating Officer from 1992 to 1994, as Executive Vice President from 1988 to 1992 and in various management positions prior to 1988. He serves as a director of Boston Scientific Corporation and Applera Corporation. Mr. Tobin received an M.B.A. from Harvard Business School and a B.A. from Harvard College.

*Directors Whose Terms Expire in 2008 (Class III Directors)*

**Susan B. Bayh**, age 47, has served on our board since October 2000. From 1994 to 2001, Ms. Bayh served as the Commissioner of the International Commission between the United States and Canada, overseeing

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compliance with environmental and water level treaties for the United States-Canadian border. From 1994 to 2004, Ms. Bayh also served as Distinguished Visiting Professor at the College of Business Administration at Butler University. From 1989 to 1994, Ms. Bayh served as an attorney in the Pharmaceutical Division of Eli Lilly and Company, a pharmaceutical company. Ms. Bayh serves as a director of Dyax Corporation, Dendreon Corporation, Natestch Pharmaceutical Company Inc., Wellpoint, Inc. and Emmis Communications Corporation. Ms. Bayh received a J.D. from the University of Southern California Law Center and a B.A. from the University of California at Berkeley.

**Martyn D. Greenacre**, age 65, has served on our board since February 2000 and was a director of Creative BioMolecules, Inc., a predecessor life science company, from June 1993 to July 2000. Mr. Greenacre has served as a director of Beijing Med-Pharm Corporation, a pharmaceutical marketing company, since February 2004 and as Chairman since July 2004. Mr. Greenacre has served as Chairman of Life Mist L.L.C., a privately-held company in the field of fire suppression, since September 2001. From June 1997 to June 2001, Mr. Greenacre was Chief Executive Officer of Delsys Pharmaceutical Corporation, a drug formulation company. From 1993 to 1997, Mr. Greenacre was President and Chief Executive Officer of Zynaxis, Inc., a biopharmaceutical company. Mr. Greenacre also serves as a director of Cephalon Inc., Acusphere, Inc. and The Immune Response Corporation. Mr. Greenacre received an M.B.A. from Harvard Business School and a B.A. from Harvard College.

**Kenneth I. Kaitin**, age 54, has served on our board since November 2003. Since 1998, Dr. Kaitin has been the Director of the Tufts Center for the Study of Drug Development, an academic drug policy research group providing strategic information to help drug developers, regulators, and policy makers improve the quality and efficiency of the drug development process. He is also Associate Professor of Medicine at the Tufts University School of Medicine, and since 1999, he has served on the faculty of the European Center for Pharmaceutical Medicine at the University of Basel. Dr. Kaitin has written extensively on a broad range of drug development issues and has provided public testimony before the U.S. Congress in hearings on pharmaceutical innovation and FDA reform. He is a former Editor-in-Chief of the Drug Information Journal and from 1997 to 1998 he was President of the Drug Information Association. Dr. Kaitin received an M.S. and Ph.D. in pharmacology from the University of Rochester and a B.S. from Cornell University.

## **Corporate Governance Guidelines**

Our board of directors believes that good corporate governance is important to ensure that Curis is managed for the long-term benefit of stockholders. This section describes key corporate governance guidelines and practices that our board of directors has adopted. Complete copies of our corporate governance guidelines, committee charters and code of conduct are available on the Investors Governance section of our website, [www.curis.com](http://www.curis.com). Alternatively, you can request a copy of any of these documents by writing to our Secretary.

Our board of directors has adopted corporate governance guidelines to assist in the exercise of its duties and responsibilities and to serve the best interests of Curis and our stockholders. These guidelines, which provide a framework for the conduct of the board of directors' business, provide that:

the board of directors' principal responsibility is to oversee the management of Curis;

a majority of the members of the board of directors shall be independent directors;

the independent directors meet regularly in executive session;

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directors have full and free access to management and, as necessary and appropriate, independent advisors;

all directors are encourage to participate in continuing director education on an ongoing basis; and

periodically, the board of directors and its committees will conduct a self-evaluation to determine whether they are functioning effectively.

### **Determination of Independence**

Under applicable Nasdaq rules, a director will only qualify as an independent director if, in the opinion of our board, that person does not have a relationship which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director.

Our board has determined that none of Ms. Bayh, Mr. Greenacre, Dr. Kaitin, Mr. McNab or Mr. Tobin has a relationship which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and that each of these directors is an independent director as defined under Rule 4200(a)(15) of the Nasdaq Stock Market, Inc. Marketplace Rules.

In determining the independence of the directors listed above, our board followed the process described in Policies and Procedures for Related Person Transactions.

### **Board Meetings and Attendance**

Our corporate governance guidelines provide that directors are expected to attend the annual meeting of stockholders. All directors attended the 2006 annual meeting of stockholders, except Dr. Melton. The board met six times during the fiscal year ended December 31, 2006, either in person or by teleconference. During the fiscal year ended December 31, 2006, all of our directors attended at least 75% of our board meetings and meetings of the committees on which he or she then served, except for Dr. Melton, who attended 33% of our board meetings.

### **Board Committees**

Our board has established three standing committees – audit, compensation, and nominating and corporate governance – each of which operates under a charter that has been approved by our board. Current copies of each committee’s charter are posted on our website, [www.curis.com](http://www.curis.com).

Our board has determined that all of the members of each of the board of directors’ three standing committees are independent as defined under the rules of the Nasdaq Stock Market, including, in the case of all members of the audit committee, the independence requirements contemplated by Rule 10A-3 under the Exchange Act.

#### *Audit Committee*

The audit committee’s responsibilities include:

appointing, approving the compensation of, and assessing the independence of our registered public accounting firm;

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pre-approving all audit and non-audit services of our registered public accounting firm, except for de minimis non-audit services which are approved in accordance with applicable SEC rules, including meeting with our registered public accounting firm prior to the annual audit to discuss the planning and staffing of the audit;

overseeing the work of our registered public accounting firm, including through the receipt and consideration of certain reports from such firm;

reviewing and discussing with management and the registered public accounting firm our annual and quarterly financial statements and related disclosures, earnings releases and other publicly disseminated financial information;

reviewing and discussing with our registered public accounting firm concerning the quality, not just the acceptability of our accounting determinations, particularly with respect to judgmental areas;

monitoring our internal control over financial reporting, disclosure controls and procedures and code of business conduct and ethics;

discussing our risk management policies;

establishing policies regarding hiring employees from the independent auditor and procedures for the receipt and retention of accounting related complaints and concerns;

meeting independently with our registered public accounting firm and management on a quarterly basis;

reviewing and approving or ratifying any related person transactions;

establishing, and periodically reviewing, complaint procedures for (i) the receipt, retention and treatment of complaints received by us regarding accounting, internal accounting controls or auditing matters; and (ii) the confidential, anonymous submission by our employees of concerns regarding questionable accounting or auditing matters; and

preparing the audit committee report required by SEC rules, which is included on page 12 of this proxy statement.

The members of the audit committee are Ms. Bayh, Mr. Greenacre and Mr. McNab. The audit committee met nine times during the fiscal year ended December 31, 2006. The board of directors has determined that Mr. Greenacre is an audit committee financial expert as defined by applicable SEC rules.

*Compensation Committee*

The compensation committee's responsibilities include:

determining the chief executive officer's compensation;

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reviewing and approving, or making recommendations to the board with respect to, the compensation of our other executive officers;

overseeing an evaluation of our senior executives;

overseeing and administering our cash and equity incentive plans;

reviewing and making recommendations to the board with respect to director compensation;

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reviewing and discussing annually with management our Compensation Discussion and Analysis, which is included beginning on page 14 of this proxy statement;

preparing the compensation committee report required by SEC rules, which is included on page 28 of this proxy statement; and

reviewing and making recommendations to the board with respect to management succession planning.

The processes and procedures followed by our compensation committee in considering and determining executive and director compensation are described below under the heading Executive and Director Compensation Processes.

The members of the compensation committee are Ms. Bayh, Dr. Kaitin and Mr. Tobin. The compensation committee met five times during the fiscal year ended December 31, 2006.

### *Nominating and Corporate Governance Committee*

The nominating and corporate governance committee's responsibilities include:

identifying individuals qualified to become board members;

recommending to the board the persons to be nominated for election as directors and to each of the board's committees; and

overseeing an annual evaluation of the board.

The processes and procedures followed by the nominating and corporate governance committee in identifying and evaluating director candidates are described below under the heading Director Nomination Process.

The members of the nominating and corporate governance committee are Ms. Bayh, Dr. Kaitin and Mr. Greenacre. The nominating and corporate governance committee met three times during the fiscal year ended December 31, 2006.

### **Executive and Director Compensation Process**

The compensation committee is charged with assisting the board of directors to oversee the discharge of its responsibilities relating to compensation of our executive officers. In addition, the compensation committee periodically reviews and makes recommendations to the board with respect to director compensation. The compensation committee may form and delegate authority to one or more subcommittees as it deems appropriate from time to time under the circumstances (including (a) a subcommittee consisting of a single member and (b) a subcommittee consisting of at least two members, each of whom qualifies as a non-employee director, as such term is defined from time to time in Rule 16b-3 promulgated under the Exchange Act, and an outside director, as such term is defined from time to time in Section 162(m) of the Internal Revenue Code of 1986, as amended). From January through mid-September 2006, our compensation committee delegated limited authority to grant stock options to our chief executive officer, as the sole member of the Stock Option Committee. The Stock Option Committee was authorized to grant options to purchase up to a maximum aggregate of 200,000 shares of our common stock to newly-hired or promoted employees at an exercise price equal to the last trade price of our common stock on the employee's first day of employment, or day of promotion, as the case may be. All grants by

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the Stock Option Committee vested over a period of four years, with 25% vesting on the first anniversary and 6.25% vesting each three-month anniversary thereafter. As of September 14, 2006, our board of directors amended the compensation committee's charter to provide that all stock option grants, including those granted to employees, new hires or promoted employees, would be approved by the compensation committee or by a majority of the independent directors serving on our board.

The compensation committee has the authority to retain and terminate any compensation consultant to be used to assist in the evaluation of executive officer compensation and has the sole authority to approve the consultant's fees and other retention terms. The compensation committee also has authority to commission compensation surveys or studies as the need arises. Periodically, the compensation committee retains an independent third party compensation consultant to review director and officer compensation. The compensation consultant generally conducts a benchmark review of the aggregate level of director and executive officer compensation, as well as the mix of elements used to compensate directors and executive officers. This review has historically been based on a survey of compensation paid by a subset of biotechnology companies in the Radford Compensation Survey and/or related proxy statement data consisting of 15-25 local biotechnology companies with comparable revenues, market capitalization and headcount. An independent third party was engaged by the compensation committee to perform the benchmarking analysis in June 2005 as part of a compensation review for executive officers and directors. The compensation committee expects to conduct a similar review and analysis in 2007.

Our chief executive officer makes recommendations concerning compensation for the other executive officers who report to him. Neither the chief executive officer nor other executive officers have any other input to executive or director compensation decisions.

## **Director Nomination Process**

The process followed by the nominating and corporate governance committee to identify and evaluate director candidates includes requests to board members and others for recommendations, meetings from time to time to evaluate biographical information and background material relating to potential candidates, and interviews of selected candidates by members of the nominating and corporate governance committee and the board.

In considering whether to recommend any particular candidate for inclusion in the board's slate of recommended director nominees, the nominating and corporate governance committee will apply the criteria set forth in its charter. These criteria include the candidate's integrity, business acumen, knowledge of our business and industry, experience, diligence, freedom from conflicts of interest and the ability to act in the interests of all stockholders. The committee does not assign specific weights to particular criteria and no particular criterion is a prerequisite for each prospective nominee. We believe that the backgrounds and qualifications of our directors, considered as a group, should provide a composite mix of experience, knowledge and abilities that will allow the board to fulfill its responsibilities.

Stockholders may recommend individuals to the nominating and corporate governance committee for consideration as potential director candidates by submitting candidate names, together with appropriate biographical information and background materials and a statement as to whether the stockholder or group of stockholders making the recommendation has beneficially owned more than 5% of our common stock for at least a year as of the date such recommendation is made, to the Nominating and Corporate Governance Committee, c/o Secretary, Curis, Inc., 45 Moulton Street, Cambridge, Massachusetts 02138. Assuming that appropriate biographical and background material has been provided on a timely basis, the committee will evaluate

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stockholder-recommended candidates by following substantially the same process, and applying substantially the same criteria, as it follows for candidates submitted by others. If the board determines to nominate a stockholder-recommended candidate and recommends his or her election, then his or her name will be included in our proxy card for the next annual meeting.

Stockholders also have the right under our bylaws to directly nominate director candidates, without any action or recommendation on the part of the committee or the board of directors, by following the procedures set forth under Stockholder Proposals for 2008 Annual Meeting.

### **Communicating with the Independent Directors**

The board will give appropriate attention to written communications that are submitted by stockholders, and will respond if and as appropriate. The chairman of the board of directors, with the assistance of our general counsel, is primarily responsible for monitoring communications from stockholders and for providing copies or summaries to the other directors as he or she considers appropriate.

Communications are forwarded to all directors if they relate to important substantive matters and include suggestions or comments that the chairman of the board considers to be important for the directors to know. In general, communications relating to corporate governance and corporate strategy are more likely to be forwarded than communications relating to ordinary business affairs, personal grievances and matters as to which we receive repetitive or duplicative communications.

Stockholders who wish to send communications on any topic to the board should address such communications to the Chairman of the Board of Directors, c/o Secretary, Curis, Inc., at 45 Moulton Street, Cambridge, Massachusetts 02138.

### **Code of Business Conduct and Ethics**

We have adopted a written code of business conduct and ethics that applies to our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions. We have posted a current copy of the code on our website, [www.curis.com](http://www.curis.com). In addition, we intend to post on our website all disclosures that are required by law or NASDAQ stock market listing standards concerning any amendments to, or waivers from, any provision of the code.

### **Policies and Procedures for Related Person Transactions**

All reportable transactions between related persons and us, other than in the ordinary course of business, are reviewed and approved by our audit committee on an ongoing basis. In addition, our officers and directors complete an annual questionnaire that requires each officer or director to disclose any transactions or series of similar transactions to which we were or will be a party, in which the amount involved exceeds \$120,000, and that they or their immediate family members, had or will have, a direct or indirect material interest.

Other than compensation and other arrangements described below under Compensation Discussion and Analysis, Employment Agreements, Indemnification of Executive Officers, Director Compensation, and Indemnification of Directors, during the fiscal year ended December 31, 2006, there was not, nor is there currently proposed, any transaction or series of similar transactions to which we were or will be a party in which the amount involved exceeds \$120,000, and that they or their immediate family members, had or will have, a direct or indirect material interest.



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### **Audit Committee Report**

The audit committee has reviewed our audited financial statements for the fiscal year ended December 31, 2006, and has discussed these financial statements with our management and our registered public accounting firm.

Our management is responsible for the preparation of our financial statements and for maintaining an adequate system of disclosure controls and procedures and internal control over financial reporting for that purpose. Our registered public accounting firm is responsible for conducting an independent audit of our annual financial statements in accordance with generally accepted auditing standards and issuing a report on the results of their audit. The audit committee is responsible for providing independent, objective oversight of these processes.

The audit committee has also received from, and discussed with, our registered public accounting firm various communications that our registered public accounting firm is required to provide to the audit committee, including the matters required to be discussed by the Statement on Auditing Standards No. 61, as amended (AICPA, Professional Standards, Vol. 1, AU section 380), as adopted by the Public Company Accounting Oversight Board in Rule 3200T. SAS 61, as amended, requires our registered public accounting firm to discuss with the audit committee, among other things, the following:

methods to account for significant unusual transactions;

the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus;

the process used by management in formulating particularly sensitive accounting estimates and the basis for the auditors' conclusions regarding the reasonableness of those estimates; and

disagreements with management over the application of accounting principles, the basis for management's accounting estimates and the disclosures in the financial statements.

The audit committee has received the written disclosures and the letter from our registered public accounting firm required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as adopted by the Public Company Accounting Oversight Board in Rule 3600T. The audit committee has discussed with the registered public accounting firm their independence from Curis.

Based on the review and discussions referred to above, the audit committee recommended to our board of directors that the audited financial statements be included in our Annual Report on Form 10-K for the year ended December 31, 2006.

Submitted by the audit committee of our board of directors.

Martyn D. Greenacre (Chair)

Susan B. Bayh

James R. McNab, Jr.

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**EXECUTIVE AND DIRECTOR COMPENSATION AND RELATED MATTERS**

**Compensation Discussion and Analysis**

**Objectives of Executive Officer Compensation Programs**

The primary goals of the compensation committee of our board of directors with respect to executive officer compensation are to attract and retain key executive officers critical to our long-term success, to recognize and reward individual performance and responsibility and to align executive officers' incentives with stockholder value creation. To achieve these goals, the compensation committee has implemented or intends to implement and maintain compensation plans under which a substantial portion of executive officers' overall compensation is based on our overall performance and the achievement of key strategic goals such as the development of a technology and product pipeline, the establishment and maintenance of key collaborations, and our financial performance. Currently, financial performance has focused on careful management of cash consumption; however, the achievement of long term objectives should result in increased market capitalization.

The compensation committee sets compensation at levels the committee believes are comparable with executive officers in other companies of similar size and stage of development operating in the biotechnology sector while taking into account our relative performance and our strategic goals.

Executive officers, other than the chief executive officer, participate in the same review and compensation process that applies to all company employees. Goals and objectives are established annually through a process that involves input by the executive officers and the chief executive officer. The chief executive officer evaluates the performance of each executive officer twice yearly against established goals and objectives. The chief executive officer provides compensation recommendations to the compensation committee based upon his rating of each executive officer.

The compensation committee evaluates the performance of the chief executive officer based upon its assessment of the chief executive officer's achievement of corporate objectives. The chief executive officer presents objectives that are modified as required by the changing business environment in the form of updates to the board of directors at the time of each board meeting and sometimes, more frequently as required. Examples of the types of objectives that are established at board meetings are the following: establish new collaborations for licensed technologies, increase new technology pipeline, budgetary management of research and development and administrative costs, improve cost and time efficiencies of research and development activities via strategic outsourcing initiatives, implement infrastructure improvements, manage current collaborations for licensed technologies and increase company visibility with current and prospective investors.

Compensation committee meetings typically have included, for all or a portion of each meeting, not only the committee members but also our chief financial officer and, at times, our chairman and our chief executive officer.

**Benchmarking and Targeted Compensation Levels**

Periodically, the compensation committee retains an independent third party compensation consultant to review our executive officer compensation. The compensation consultant conducts a benchmark review of the aggregate level of our executive officer compensation, as well as the mix of elements used to compensate our

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executive officers. This review has historically been based on a survey of executive officer compensation paid by a subset of biotechnology companies in the Radford Compensation Survey consisting of 15-25 local biotechnology companies with revenues, market capitalization and headcount that are comparable to Curis. We benchmark our executive officer compensation against the median compensation paid by this relevant subset. The last time the compensation committee engaged an independent third party to perform the benchmarking analysis was in June 2005 as part of an executive officer compensation review. The compensation committee expects to conduct a similar review and analysis in 2007.

### **Elements of Compensation**

Executive officer compensation consists of following elements:

#### *Cash Compensation*

In 2005, the compensation committee's compensation consultant reported that overall executive officer cash compensation was slightly below the median for the relevant subset of comparable companies.

#### *Base Salary*

Base salaries for our executive officers are established based on the scope of their responsibilities, taking into account competitive market compensation paid by other companies for similar positions. Generally, the compensation committee believes that executive officer base salaries should be targeted near the median of the range of salaries for executive officers in similar positions with similar responsibilities at comparable companies, in line with our compensation philosophy. Base salaries are reviewed annually, and adjusted from time to time to reflect promotions and to realign salaries with market levels after taking into account individual responsibilities, performance and experience.

#### *Discretionary Annual Bonus*

The compensation committee has the authority to award discretionary annual cash bonuses to our executive officers. Since our inception in 2000, with the exception of 2005, we have not paid discretionary annual cash bonuses to executive officers. The compensation committee has historically provided a greater portion of executive officer compensation in the form of long-term incentive compensation, particularly stock options, as discussed below. In determining the amount of bonuses, the compensation committee may evaluate a variety of factors including the following:

the job level of the executive officer;

amounts awarded by competitors to executive officers at comparable job levels;

achievement of financial and/or operational goals; and

individual annual performance objectives.

These objectives vary depending on the individual executive officer, but may relate generally to strategic factors such as development of new technology and product pipeline, including associated intellectual property rights and the establishment and maintenance of key collaborations, and to financial factors such as management of cash consumption and raising capital.

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### *Long-Term Incentive Program*

The compensation committee believes that long-term value creation is achieved through an ownership culture that encourages performance by our executive officers through the use of stock and stock-based awards. We have established our stock compensation plans to provide our employees, including our executive officers, with incentives to help align those employees' interests with the interests of our stockholders. The compensation committee believes that the use of stock-based awards offers the best approach to achieving our compensation goals. Stock options are performance based because all the value received by the recipient from a stock option is based on the growth of the stock price above the option price. We have not adopted stock ownership guidelines and our stock compensation plans have provided the principal method for our executive officers to acquire equity in our company.

In 2005, the compensation committee's compensation consultant reported that overall long-term incentive compensation for executive officers was at the 75th percentile of the relevant subset of comparable companies. This metric is consistent with our desire to emphasize equity opportunity, align executive officer and shareholder interests and manage cash compensation.

### *Equity Grant Practices*

The exercise price of each stock option or stock award granted to executive officers is generally based on the fair market value of our common stock on the date of grant. During 2006, no grants were made at less than fair market value. Stock option awards and grants to our executive officers typically occur at the time of our board of director and compensation committee meetings in connection with our annual meeting of stockholders. Additional awards of stock or options can occur at the time of other board of directors or compensation committee meetings in the event of executive officer promotion or other unusual circumstances that might require grants outside of the annual timeframe. Such meetings generally occur on a quarterly basis. Board and committee meetings are scheduled without regard to anticipated earnings or other major announcements by the company.

### *Stock Options*

Our 2000 stock incentive plan permits the grant of incentive and non-qualified stock options to our employees, directors and consultants. The compensation committee or a majority of the independent directors serving on the board of directors review and approve or recommend for approval by the board of directors, stock option grants to our chief executive officer and the other executive officers. Stock option grants are made at the commencement of employment and generally granted annually in conjunction with the review of the individual performance of our executive officers. Grants may also be made following a significant change in job responsibilities or to meet other special retention or performance objectives. The review and approval of stock option awards to executive officers is based upon a review of competitive compensation data, an assessment of individual performance, a review of each executive officer's existing long-term incentives and retention considerations. In appropriate circumstances, the compensation committee considers the recommendations of Mr. Passeri, our chief executive officer and Mr. McNab, the chairman of our board of directors. Stock options are granted with an exercise price equal to the fair market value of our common stock on the date of grant and typically vest 25% after the first year and an additional 6.25% in each subsequent quarter, based upon continued employment over a four-year period. The options generally expire ten years after the date of grant. Incentive stock options also include certain other terms necessary to assure compliance with the Internal Revenue Code of 1986, as amended. In certain circumstances, stock options have and may be granted with different vesting terms, such as shorter vesting period and performance-based vesting.

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### *Restricted Stock Awards*

Our 2000 stock incentive plan permits the issuance of restricted stock awards to our employees, directors and consultants. The compensation committee generally does not make grants of restricted stock awards to our executive officers, except that our chief executive officer has received a restricted stock award, as discussed below.

### *2000 Employee Stock Purchase Plan*

Executive officers are eligible to participate in our 2000 employee stock purchase plan. The plan permits participant employees to purchase company stock through payroll deductions of up to 15% of total cash compensation. The price of the stock is 85% of the lower of the fair market value of the stock at the beginning or the end of the offering period.

### *Other Compensation Employee Benefits*

Our employees, including our executive officers, are entitled to various employee benefits such as medical and dental expense coverage, flexible spending accounts, various insurance programs, employee assistance program and paid time off. Executive officers are eligible to participate in our 401(k) retirement plan. Matching contributions to the 401(k) plan are at the discretion of the board of directors.

### *Change-in-Control and Severance Payments*

Each of our executive officers is party to an agreement or offer letter that obligates us to make payments to such executive officer in the event we terminate the executive officer's employment without cause or the executive officer resigns for good reason. We believe that our severance program is aligned with other comparable local biotechnology companies and provides our executive with income protection in the event of an unplanned separation of employment. In addition, we are also obligated to make payments to each of our executive officers if he or she is terminated within twelve months after a change in control. This is a so-called "double trigger" change in control arrangement because it provides for severance benefits only in the event of a change in control, the first trigger, followed by an employment termination under specified circumstances, the second trigger. We have determined to provide for these change in control arrangements because we recognize that, as is the case with many publicly-held corporations, the possibility of a change in control of our company exists and such possibility, and the uncertainty and questions which it may raise among our executive officers, could result in the departure or distraction of executive officers to the detriment of our company and our stockholders. As a consequence, our compensation committee has determined to provide such change in control related benefits to reinforce and encourage the continued employment and dedication of our executive officers without distraction from the possibility of a change in control and related events and circumstances.

In addition to the benefits that are payable pursuant to our executive officers' agreements or offer letters, our 2000 stock incentive plan provides that all plan participants, including our executive officers, are entitled to accelerated vesting of stock options and/or restricted stock awards upon certain events. In the event that a change in control occurs, which is defined in the 2000 stock incentive plan as a merger by us with or into another company or if we sell all or substantially all of our assets, then 50% of the then unvested options of each plan participant, including executive officers, would become immediately exercisable and the restrictions underlying 50% of any restricted stock awards would lapse. In the event any executive officer leaves within one year after a change in control for good reason (as defined in the plan), then all remaining unvested stock options and restricted stock awards will become fully vested.

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For a further description of the foregoing arrangements, see Summary Compensation Table, Employment Agreements and Potential Payments Upon Termination or Change-in-Control.

**2006 Compensation Decisions**

In summary, the compensation committee made the following decisions regarding 2006 compensation for our executive officers:

*Base Salary*

In May 2006, the compensation committee adjusted base salaries for our executive officers. Mr. Passeri's salary was reduced 20% from \$375,000 to \$300,000 in consideration of (i) a May 31, 2006 stock option grant to purchase 90,000 shares of our common stock at an exercise price of \$1.57 per share, with full vesting on May 31, 2007 and (ii) a May 31, 2006 grant of 10,000 shares of restricted stock, with full vesting on May 31, 2007, with vesting of each award contingent upon continued employment. Mr. Passeri had requested that his salary be reduced and replaced with equity compensation. Had Mr. Passeri not made this request, the compensation committee would have likely increased Mr. Passeri's cash compensation from its then-current level of \$375,000 per annum. Mr. Gray's salary was increased 21.3% from \$235,000 to \$285,000, due to a promotion to Senior Vice President and to achievement of performance objectives. Mr. Noel's salary was increased 2.6% from \$195,000 to \$200,000 and Ms. Potthoff's salary was increased 5.3% from \$190,000 to \$200,000, both due to achievement of performance objectives.

*Discretionary Annual Bonus*

No discretionary cash bonuses were paid to executive officers for 2006.

*Long-Term Incentive Program**Stock Options*

In May 2006, the compensation committee granted the following stock options to our executive officers.

| Name                    | Number of Shares Underlying<br>Option Grants In 2006 | Percentage Increase Over<br>Prior Year Grants |
|-------------------------|--|---|
| Daniel R. Passeri       | 390,000  | 123%  |
| Michael P. Gray         | 200,000  | 167%  |
| Mary Elizabeth Potthoff | 100,000  | 100%  |
| Mark W. Noel            | 100,000  | 100%  |

The number of shares awarded to our executive officers increased substantially from 2005 to 2006 due to the compensation committee's objective of providing executive officers with meaningful long-term incentive awards to better align their interests with those of our shareholders. Many of the outstanding options held by our executive officers have exercise prices that are above the current market value of our common stock. The compensation committee, after giving due consideration to all relevant factors, including the decrease in the value of our common stock due to the termination of a Phase I clinical trial of our Genentech co-development cancer compound, decided to increase the number of shares of option grants to our executive officers. This decision was made to encourage the continued employment and dedication of our executive officers.

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The shares underlying the options granted to our chief executive officer include a May 31, 2006 stock option grant to purchase 90,000 shares of our common stock at an exercise price of \$1.57 per share, with full vesting on May 31, 2007. This option award was granted to our chief executive officer in partial exchange for a \$75,000 reduction in his cash compensation, which was requested by our chief executive officer.

Our compensation committee has not established guidelines for the grant of plan-based awards for 2007.

### *Restricted Stock Awards*

In May 2006, Mr. Passeri was granted a restricted stock grant in the amount of 10,000 shares at a purchase price of \$0.01 per share when the market value was \$1.57 per share. The award is subject to repurchase by us, which repurchase right lapses, or vests, with full vesting on May 31, 2007, contingent upon Mr. Passeri's continued employment.

### *2000 Employee Stock Purchase Plan*

In 2006, Mark Noel, an executive officer, participated in the 2000 employee stock purchase plan pursuant to which he purchased 2,104 and 2,889 shares of our common stock at prices of \$1.39 and \$1.04 per share, respectively.

## **Tax and Accounting Considerations**

We account for equity compensation paid to our employees under the rules of SFAS No. 123(R), which requires us to estimate and record an expense over the service period of the award. Accounting rules also require us to record cash compensation as an expense at the time the obligation is accrued. To date, these accounting requirements have not impacted our executive compensation programs and practices.

We currently have a history of operating losses and have significant net operating loss carryforwards that would have the effect of offsetting any future taxable gains, we generally do not consider the tax implication of our executive compensation programs to be meaningful to our operating or financial results. We currently intend that all cash compensation paid will be tax deductible for us. Any gain recognized by employees from nonqualified options should be deductible. To the extent that an option constitutes an incentive stock option, gain recognized by the optionee will not be deductible if there is no disqualifying disposition by the optionee. In addition, if we grant restricted stock or restricted stock awards that are not subject to vesting, they are not deductible by us until they are vested even if they are otherwise taxable to the employee. Section 162(m) of the Internal Revenue Code of 1986, as amended, generally disallows a tax deduction to public companies for certain compensation in excess of \$1 million paid to the chief executive officer and the four other most highly compensated executive officers. Certain compensation, including qualified performance-based compensation, will not be subject to the deduction limit if certain requirements are met. The compensation committee reviews the potential effect of Section 162(m) periodically and uses its judgment to authorize compensation payments that may be subject to the limit when the compensation committee believes such payments are appropriate and in the best interests of us and our stockholders, after taking into consideration changing business conditions and the performance of our employees.

**Table of Contents****SUMMARY COMPENSATION TABLE**

The following table sets forth information regarding compensation earned by each of our named executive officers for the fiscal year ending December 31, 2006.

| Name and Principal Position  | Year | Salary (\$) | Bonus (\$) | Stock Awards (\$) (1) | Option Awards (\$) (2) | All Other Compensation (\$) | Total (\$) |
|--|------|-------------|------------|-----------------------|------------------------|-----------------------------|------------|
| Daniel R. Passeri  | 2006 | 332,596     |            | 9,100                 | 694,813                | 8,800(3)                    | 1,045,309  |
| Chief Executive Officer  |      |             |            |                       |                        |                             |            |
| Michael P. Gray  | 2006 | 272,304     |            |                       | 393,391                | 8,800(3)                    | 674,495    |
| Chief Operating Officer and Chief Financial Officer                |      |             |            |                       |                        |                             |            |
| Mark W. Noel,  | 2006 | 197,827     |            |                       | 157,358                |                             | 355,185    |
| Vice President Technology Management and Business Development      |      |             |            |                       |                        |                             |            |
| Mary Elizabeth Potthoff  | 2006 | 195,654     |            |                       | 204,898                | 7,826(3)                    | 408,378    |
| Vice President and General Counsel                                 |      |             |            |                       |                        |                             |            |
| Lee L. Rubin,  | 2006 | 181,250(5)  |            |                       | 248,946(6)             | 25,284(7)                   | 455,480    |
| Senior Vice President of Research and Chief Scientific Officer (4) |      |             |            |                       |                        |                             |            |

- (1) The amount in this column reflects the dollar amount recognized for financial statement reporting purposes for fiscal 2006, in accordance with SFAS 123(R) of an award pursuant to our 2000 stock incentive plan of 10,000 shares of restricted stock at a purchase price of \$0.01 per share, on May 31, 2006, when the fair market value was \$1.57 per share and includes only that portion of the stock award that vested during 2006. Assumptions used in the calculation of this amount are included in footnote 2(l) to our audited financial statements for the fiscal year ended December 31, 2006 included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2007.
- (2) The amounts in this column reflect the dollar amounts recognized for financial statement reporting purposes for fiscal 2006, in accordance with SFAS 123(R) and other relevant guidance, for awards pursuant to our 2000 stock incentive plan, and thus include amounts with respect to awards granted in and prior to fiscal 2006. Accordingly, the amounts in this column do not reflect the total value of the awards that were granted during 2006. We used the modified prospective transition method prescribed by SFAS 123(R) for 2006 awards and prior year awards. Assumptions used in the calculation of these amounts are included in footnote 2(l) to our audited financial statements for the fiscal year ended December 31, 2006 included in the our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2007.
- (3) Consists of 401(k) contributions made by us.
- (4) Dr. Rubin ceased to serve as our senior vice president of research and chief scientific officer in July 2006. On September 13, 2006, we entered into a consulting agreement with Dr. Rubin pursuant to which he agreed to provide periodic consulting services on ongoing company programs. The term of the agreement is for a period of three years, however, either Dr. Rubin or we may terminate the agreement with 30 days prior written notice to the other party. We agreed to pay Dr. Rubin \$1,200 per day for each day of consulting work, or \$150 per hour for partial days, not to exceed an aggregate of \$40,000 for the term of the agreement.



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- In addition, on September 13, 2006, in connection with the agreement, we granted to Dr. Rubin a stock option, under the 2000 stock incentive plan, to purchase 250,000 shares of common stock at an exercise price equal to \$1.57 per share. The vesting of the stock option is subject to our achievement of specified performance objectives and is contingent upon Dr. Rubin's continued service as a consultant.
- (5) Consists of Dr. Rubin's salary through his resignation date of July 14, 2006.
- (6) \$187,628 of this amount relates to compensation expense recognized on vested employee options issued to Dr. Rubin, net of forfeitures on unvested awards of \$131,504 as calculated under SFAS 123(R). The remaining \$61,318 relates to the vesting of 50,000 shares of options issued to Dr. Rubin after his departure in July 2006 in consideration for his services as a consultant as calculated under SFAS 123(R) and related guidance. The vesting of this option is subject to our achievement of specified performance objectives; therefore, vesting is not guaranteed. Assumptions used in the calculation of these amounts are included in footnote 2(1) to our audited financial statements for the fiscal year ended December 31, 2006 included in the our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 2, 2007.
- (7) Consists of payments made by us to Dr. Rubin after his departure in July 2006 in consideration for his services as a consultant in the amount of \$3,713 as well as accrued vacation in the amount of \$21,571.

**GRANTS OF PLAN-BASED AWARDS**

The following table sets forth information regarding awards under our 2000 stock incentive plan to our named executive officers in fiscal 2006.

| Name                    | Grant Date | Estimated Future Payouts Under Equity Incentive Plan Awards |            |             | All Other Stock Awards: Number of Shares or Units (#) (1) | All Other Option Awards: Number of Securities Underlying Options (#) (2) | Exercise Price of Base Option Awards (\$/Sh) | Market Price of the Underlying Security on the Grant Date (\$/sh) | Grant Date Fair Value of Stock and Option Awards (4) |
|-------------------------|------------|---|------------|-------------|---|--|--|---|--|
|                         |            | Threshold (#)   | Target (#) | Maximum (#) |   |  |  |   |  |
| Daniel R. Passeri       | 5/31/06    |   |            |             | 10,000  |  | \$ 0.01                                      | \$ 1.57   | \$ 15,600  |
|                         | 5/31/06    |   |            |             |   |  | 1.57   | 1.57  | 499,584  |
| Michael P. Gray         | 5/31/06    |   |            |             |   |  | 1.57   | 1.57  | 258,620  |
| Mark W. Noel            | 5/31/06    |   |            |             |   |  | 1.57   | 1.57  | 129,310  |
| Mary Elizabeth Potthoff | 5/31/06    |   |            |             |   |  | 1.57   | 1.57  | 129,310  |
| Lee L. Rubin (5)        | 9/13/06    | 50,000  | 250,000    | 250,000     |   |  | 1.57   | 1.57  |  |

- (1) Mr. Passeri's restricted stock award is subject to repurchase by us, which repurchase right lapses, or vests, with full vesting on May 31, 2007, contingent upon his continued employment on such date.
- (2) On May 31, 2006, the compensation committee granted each of our executive officers, with the exception of Dr. Rubin, a stock option to purchase the specified shares of common stock set forth in the above table. Such stock options will vest over a period of four years with 25% of the stock options vesting on May 31, 2007 and an additional 6.25% each successive three-month period until the option is fully vested on the fourth anniversary of the grant date, subject to the continued employment of the executive officer. All stock options will expire 10 years from date of grant. Under the terms of the 2000 stock incentive plan, a change in control occurs in the event we merge with or into another company or we sell all or substantially all of our assets. At the time of a change in control, 50% of the then unvested options held by each plan participant, including executive officers, would become immediately exercisable and the restrictions on restricted stock awards would lapse with respect to 50% of the number of shares that otherwise would have

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- first become free from restrictions after the date of the change in control. In addition, under the terms of the 2000 stock incentive plan, in the event an executive officer terminates his or her employment for good reason (as defined in the plan) within one year after a change in control, then all options and restricted stock held by the executive officer would become fully vested upon such termination.
- (3) Consists of an option to purchase 90,000 shares, which will vest fully on May 31, 2007; and an option to purchase 300,000 shares, which will vest with respect to 25% of the shares on May 31, 2007 and with respect to 6.25% of the shares during each successive three-month period until the option is fully vested on the fourth anniversary of the grant date.
- (4) The amounts shown in this column represent the total grant date fair value of each stock and option award as determined in accordance with SFAS 123(R).
- (5) On September 13, 2006, in connection with a consulting agreement, we granted to Dr. Rubin a stock option, under the 2000 stock incentive plan, to purchase 250,000 shares of common stock at an exercise price equal to \$1.57 per share. Options granted to Dr. Rubin in consideration for his services as a consultant are outside the scope of SFAS 123(R). The vesting of the stock options is subject to our achievement of specified performance objectives and is contingent upon Dr. Rubin's continued service as a consultant. The stock options will vest immediately upon achievement of specified performance objectives, and in accordance with the other terms and conditions of the stock option agreement evidencing such awards. On October 2, 2006, 50,000 shares vested upon Genentech's filing of an Investigational New Drug Application for the first Hedgehog antagonist solid tumor product candidate under collaboration with Genentech pursuant to the Collaborative Research, Development and License Agreement dated June 11, 2003, as amended. The following specified performance objectives have not been achieved, as of April 13, 2007:

50,000 shares shall vest upon the receipt by Curis of the milestone payment for the achievement of the First Agreement Compound designated by Wyeth as a Clinical Development Candidate pursuant to the Amended and Restated Collaboration, Research and License Agreement dated April 29, 2005;

100,000 shares shall vest upon receipt by Curis of the milestone payment for the achievement of the First Dosing of an Agreement Compound in a Human Patient pursuant to the Amended and Restated Collaboration, Research and License Agreement dated April 29, 2005; and

50,000 shares shall vest upon Curis' receipt of written notice from Genentech electing to extend the Research Term for an additional year to continue collaborative research activities with respect to the field of oncology or non-oncology, subject to Genentech funding at least four (4) FTEs in accordance with Section 3.1(b), pursuant to the Drug Discovery Collaboration Agreement dated April 1, 2005.

We have entered into employment and indemnification agreements with certain of our named executive officers, as described below under Employment Agreements and Indemnification Agreements.

Our named executive officers did not receive bonus payments for fiscal 2006. Base salary accounted for approximately 42.2% of the total compensation of the named executive officers for fiscal 2006.

**Table of Contents****Outstanding Equity Awards At Fiscal Year-End**

The following table summarizes the outstanding equity awards held by our named executive officers as of December 31, 2006.

| Name                    | Option Awards   |   |   |                            |                        | Stock Awards  |  | Equity Incentive Plan Awards: Market Value or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) |
|-------------------------|---|---|---|----------------------------|------------------------|---|--|--|
|                         | Number of Securities Underlying Unexercised Options (#) | Number of Securities Underlying Unexercised Options (#) | Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Options (#) | Option Exercise Price (\$) | Option Expiration Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested (\$) |  |
| Daniel R. Passeri       |   | 390,000   |   | \$ 1.57                    | 5/31/2016              | 10,000  | \$ 12,600  |  |
|                         | 65,625  | 109,375   |   | \$ 3.98                    | 6/01/2015              |   |  |  |
|                         | 109,375   | 65,625  |   | \$ 4.56                    | 6/25/2014              |   |  |  |
|                         | 393,750   | 56,250  |   | \$ 2.43                    | 5/13/2013              |   |  |  |
|                         | 96,250  |   |   | \$ 1.09                    | 9/25/2012              |   |  |  |
|                         | 20,150  |   | 75,000(2)   | \$ 1.50                    | 6/05/2012              |   |  |  |
|                         | 400,000   |   |   | \$ 3.85                    | 9/19/2011              |   |  |  |
|                         | 125,000   |   |   | \$ 3.13                    | 4/03/2011              |   |  |  |
|                         | 200,000   |   |   | \$ 10.65                   | 11/20/2010             |   |  |  |
| Total                   | 1,410,150   | 621,250   | 75,000  |                            |                        | 10,000  | \$ 12,600  |  |
| Michael P. Gray         |   | 200,000   |   | \$ 1.57                    | 5/31/2016              |   |  |  |
|                         | 28,125  | 46,875  |   | \$ 3.98                    | 6/01/2015              |   |  |  |
|                         | 46,875  | 28,125  |   | \$ 4.56                    | 6/25/2014              |   |  |  |
|                         | 120,000   | 40,000  |   | \$ 4.95                    | 12/11/2013             |   |  |  |
|                         | 43,750  | 6,250   |   | \$ 2.43                    | 5/13/2013              |   |  |  |
|                         | 33,750  |   |   | \$ 1.09                    | 9/25/2012              |   |  |  |
|                         | 24,094  |   | 18,750(2)   | \$ 1.50                    | 6/05/2012              |   |  |  |
|                         | 10,000  |   |   | \$ 4.72                    | 7/02/2011              |   |  |  |
|                         | 21,500  |   |   | \$ 3.13                    | 4/03/2011              |   |  |  |
|                         | 30,000  |   |   | \$ 14.50                   | 8/18/2010              |   |  |  |
|                         | 570   |   |   | \$ 5.26                    | 3/01/2009              |   |  |  |
|                         | 285   |   |   | \$ 5.26                    | 7/01/2008              |   |  |  |
|                         | 951   |   |   | \$ 5.26                    | 1/26/2008              |   |  |  |
| Total                   | 359,900   | 321,250   | 18,750  |                            |                        |   |  |  |
| Mark W. Noel            |   | 100,000   |   | \$ 1.57                    | 5/31/2016              |   |  |  |
|                         | 18,750  | 31,250  |   | \$ 3.98                    | 6/01/2015              |   |  |  |
|                         | 31,250  | 18,750  |   | \$ 4.56                    | 6/25/2014              |   |  |  |
|                         | 61,250  | 8,750   |   | \$ 2.43                    | 5/13/2013              |   |  |  |
|                         | 48,000  |   |   | \$ 1.09                    | 9/25/2012              |   |  |  |
|                         | 55,350  |   | 18,750(2)   | \$ 1.50                    | 6/05/2012              |   |  |  |
|                         | 60,000  |   |   | \$ 4.38                    | 3/12/2011              |   |  |  |
| Total                   | 274,600   | 158,750   | 18,750  |                            |                        |   |  |  |
| Mary Elizabeth Potthoff |   | 100,000   |   | \$ 1.57                    | 5/31/2016              |   |  |  |
|                         | 18,750  | 31,250  |   | \$ 3.98                    | 6/01/2015              |   |  |  |

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|                  |         |         |         |           |
|------------------|---------|---------|---------|-----------|
|                  | 31,250  | 18,750  | \$ 4.56 | 6/25/2014 |
|                  | 62,500  | 15,625  | \$ 2.43 | 5/13/2013 |
| Total            | 43,750  |         | \$ 0.80 | 9/03/2012 |
|                  | 156,250 | 165,625 |         |           |
| Lee L. Rubin (3) | 50,000  | 200,000 | \$ 1.57 | 9/13/2016 |

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- (1) With the exception of 90,000 shares of the 390,000 shares granted to Mr. Passeri, these stock options will vest over a period of four years with 25% of the stock options vesting the first anniversary of the grant date and an additional 6.25% of the shares during each successive three-month period until the option is fully vested on the fourth anniversary of the grant date, subject to the continued employment of the executive officer. All stock options will expire 10 years from date of grant. The grant date for each option is 10 years prior to the expiration date. If an option has an expiration date of May 31, 2016 then the grant date is May 31, 2006. 25% of such options would vest on the first anniversary of the grant date or May 31, 2007. Additional vesting would continue every three months thereafter at 6.25% until fully vested on the fourth anniversary of the grant date or May 31, 2010. Mr. Passeri's 90,000 shares will vest fully on May 31, 2007.
- (2) These options will become fully exercisable on the earlier of November 6, 2007 or when the company's aggregate market capitalization is in excess of \$300 million for ten consecutive trading days.
- (3) Comprised of an option to purchase 250,000 shares of common stock granted to Dr. Rubin after his resignation in July 2006 in consideration for his services as a consultant, which option had vested with respect to 50,000 shares on October 2, 2006. The vesting of this option is subject to our achievement of certain performance objectives; therefore, vesting is not guaranteed. Dr. Rubin's vested options pertaining to his employment at Curis as Chief Scientific Officer that were not exercised within 90 days of his termination date were forfeited.

**OPTION EXERCISES AND STOCK VESTED**

The following table summarizes, for each of our named executive officers, each exercise of stock options and vesting of restricted stock during 2006.

|   | Option Awards                             |                                 | Stock Awards                             |                                |           |            |           |             |           |          |
|---|---|---------------------------------|--|--------------------------------|-----------|------------|-----------|-------------|-----------|----------|
|   | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise (\$) | Number of Shares Acquired on Vesting (#) | Value Realized on Vesting (\$) |           |            |           |             |           |          |
|   | —   | —                               | —  | —                              | 1,362     | 1,235      | —         | 2,597       | —         |          |
| g | 934,728                                   | 9                               | —  | 20,835                         | —         | —          | (20,844)  | —           | —         |          |
| s | 89,153,780                                | \$891                           | \$—                                      | \$                             | 1,710,979 | \$(44,955) | \$(1,081) | \$1,800,578 | \$262,625 | \$3,729  |
|   | —   | —                               | —  | —                              | —         | —          | —         | 103         | 103       |          |
|   | —   | —                               | —  | —                              | —         | —          | —         | (326)       | (326)     |          |
|   | —   | —                               | —  | —                              | —         | —          | —         | —           | —         |          |
|   | 156,697                                   | 2                               | —  | —                              | —         | —          | —         | —           | 2         |          |
| l | (68,294)                                  | (1)                             | —  | (1,682)                        | —         | —          | —         | —           | —         | (1,683)  |
|   | —   | —                               | —  | (18,535)                       | —         | —          | (11,267)  | —           | —         | (29,802) |
| f | —   | —                               | —  | 3,168                          | —         | —          | 256       | —           | 3,424     |          |
|   | —   | —                               | —  | —                              | 2,450     | —          | 1,422     | 1,945       | 5,817     |          |

|            |       |     |    |           |            |            |             |           |         |
|------------|-------|-----|----|-----------|------------|------------|-------------|-----------|---------|
| —          | —     | —   | —  | (9,487)   | (5,988)    | —          | (15,475)    |           |         |
| 89,242,183 | \$892 | \$— | \$ | 1,693,930 | \$(42,505) | \$(10,568) | \$1,785,001 | \$264,347 | \$3,691 |

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)

|   | Three Months<br>Ended<br>March 31, |            |
|---|------------------------------------|------------|
|   | 2016                               | 2015       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                                    |            |
| Net income  | \$5,976                            | \$24,574   |
| Adjustments to reconcile net income to net cash provided by operating activities:   |                                    |            |
| Depreciation and amortization   | 68,368                             | 17,158     |
| Amortization of deferred financing costs and loan premium, net                      | 871                                | 508        |
| Amortization of stock-based compensation  | 3,342                              | 2,149      |
| Straight-line rents   | (5,658 )                           | (3,464 )   |
| Straight-line expenses  | 529                                | —          |
| Amortization of above- and below-market leases, net                                 | (4,851 )                           | (1,444 )   |
| Amortization of above- and below-market ground lease, net                           | 535                                | 62         |
| Amortization of lease incentive costs   | 328                                | 138        |
| Bad debt expense (recovery)   | 537                                | (44 )      |
| Amortization of discount and net origination fees on purchased and originated loans | (104 )                             | (104 )     |
| Unrealized loss on ineffective portion of derivative instruments                    | 2,125                              | —          |
| Gain from sale of real estate   | (6,352 )                           | (22,691 )  |
| Change in operating assets and liabilities:   |                                    |            |
| Restricted cash   | (2,001 )                           | 177        |
| Accounts receivable   | 4,412                              | 2,960      |
| Deferred leasing costs and lease intangibles  | (5,420 )                           | (1,900 )   |
| Prepaid expenses and other assets   | (935 )                             | (5,535 )   |
| Accounts payable and accrued liabilities  | 3,084                              | 13,445     |
| Security deposits   | 430                                | (404 )     |
| Prepaid rent  | (6,319 )                           | 1,540      |
| Net cash provided by operating activities   | 58,897                             | 27,125     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                                    |            |
| Additions to investment property  | (54,415 )                          | (30,635 )  |
| Proceeds from sale of real estate   | 212,629                            | 88,316     |
| Deposits for property acquisitions  | —                                  | (261,648 ) |
| Net cash provided by (used for) investing activities                                | 158,214                            | (203,967 ) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                                    |            |
| Proceed from notes payable  | 30,000                             | 319        |
| Payments of notes payable   | (210,906)                          | (173,200 ) |
| Proceeds from issuance of common stock  | —                                  | 385,572    |
| Common stock issuance transaction costs   | —                                  | (5,050 )   |
| Dividends paid to common stock and unitholders                                      | (29,802 )                          | (10,287 )  |
| Dividends paid to preferred stock and unitholders                                   | (159 )                             | (3,195 )   |
| Contributions by members  | 103                                | 219,150    |
| Distribution to non-controlling member in consolidated real estate entities         | (326 )                             | (933 )     |
| Payment to satisfy minimum tax withholding  | (1,683 )                           | (1,750 )   |
| Payments of loan costs  | (522 )                             | (3,647 )   |
| Net cash (used for) provided by financing activities                                | (213,295)                          | 406,979    |
| Net increase in cash and cash equivalents   | 3,816                              | 230,137    |

|   |          |           |
|---|----------|-----------|
| Cash and cash equivalents—beginning of period | 53,551   | 17,753    |
| Cash and cash equivalents—end of period       | \$57,367 | \$247,890 |

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—(Continued)  
 (Unaudited, in thousands)

|   | Three Months<br>Ended<br>March 31, |           |
|---|------------------------------------|-----------|
|   | 2016                               | 2015      |
| SUPPLEMENTAL CASH FLOWS INFORMATION:                                |                                    |           |
| Cash paid for interest, net of amounts capitalized                  | \$12,101                           | \$7,095   |
| NON-CASH INVESTING ACTIVITIES:                                      |                                    |           |
| Accounts payable and accrued liabilities for investment in property | \$6,868                            | \$(7,850) |

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)

|   | March 31,<br>2016<br>(unaudited) | December 31,<br>2015 |
|---|----------------------------------|----------------------|
| <b>ASSETS</b>   |                                  |                      |
| <b>REAL ESTATE ASSETS</b>   |                                  |                      |
| Land  | \$ 1,274,600                     | \$ 1,274,600         |
| Building and improvements   | 4,008,819                        | 3,956,638            |
| Tenant improvements   | 297,255                          | 293,130              |
| Furniture and fixtures  | 4,397                            | 9,586                |
| Property under development  | 203,387                          | 218,438              |
| Total real estate held for investment   | 5,788,458                        | 5,752,392            |
| Accumulated depreciation and amortization   | (302,835 )                       | (269,074 )           |
| Investment in real estate, net  | 5,485,623                        | 5,483,318            |
| Cash and cash equivalents   | 57,367                           | 53,551               |
| Restricted cash   | 20,011                           | 18,010               |
| Accounts receivable, net  | 16,600                           | 21,159               |
| Notes receivable, net   | 28,788                           | 28,684               |
| Straight-line rent receivables, net   | 65,294                           | 59,636               |
| Deferred leasing costs and lease intangible assets, net   | 311,846                          | 318,030              |
| Derivative assets   | —                                | 2,061                |
| Goodwill  | 8,754                            | 8,754                |
| Prepaid expenses and other assets, net  | 27,401                           | 27,292               |
| Assets associated with real estate held for sale  | 17,435                           | 233,539              |
| <b>TOTAL ASSETS</b>   | <b>\$6,039,119</b>               | <b>\$ 6,254,034</b>  |
| <b>LIABILITIES</b>  |                                  |                      |
| Notes payable, net  | \$2,080,005                      | \$ 2,260,716         |
| Accounts payable and accrued liabilities  | 97,964                           | 84,304               |
| Lease intangible liabilities, net   | 86,614                           | 95,208               |
| Security deposits   | 22,364                           | 21,302               |
| Prepaid rent  | 32,972                           | 38,245               |
| Derivative liabilities  | 17,664                           | 2,010                |
| Liabilities associated with real estate held for sale   | 262                              | 13,036               |
| <b>TOTAL LIABILITIES</b>  | <b>2,337,845</b>                 | <b>2,514,821</b>     |
| 6.25% series A cumulative redeemable preferred units of the operating partnership                                       | 10,177                           | 10,177               |
| <b>CAPITAL</b>  |                                  |                      |
| Partners' capital:  |                                  |                      |
| Common units, 145,538,498 and 145,450,095 issued and outstanding at March 31, 2016 and December 31, 2015, respectively. | 3,426,750                        | 3,466,412            |
| Non-controlling interest—members in Consolidated Entities   | 264,347                          | 262,625              |
| <b>TOTAL CAPITAL</b>  | <b>3,691,097</b>                 | <b>3,729,037</b>     |
| <b>TOTAL LIABILITIES AND CAPITAL</b>  | <b>\$6,039,119</b>               | <b>\$ 6,254,035</b>  |

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



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

|  | Three Months Ended |           |
|--|--------------------|-----------|
|  | March 31,          |           |
|  | 2016               | 2015      |
| Revenues   |                    |           |
| Office   |                    |           |
| Rental   | \$ 116,227         | \$ 41,576 |
| Tenant recoveries  | 20,533             | 6,064     |
| Parking and other  | 5,532              | 5,295     |
| Total office revenues  | 142,292            | 52,935    |
| Media & Entertainment  |                    |           |
| Rental   | 6,028              | 5,467     |
| Tenant recoveries  | 199                | 240       |
| Other property-related revenue   | 4,969              | 4,109     |
| Other  | 49                 | 73        |
| Total Media & Entertainment revenues   | 11,245             | 9,889     |
| Total revenues   | 153,537            | 62,824    |
| Operating expenses   |                    |           |
| Office operating expenses  | 47,703             | 17,135    |
| Media & Entertainment operating expenses   | 5,952              | 6,005     |
| General and administrative   | 12,503             | 9,200     |
| Depreciation and amortization  | 68,368             | 17,158    |
| Total operating expenses   | 134,526            | 49,498    |
| Income from operations   | 19,011             | 13,326    |
| Other expense (income)   |                    |           |
| Interest expense   | 17,251             | 5,493     |
| Interest income  | (13 )              | (53 )     |
| Unrealized loss on ineffective portion of derivative instruments                         | 2,125              | —         |
| Acquisition-related expenses   | —                  | 6,044     |
| Other expense (income)   | 24                 | (41 )     |
| Total other expenses   | 19,387             | 11,443    |
| (Loss) income before gain on sale of real estate   | (376 )             | 1,883     |
| Gain on sale of real estate  | 6,352              | 22,691    |
| Net income   | 5,976              | 24,574    |
| Net income attributable to non-controlling interest in consolidated real estate entities | (1,945 )           | (1,502 )  |
|  | 4,031              | 23,072    |

|   |             |       |            |        |
|---|-------------|-------|------------|--------|
| Net income (loss)<br>attributable to Hudson<br>Pacific Properties, L.P. |             |       |            |        |
| Preferred<br>distributions—Series A units                               | (159)       | )     | (159)      | )      |
| Preferred<br>distributions—Series B units                               | —           |       | (3,036)    | )      |
| Total preferred<br>distributions  | (159)       | )     | (3,195)    | )      |
| Net income attributable to<br>restricted shares                         | (197)       | )     | (70)       | )      |
| Net income available to<br>common unitholders                           | \$          | 3,675 | \$         | 19,807 |
| Basic and diluted per unit<br>amounts:                                  |             |       |            |        |
| Net income attributable to<br>common unitholders per<br>unit—basic      | \$          | 0.03  | \$         | 0.25   |
| Net income attributable to<br>common unitholders per<br>unit—diluted    | \$          | 0.03  | \$         | 0.25   |
| Weighted average shares of<br>common units<br>outstanding—basic         | 145,487,118 |       | 79,165,914 |        |
| Weighted average shares of<br>common units<br>outstanding—diluted       | 145,894,118 |       | 79,712,914 |        |
| Dividends declared per unit   | \$          | 0.200 | \$         | 0.125  |

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 (LOSS) INCOME  
 (Unaudited, in thousands)

|  | Three Months<br>Ended<br>March 31, |          |
|--|------------------------------------|----------|
|  | 2016                               | 2015     |
| Net income   | \$5,976                            | \$24,574 |
| Other comprehensive (loss) cash flow hedge adjustment  | (15,475 )                          | (625 )   |
| Comprehensive (loss) income  | (9,499 )                           | 23,949   |
| Comprehensive income attributable to Series A preferred units                                      | (159 )                             | (159 )   |
| Comprehensive income attributable to Series B preferred units                                      | —                                  | (3,036 ) |
| Comprehensive income attributable to restricted shares   | (197 )                             | (70 )    |
| Comprehensive income attributable to non-controlling interest in consolidated real estate entities | (1,945 )                           | (1,502 ) |
| Comprehensive (loss) income attributable to Hudson Pacific Properties, L.P. unitholders            | \$(11,800)                         | \$19,182 |

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)

|   | Partners' Capital  |                              |                 |                            |  |                  |  |
|---|--------------------|------------------------------|-----------------|----------------------------|--|------------------|--|
|   | Preferred<br>Units | Number of<br>Common<br>Units | Common<br>Units | Total<br>Partners' Capital | Non-controlling<br>Interests —<br>Members in<br>Consolidated<br>Entities | Total<br>Capital | Non-<br>controlling<br>Interests —<br>Series A<br>Cumulative<br>Redeemable<br>Preferred<br>Units |
| Balance at January 1, 2015  | \$145,000          | 69,180,379                   | \$1,087,025     | \$1,232,025                | \$42,990   | \$1,275,015      | \$10,177   |
| Contributions   | —                  | —                            | —               | —                          | 217,795  | 217,795          | —  |
| Distributions   | —                  | —                            | —               | —                          | (2,013)  | (2,013)          | —  |
| Proceeds from sale of<br>common units, net of<br>underwriters' discount | —                  | 12,650,000                   | 385,589         | 385,589                    | —  | 385,589          | —  |
| Equity offering transaction<br>costs                                    | —                  | —                            | (4,969)         | (4,969)                    | —  | (4,969)          | —  |
| Redemption of Series B<br>Preferred Stock                               | (145,000)          | —                            | —               | (145,000)                  | —  | (145,000)        | —  |
| Issuance of unrestricted<br>units                                       | —                  | 63,668,962                   | 2,100,381       | 2,100,381                  | —  | 2,100,381        | —  |
| Issuance of restricted units  | —                  | 36,223                       | —               | —                          | —  | —                | —  |
| Units withheld to satisfy<br>minimum tax withholding                    | —                  | (85,469)                     | (5,128)         | (5,128)                    | —  | (5,128)          | —  |
| Declared distributions  | (11,469)           | —                            | (75,875)        | (87,344)                   | —  | (87,344)         | (636)  |
| Amortization of unit-based<br>compensation                              | —                  | —                            | 8,832           | 8,832                      | —  | 8,832            | —  |
| Net income  | 11,469             | —                            | (32,040)        | (20,571)                   | 3,853  | (16,718)         | 636  |
| Cash Flow Hedge<br>Adjustment   | —                  | —                            | 2,597           | 2,597                      | —  | 2,597            | —  |
| Balance at December 31,<br>2015   | \$—                | 145,450,095                  | \$3,466,412     | \$3,466,412                | \$262,625  | \$3,729,037      | \$10,177   |
| Contributions   | —                  | —                            | —               | —                          | 103  | 103              | —  |
| Distributions   | —                  | —                            | —               | —                          | (326)  | (326)            | —  |
| Equity offering transaction<br>costs                                    | —                  | —                            | —               | —                          | —  | —                | —  |
| Issuance of unrestricted<br>units                                       | —                  | 156,697                      | 2               | 2                          | —  | 2                | —  |
| Units withheld to satisfy<br>minimum tax withholding                    | —                  | (68,294)                     | (1,683)         | (1,683)                    | —  | (1,683)          | —  |
| Declared distributions  | —                  | —                            | (29,802)        | (29,802)                   | —  | (29,802)         | (159)  |
| Amortization of unit-based<br>compensation                              | —                  | —                            | 3,424           | 3,424                      | —  | 3,424            | —  |
| Net income  | —                  | —                            | 3,872           | 3,872                      | 1,945  | 5,817            | 159  |
| Cash Flow Hedge<br>Adjustment   | —                  | —                            | (15,475)        | (15,475)                   | —  | (15,475)         | —  |

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Balance at March 31, 2016 \$— 145,538,498 \$3,426,750 \$ 3,426,750 \$ 264,347 \$3,691,097 \$ 10,177

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)

|   | Three Months<br>Ended<br>March 31, |            |
|---|------------------------------------|------------|
|   | 2016                               | 2015       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                                    |            |
| Net income  | \$5,976                            | \$24,574   |
| Adjustments to reconcile net income to net cash provided by operating activities:   |                                    |            |
| Depreciation and amortization   | 68,368                             | 17,158     |
| Amortization of deferred financing costs and loan premium, net                      | 871                                | 508        |
| Amortization of stock-based compensation  | 3,342                              | 2,149      |
| Straight-line rents   | (5,658 )                           | (3,464 )   |
| Straight-line expenses  | 529                                | —          |
| Amortization of above- and below-market leases, net                                 | (4,851 )                           | (1,444 )   |
| Amortization of above- and below-market ground lease, net                           | 535                                | 62         |
| Amortization of lease incentive costs   | 328                                | 138        |
| Bad debt expense (recovery)   | 537                                | (44 )      |
| Amortization of discount and net origination fees on purchased and originated loans | (104 )                             | (104 )     |
| Unrealized loss on ineffective portion of derivative instruments                    | 2,125                              | —          |
| Gain from sale of real estate   | (6,352 )                           | (22,691 )  |
| Change in operating assets and liabilities:   |                                    |            |
| Restricted cash   | (2,001 )                           | 177        |
| Accounts receivable   | 4,412                              | 2,960      |
| Deferred leasing costs and lease intangibles  | (5,420 )                           | (1,900 )   |
| Prepaid expenses and other assets   | (935 )                             | (5,535 )   |
| Accounts payable and accrued liabilities  | 3,084                              | 13,445     |
| Security deposits   | 430                                | (404 )     |
| Prepaid rent  | (6,319 )                           | 1,540      |
| Net cash provided by operating activities   | 58,897                             | 27,125     |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                                    |            |
| Additions to investment property  | (54,415 )                          | (30,635 )  |
| Proceeds from sale of real estate   | 212,629                            | 88,316     |
| Deposits for property acquisitions  | —                                  | (261,648 ) |
| Net cash provided by (used for) investing activities                                | 158,214                            | (203,967 ) |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                                    |            |
| Proceeds from notes payable   | 30,000                             | 319        |
| Payments of notes payable   | (210,906)                          | (173,200 ) |
| Proceeds from issuance of common units  | —                                  | 385,572    |
| Common units issuance transaction costs   | —                                  | (5,050 )   |
| Dividends paid to common unitholders  | (29,802 )                          | (10,287 )  |
| Dividends paid to preferred unitholders   | (159 )                             | (3,195 )   |
| Contributions by members  | 103                                | 219,150    |
| Distribution to non-controlling member in consolidated real estate entities         | (326 )                             | (933 )     |
| Payment to satisfy minimum tax withholding  | (1,683 )                           | (1,750 )   |
| Payments of loan costs  | (522 )                             | (3,647 )   |
| Net cash (used for) provided by financing activities                                | (213,295)                          | 406,979    |
| Net increase in cash and cash equivalents   | 3,816                              | 230,137    |

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|   |          |           |
|---|----------|-----------|
| Cash and cash equivalents—beginning of period | 53,551   | 17,753    |
| Cash and cash equivalents—end of period       | \$57,367 | \$247,890 |

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—(Continued)  
 (Unaudited, in thousands)

Three Months  
 Ended  
 March 31,  
 2016 2015

SUPPLEMENTAL CASH FLOWS INFORMATION:

|   |          |           |
|---|----------|-----------|
| Cash paid for interest, net of amounts capitalized                  | \$12,101 | \$7,095   |
| NON-CASH INVESTING ACTIVITIES:                                      |          |           |
| Accounts payable and accrued liabilities for investment in property | \$6,868  | \$(7,850) |

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 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 that did not have any meaningful operating activity until the consummation of its initial public offering and the related acquisition of its predecessor and certain other entities on June 29, 2010 (“IPO”). Since the completion of the IPO, the concurrent private placement, and the related formation transactions, Hudson Pacific Properties, Inc. has been 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 the “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 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, proration, 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.

As of March 31, 2016, the Company owned a portfolio of 53 office properties and two media and entertainment properties. These properties are located in California and the Pacific Northwest.

## 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, 2016. The interim consolidated financial statements should be read in conjunction with the consolidated financial statements in the Annual Report on Form 10-K of Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P. for the year ended December 31, 2015 and the notes thereto.

Certain amounts in the Consolidated Balance Sheets for the prior period related to Patrick Henry Drive have been reclassified to be comparable with the presentation as held for sale as of March 31, 2016.

#### Principles of Consolidation

The unaudited interim consolidated financial statements of Hudson Pacific Properties, Inc. include the accounts of Hudson Pacific Properties, Inc., the operating partnership and all wholly-owned subsidiaries and variable interest entities (“VIEs”), of which Hudson Pacific Properties, Inc. 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.

Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.

Notes to Consolidated Financial Statements—(Continued)

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

During the first quarter of 2016, the Company adopted ASU 2015-02, Consolidation (“Topic 810”): Amendments to the Consolidation Analysis, to amend the accounting guidance for consolidation. The standard simplifies the current guidance for consolidation and reduces the number of consolidation models through the elimination of the indefinite deferral of Statement 167. Additionally, the standard places more emphasis on risk of loss when determining a controlling financial interest. The Company consolidates all entities that the Company controls through either majority ownership or voting rights. In addition, the Company consolidates all VIEs of which the Company is considered the primarily 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. As a result of the adoption, the Company concluded that two of its joint ventures and its operating partnership met the definition of a VIE and is the primarily beneficiary of these VIEs. Substantially all of the assets and liabilities of the Company are related to these VIEs.

#### 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.

#### Investment in Real Estate Properties

##### Acquisitions

When the Company acquires properties that are considered business combinations, the assets acquired and liabilities assumed are recorded at fair value. These assets and liabilities include, but are not limited to, land, building and improvements, intangible assets related to above-and below-market leases, intangible assets related to in-place leases, debt and other assumed assets and liabilities. The initial purchase price accounting is based on management’s preliminary assessment, which may differ when final information becomes available. Subsequent adjustments made to the initial purchase price accounting are made within the measurement period, which typically does not exceed one year, within the Consolidated Balance Sheets.

The Company assesses fair value based on level 2 and level 3 inputs within the fair value hierarchy, which includes estimated cash flow projections that utilize discount and/or capitalization rates and available market information. See “Fair value of Assets and Liabilities” below. 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 is estimated through 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 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, legal and other related costs. Acquisition-related expenses associated with acquisition of operating properties are expensed in the period incurred.

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

### Cost Capitalization

The Company capitalizes direct construction and development costs, including predevelopment costs, interest, property taxes, insurance and other costs directly related and essential to the acquisition, development or construction of a real estate project. Indirect development costs, including salaries and benefits, office rent, and associated costs for those individuals directly responsible for and who spend their time on development activities are also capitalized and allocated to the projects to which they relate. Capitalized personnel costs for the three months ended March 31, 2016 and 2015 were approximately \$2.3 million and \$0.9 million, respectively. Interest is capitalized on the construction in progress at a rate equal to the Company's weighted average cost of debt. Capitalized interest for the three months ended March 31, 2016 and 2015 was approximately \$2.6 million and \$2.0 million, respectively. Construction and development costs are capitalized while substantial activities are ongoing to prepare an asset for its intended use. The Company considers a construction project as substantially complete and held available for occupancy upon the completion of tenant improvements but no later than one year after cessation of major construction activity. Costs incurred after a project is substantially complete and ready for its intended use, or after development activities have ceased, are expensed as they are incurred. Costs previously capitalized related to abandoned acquisitions or developments are charged to earnings. Expenditures for repairs and maintenance are expensed as they are incurred.

### Operating Properties

The properties are generally carried at cost, less accumulated depreciation and amortization. The Company computes depreciation using the straight-line method over the estimated useful lives of generally 39 years for building and improvements, 15 years for land improvements, five to seven years for furniture and fixtures and equipment, and over the shorter of asset life or life of the lease for tenant improvements. Above- and below-market lease intangibles are amortized to revenue over the remaining non-cancellable lease terms and bargain renewal periods, if applicable. Other in-place lease intangibles are amortized to the depreciation and amortization line item of the Consolidated Statements of Operations over the remaining non-cancellable lease term.

### Held for sale

The Company classifies properties as held for sale when certain criteria set forth in Accounting Standard Codification ("ASC") Topic 360, Property, Plant, and Equipment, are met. These criteria include (i) whether the Company is committed to a plan to sell, (ii) whether the asset or disposal group is available for immediate sale, (iii) whether an active program to locate a buyer and other actions required to complete the plan to sell have been initiated, (iv) whether the sale of the asset or disposal group is probable (i.e., likely to occur) and the transfer is expected to qualify for recognition as a completed sale within one year, (v) whether the long-lived asset or disposal group is being actively marketed for sale at a price that is reasonable in relation to its current fair value, (vi) whether actions necessary to complete the plan indicate that it is unlikely significant changes to the plan will be made or that the plan will be withdrawn. At the time a property is classified as held for sale, the Company reclassifies its assets and liabilities to held for sale in the Consolidated Balance Sheets for the periods presented and ceases recognizing depreciation expense. Properties held for sale are reported at the lower of their carrying value or their estimated fair value, less estimated costs to sell. There was one property classified as held for sale at March 31, 2016 and two properties classified as held for sale at December 31, 2015.

### Impairment of Long-Lived Assets



The Company assesses the carrying value of real estate assets and related intangibles whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable in accordance with GAAP. Impairment losses are recorded on real estate assets held for investment when indicators of impairment are present and the future undiscounted cash flows estimated to be generated by those assets are less than the assets' carrying amount. The Company recognizes impairment losses to the extent the carrying amount exceeds the fair value of the properties. The Company recorded no impairment charges for the three months ended March 31, 2016 and 2015.

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

### Goodwill

Goodwill represents the excess of acquisition cost over the fair value of net tangible and identifiable intangible assets acquired and liabilities assumed in business acquisitions. The Company's goodwill balance as of March 31, 2016 and December 31, 2015 was \$8.8 million. The Company does not amortize this asset but instead analyzes it on an annual basis for impairment. No impairment indicators have been noted during the three months ended March 31, 2016 and 2015.

### Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand and in banks, plus all short-term investments with a maturity of three months or less when purchased.

The Company maintains some of its cash in bank deposit accounts that, at times, may exceed the federally insured limit. No losses have been experienced related to such accounts.

### Restricted Cash

Restricted cash consists of amounts held by lenders to provide for future real estate taxes and insurance expenditures, repairs and capital improvements reserves, general and other reserves and security deposits.

### Accounts Receivable, net

Accounts receivable consist of amounts due for monthly rents and other charges. The Company maintains an allowance for doubtful accounts for estimated losses resulting from tenant defaults or the inability of tenants to make contractual rent and tenant recovery payments. The Company monitors the liquidity and creditworthiness of its tenants and operators on an ongoing basis. This evaluation considers industry and economic conditions, property performance, credit enhancements and other factors. The Company evaluates the collectability of accounts receivable based on a combination of factors. The allowance for doubtful accounts is based on specific identification of uncollectible accounts and the Company's historical collection experience. The Company recognizes an allowance for doubtful accounts based on the length of time the receivables are past due, the current business environment and the Company's historical experience. Historical experience has been within management's expectations.

The following table summarizes the Company's accounts receivable, net of allowance for doubtful accounts as of:

|                                 | March 31, December 31, |           |
|---------------------------------|------------------------|-----------|
|                                 | 2016                   | 2015      |
| Accounts receivable             | \$ 18,129              | \$ 22,180 |
| Allowance for doubtful accounts | (1,529 )               | (1,021 )  |
| Accounts receivable, net        | \$ 16,600              | \$ 21,159 |

### Straight-line rent receivables, net

For straight-line rent amounts, the Company's assessment is based on amounts estimated to be recoverable over the term of the lease. The Company evaluates the collectability of straight-line rent receivables based on the length of time the related rental receivables are past due, the current business environment and the Company's historical experience.

The following table represents the Company's straight-line rent receivables, net of allowance for doubtful accounts as of:

|                                     | March 31, December 31, |           |
|-------------------------------------|------------------------|-----------|
|                                     | 2016                   | 2015      |
| Straight-line rent receivables      | \$ 65,342              | \$ 60,606 |
| Allowance for doubtful accounts     | (48 )                  | (970 )    |
| Straight-line rent receivables, net | \$ 65,294              | \$ 59,636 |

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

#### Notes Receivable, net

On August 19, 2014, the Company entered into a loan participation agreement for a loan with a maximum principal of \$140.0 million. The Company's share was 23.77%, or \$33.3 million. The note receivable is secured by a real estate property, bears interest at 11.0% and matures on August 22, 2016. Interest is payable monthly with the principal due at maturity. The Company received a \$0.4 million commitment fee as a result of this transaction. The balance as of March 31, 2016 and December 31, 2015, net of the accretion of commitment fee, was \$28.8 million and \$28.7 million, respectively. The Company believes these balances are fully collectible.

#### Revenue Recognition

The Company recognizes rental revenue from tenants on a straight-line basis over the lease term when collectability is reasonably assured and the tenant has taken possession or controls the physical use of the leased asset. If the lease provides for tenant improvements, the Company determines whether the tenant improvements, for accounting purposes, are owned by the tenant or the Company. When the Company is the owner of the tenant improvements, the tenant is not considered to have taken physical possession or have control of the physical use of the leased asset until the tenant improvements are substantially completed. When the tenant is the owner of the tenant improvements, any tenant improvement allowance that is funded is treated as a lease incentive and amortized as a reduction of revenue over the lease term. Tenant improvement ownership is determined based on various factors including, but not limited to:

- whether the lease stipulates how and on what a tenant improvement allowance may be spent;
- whether the tenant or landlord retains legal title to the improvements at the end of the lease term;
- whether the tenant improvements are unique to the tenant or general-purpose in nature; and
- whether the tenant improvements are expected to have any residual value at the end of the lease.

Certain leases provide for additional rents contingent upon a percentage of the tenant's revenue in excess of specified base amounts or other thresholds. Such revenue is recognized when actual results reported by the tenant, or estimates of tenant results, exceed the base amount or other thresholds. Such revenue is recognized only after the contingency has been removed (when the related thresholds are achieved), which may result in the recognition of rental revenue in periods subsequent to when such payments are received.

Other property-related revenue is revenue that is derived from the tenants' use of lighting, equipment rental, parking, power, HVAC and telecommunications (telephone and Internet). Other property-related revenue is recognized when these items are provided.

Tenant recoveries related to reimbursement of real estate taxes, insurance, repairs and maintenance, and other operating expenses are recognized as revenue in the period during which the applicable expenses are incurred. The reimbursements are recognized and presented gross, as the Company is generally the primary obligor with respect to purchasing goods and services from third-party suppliers, has discretion in selecting the supplier and bears the associated credit risk.

The Company recognizes gains on sales of properties upon the closing of the transaction with the purchaser. Gains on properties sold are recognized using the full accrual method when (i) the collectability of the sales price is reasonably assured, (ii) the Company is not obligated to perform significant activities after the sale, (iii) the initial investment from the buyer is sufficient and (iv) other profit recognition criteria have been satisfied. Gains on sales of properties may be deferred in whole or in part until the requirements for gain recognition have been met.

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

#### Deferred Financing Costs

Deferred financing costs are amortized over the term of the respective loans and are reported net of accumulated amortization in notes payable, net to the extent they are associated with drawn loans and prepaid expenses and other assets, net to the extent they relate to the unsecured revolving credit facility and undrawn term loans.

#### Derivative Instruments

The Company manages interest rate risk associated with borrowings by entering into derivative instruments. The Company recognizes all derivatives on the Consolidated Balance Sheets on a gross basis at fair value. Derivatives that are not effective hedges are adjusted to fair value and the changes in fair value are reflected as income or expense. If the derivative is an effective hedge, depending on the nature of the hedge, changes in the fair value are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in other comprehensive income (loss), which is a component of equity. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

#### Stock-Based Compensation

Compensation cost of restricted stock, restricted stock units and performance units under the Company's equity incentive award plans are accounted for under ASC Topic 718, Compensation-Stock Compensation ("ASC 718"). The compensation committee of Hudson Pacific Properties, Inc.'s board of directors will regularly consider the accounting implications of significant compensation decisions, especially in connection with decisions that relate to the Company's equity incentive award plans and programs.

#### Income Taxes

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 entity that owns the 1455 Market Street property, a REIT) 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.

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. The Company believes that the Company has operated in a manner that has allowed Hudson Pacific Properties, Inc. to qualify as a REIT for federal income tax purposes commencing with such taxable year, and the Company intends to continue operating in such manner. To qualify as a REIT, Hudson Pacific Properties, Inc. is required to distribute at least 90% of its net taxable income, excluding net capital gains, to its stockholders and meet the various other requirements imposed by the Code relating to such matters as operating results, asset holdings, distribution levels and diversity of stock ownership.

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. If Hudson Pacific Properties, Inc. fails to qualify as a REIT in any taxable year, and is unable to avail itself of certain savings provisions set forth in the Code, all of its taxable income would be subject to federal income tax at regular corporate rates, including any applicable alternative minimum tax. Unless entitled to relief under specific statutory provisions, Hudson Pacific Properties, Inc. would be ineligible to elect to be treated as a REIT for the four taxable years following the year for which the Company loses its qualification. It is not possible to state whether in all circumstances Hudson Pacific

Properties, Inc. would be entitled to this statutory relief.

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. Certain activities that the Company may undertake, such as non-customary services for the Company’s tenants and holding assets that the Company cannot hold directly, will be conducted by a TRS. A TRS is subject to federal and, where applicable, state income taxes on its net income. The Company’s TRS did not have significant tax provisions or deferred income tax items as of March 31, 2016 and 2015.

The Company is subject to the statutory requirements of the states in which it conducts business.

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

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 March 31, 2016, 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 2011. Generally, the Company has assessed its tax positions for all open years, which include 2011 to 2015, and concluded that there are no material uncertainties to be recognized.

#### Fair Value of Assets and Liabilities

Under GAAP, the Company is required to measure certain financial instruments at fair value on a recurring basis. In addition, the Company is required to measure other financial instruments and balances at fair value on a non-recurring basis (e.g., carrying value of impaired real estate and long-lived assets). Fair value is defined as the price that would be received upon the sale of an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. 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 requires inputs that are both significant to the fair value measurement and unobservable.

When available, the Company utilizes quoted market prices from an independent third-party source to determine fair value and classifies such items in Level 1 or Level 2. In instances where the market for a financial instrument is not active, regardless of the availability of a nonbinding quoted market price, observable inputs might not be relevant and could require the Company to make a significant adjustment to derive a fair value measurement. Additionally, in an inactive market, a market price quoted from an independent third party may rely more on models with inputs based on information available only to that independent third party. When the Company determines the market for a financial instrument owned by the Company to be illiquid or when market transactions for similar instruments do not appear orderly, the Company uses several valuation sources (including internal valuations, discounted cash flow analysis and quoted market prices) and establishes a fair value by assigning weights to the various valuation sources.

Changes in assumptions or estimation methodologies can have a material effect on these estimated fair values. In this regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, may not be realized in an immediate settlement of the instrument.

The Company considers the following factors to be indicators of an inactive market: (i) there are few recent transactions, (ii) price quotations are not based on current information, (iii) price quotations vary substantially either over time or among market makers (for example, some brokered markets), (iv) indexes that previously were highly



correlated with the fair values of the asset or liability are demonstrably uncorrelated with recent indications of fair value for that asset or liability, (v) there is a significant increase in implied liquidity risk premiums, yields, or performance indicators (such as delinquency rates or loss severities) for observed transactions or quoted prices when compared with the Company's estimate of expected cash flows, considering all available market data about credit and other nonperformance risk for the asset or liability, (vi) there is a wide bid-ask spread or significant increase in the bid-ask spread, (vii) there is a significant decline or absence of a market for new issuances (that is, a primary market) for the asset or liability or similar assets or liabilities, and (viii) little information is released publicly (for example, a principal-to-principal market).

The Company considers the following factors to be indicators of non-orderly transactions: (i) there was not adequate exposure to the market for a period before the measurement date to allow for marketing activities that are usual and customary for transactions involving such assets or liabilities under current market conditions, (ii) there was a usual and customary marketing

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Notes to Consolidated Financial Statements—(Continued)

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

period, but the seller marketed the asset or liability to a single market participant, (iii) the seller is in or near bankruptcy or receivership (that is, distressed), or the seller was required to sell to meet regulatory or legal requirements (that is, forced), and (iv) the transaction price is an outlier when compared with other recent transactions for the same or similar assets or liabilities.

#### Recently Issued Accounting Pronouncements

Changes to GAAP are established by Financial Accounting Standards Board (“FASB”) in the form of ASUs. The Company considers the applicability and impact of all ASUs. Recently issued ASUs not listed below are not expected to have a material impact on the Company’s consolidated financial statements, because either the ASU is not applicable or the impact is expected to be immaterial.

On April 14, 2016, the FASB issued ASU 2016-10, Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing. This guidance clarifies two aspects of Topic 606: identifying performance obligations and the licensing implementation guidance. On March 17, 2016, the FASB issued ASU 2016-08, Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net). This guidance clarifies certain aspects of the principal-versus-agent guidance in its new revenue recognition standard related to the determination of whether an entity is a principal-versus-agent and the determination of the nature of each specified good or service. Both updates affect the guidance in ASU 2014-09, Revenue from Contracts with Customers (Topic 606) and ASU 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date, and defer the effective date of ASU 2014-09 by one year. These updates are effective for annual reporting periods (including interim periods) beginning after December 15, 2017 with early adoption permitted. The Company is currently assessing the impact on its consolidated financial statements and notes to the consolidated financial statements.

On March 30, 2016, the FASB issued ASU 2016-09, Improvements to Employee Share-Based Payment Accounting. This guidance simplifies several aspects of the accounting for employee share-based payment transactions related to the accounting for income taxes, classification of excess tax benefits on the statement of cash flows, forfeitures, etc. This update is effective for annual reporting periods (including interim periods) beginning after December 15, 2016 with early adoption permitted. The Company is currently assessing the impact on its consolidated financial statements and notes to the consolidated financial statements.

On March 15, 2016, the FASB issued ASU 2016-07, Investments—Equity Method and Joint Ventures (Topic 323): Simplifying the Transition to the Equity Method of Accounting. This guidance eliminates the retroactive adoption requirement when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence. This update is effective for annual reporting periods (including interim periods) beginning after December 15, 2016 with early adoption permitted. The implementation of this update is not expected to have a material effect on the Company’s consolidated financial statements and notes to the consolidated financial statements.

On March 14, 2016, the FASB issued ASU 2016-06, Derivatives and Hedging (Topic 815): Contingent Put and Call Options in Debt Instruments. This guidance clarifies the requirements for assessing whether contingent call (put) options that can accelerate the payment of principal on debt instruments are clearly and closely related to their debt hosts. This update is effective for annual reporting periods (including interim periods) beginning after December 15, 2016 with early adoption permitted. The implementation of this update is not expected to have a material effect on the Company’s consolidated financial statements and notes to the consolidated financial statements.

On March 14, 2016, the FASB issued ASU 2016-05, Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships. This guidance clarifies the accounting treatment when there is a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815. This update is effective for annual reporting periods (including interim periods) beginning after December 15, 2016 with early adoption permitted. The implementation of this update is not expected to have a material effect on the Company's consolidated financial statements and notes to the consolidated financial statements.

### 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.

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Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.  
Notes to Consolidated Financial Statements—(Continued)  
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The Company had no acquisitions during the first quarter of 2016. During 2015, the Company acquired 26 office properties totaling approximately 8.2 million square feet and two development parcels throughout Northern California, 4th and Traction and 405 Mateo.

#### Dispositions

During the first quarter of 2016, the Company sold its Bayhill Office Center property for \$215.0 million (before certain credits, prorations, and closing costs). Proceeds received were used to partially pay down the Company's unsecured revolving credit facility. During the first quarter of 2016, the Company recognized a gain of \$6.4 million related to the disposal of its Bayhill Office Center property.

During first quarter of 2015, the Company sold its First Financial office property for a gain of \$22.7 million.

The Company has not presented the operating results in net income (loss) from discontinued operations for these disposals because they do not represent a strategic shift in the Company's business.

#### Held for sale

As of March 31, 2016, the Company determined that its Patrick Henry Drive property met the criteria to be classified as held for sale and reclassified the balances related to such property within the Consolidated Balance Sheet as of March 31, 2016 and December 31, 2015. Subsequent to March 31, 2016, the Company sold its Patrick Henry Drive property for \$19.0 million (before certain credits, prorations, and closing costs).

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Notes to Consolidated Financial Statements—(Continued)  
(Unaudited, tabular amounts in thousands, except square footage and share amounts)

## 4. Deferred Leasing Costs and Lease Intangibles, net

The following summarizes the Company's deferred leasing cost and lease intangibles as of:

|  | March 31,<br>2016 | December 31,<br>2015 |
|--|-------------------|----------------------|
| Above-market leases  | \$38,266          | \$ 38,481            |
| Accumulated amortization                                   | (20,726 )         | (17,210 )            |
| Above-market leases, net                                   | 17,540            | 21,271               |
| Deferred leasing costs and in-place lease intangibles      | 359,937           | 352,276              |
| Accumulated amortization                                   | (121,906 )        | (112,337 )           |
| Deferred leasing costs and in-place lease intangibles, net | 238,031           | 239,939              |
| Below-market ground leases                                 | 59,578            | 59,578               |
| Accumulated amortization                                   | (3,303 )          | (2,757 )             |
| Below-market ground leases, net                            | 56,275            | 56,821               |
| Deferred leasing costs and lease intangible assets, net    | \$311,846         | \$ 318,031           |
| Below-market leases  | \$137,170         | \$ 140,041           |
| Accumulated amortization                                   | (51,594 )         | (45,882 )            |
| Below-market leases, net                                   | 85,576            | 94,159               |
| Above-market ground leases                                 | 1,095             | 1,095                |
| Accumulated amortization                                   | (57 )             | (46 )                |
| Above-market ground leases, net                            | 1,038             | 1,049                |
| Lease intangible liabilities, net                          | \$86,614          | \$ 95,208            |

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

|  | Three Months<br>Ended March<br>31, |          |
|--|------------------------------------|----------|
|  | 2016                               | 2015     |
| Above-market lease <sup>(1)</sup>                                  | \$3,719                            | \$370    |
| Below-market lease <sup>(1)</sup>                                  | (8,570 )                           | (1,814 ) |
| Deferred lease costs and in-place lease intangibles <sup>(2)</sup> | 22,568                             | 4,230    |
| Above-market ground lease <sup>(3)</sup>                           | (11 )                              | —        |
| Below-market ground lease <sup>(3)</sup>                           | 546                                | 62       |

(1) Amortization is recorded in office rental income in the Consolidated Statements of Operations.

(2) Amortization is recorded in depreciation and amortization expense in the Consolidated Statements of Operations.

(3) Amortization is recorded in office operating expenses in the Consolidated Statements of Operations.

## Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.

## Notes to Consolidated Financial Statements—(Continued)

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

## 5. Notes Payable

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

|   | March 31,<br>2016 | December<br>31, 2015 |
|---|-------------------|----------------------|
| Notes payable   | \$2,097,539       | \$2,278,445          |
| Less: unamortized loan premium and deferred financing costs, net <sup>(1)</sup> | (17,534 )         | (17,729 )            |
| Notes payable, net  | \$2,080,005       | \$2,260,716          |

Deferred financing costs exclude debt issuance costs, net related to establishing the Company's unsecured revolving (1) credit facility and undrawn term loans. These costs are presented within prepaid expenses and other assets, net in the Consolidated Balance Sheets.

The following table sets forth information as of March 31, 2016 and December 31, 2015 with respect to the Company's outstanding indebtedness, excluding net deferred financing costs related to unsecured revolving credit facility and undrawn term loans.

|  | March 31, 2016      |  | December 31, 2015       |  | Interest Rate <sup>(1)</sup> | Contractual<br>Maturity Date |      |
|--|---------------------|--|-------------------------|--|------------------------------|------------------------------|------|
|  | Principal<br>Amount | Unamortized<br>Loan<br>Premium<br>and<br>Deferred<br>Financing<br>Costs, net | Principal<br>Amount     | Unamortized<br>Loan<br>Premium<br>and<br>Deferred<br>Financing<br>Costs, net |                              |                              |      |
| <b>Unsecured Loans</b>                                 |                     |  |                         |  |                              |                              |      |
| Unsecured Revolving<br>Credit Facility <sup>(2)</sup>  | \$50,000            | \$ —   | \$230,000               | \$ —   | LIBOR+ 1.15%<br>to 1.85%     | 4/1/2019                     | (11) |
| 5-Year Term Loan due<br>April 2020 <sup>(2)(3)</sup>   | 550,000             | (5,243 )   | 550,000                 | (5,571 )   | LIBOR+ 1.30%<br>to 2.20%     | 4/1/2020                     |      |
| 5-Year Term Loan due<br>November 2020 <sup>(2)</sup>   | —                   | —  | —                       | —  | LIBOR +1.30%<br>to 2.20%     | 11/17/2020                   |      |
| 7-Year Term Loan due<br>April 2022 <sup>(2)(4)</sup>   | 350,000             | (2,549 )   | 350,000                 | (2,656 )   | LIBOR+ 1.60%<br>to 2.55%     | 4/1/2022                     |      |
| 7-Year Term Loan due<br>November 2022 <sup>(2)</sup>   | —                   | —  | —                       | —  | LIBOR + 1.60%<br>to 2.55%    | 11/17/2022                   |      |
| Series A Notes   | 110,000             | (1,049 )   | 110,000                 | (1,011 )   | 4.34%                        | 1/2/2023                     |      |
| Series B Notes   | 259,000             | (2,462 )   | 259,000                 | (2,378 )   | 4.69%                        | 12/16/2025                   |      |
| Series C Notes   | 56,000              | (576 )   | 56,000                  | (509 )   | 4.79%                        | 12/16/2027                   |      |
| Total Unsecured<br>Loans                               | \$1,375,000         | \$(11,879 )  | \$1,555,000             | \$(12,125 )  |                              |                              |      |
| <b>Mortgage Loans</b>                                  |                     |  |                         |  |                              |                              |      |
| Mortgage loan secured<br>by Pinnacle II <sup>(5)</sup> | \$85,914            | \$ 873   | <sup>(6)</sup> \$86,228 | \$ 1,310   | <sup>(6)</sup> 6.31%         | 9/6/2016                     |      |
| Mortgage loan secured<br>by 901 Market                 | 30,000              | (83 )  | 30,000                  | (119 )   | LIBOR+2.25%                  | 10/31/2016                   |      |

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|   |             |              |             |              |             |           |      |
|---|-------------|--------------|-------------|--------------|-------------|-----------|------|
| Mortgage loan secured by Rincon Center <sup>(7)</sup>               | 101,836     | (315 )       | 102,309     | (355 )       | 5.13%       | 5/1/2018  |      |
| Mortgage loan secured by Sunset Gower/Sunset Bronson <sup>(8)</sup> | 115,001     | (2,055 )     | 115,001     | (2,232 )     | LIBOR+2.25% | 3/4/2019  | (11) |
| Mortgage loan secured by Met Park North <sup>(9)</sup>              | 64,500      | (481 )       | 64,500      | (509 )       | LIBOR+1.55% | 8/1/2020  |      |
| Mortgage loan secured by 10950 Washington <sup>(7)</sup>            | 28,288      | (404 )       | 28,407      | (421 )       | 5.32%       | 3/11/2022 |      |
| Mortgage loan secured by Pinnacle I <sup>(10)</sup>                 | 129,000     | (669 )       | 129,000     | (694 )       | 3.95%       | 11/7/2022 |      |
| Mortgage loan secured by Element L.A.                               | 168,000     | (2,521 )     | 168,000     | (2,584 )     | 4.59%       | 11/6/2025 |      |
| Total mortgage loans  | \$722,539   | \$ (5,655 )  | \$723,445   | \$ (5,604 )  |             |           |      |
| Total   | \$2,097,539 | \$ (17,534 ) | \$2,278,445 | \$ (17,729 ) |             |           |      |

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Notes to Consolidated Financial Statements—(Continued)

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

Interest rate with respect to indebtedness is calculated on the basis of a 360-day year for the actual days elapsed.

(1) Interest rates are as of March 31, 2016, which may be different than the interest rates as of December 31, 2015 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 March 31, 2016, no such election has been made.

(3) Effective May 1, 2015, \$300.0 million of the \$550.0 million term loan has been effectively fixed at 2.66% to 3.56% per annum through the use of an interest rate swap. See Note 6 for details.

(4) Effective May 1, 2015, the outstanding balance of the term loan has been effectively fixed at 3.21% to 4.16% per annum through the use of an interest rate swap. See Note 6 for details.

This loan bore interest only for the first five years. Beginning with the payment due October 6, 2011, monthly debt service includes annual debt amortization payments based on a 30-year amortization schedule with a balloon payment at maturity.

(6) Represents unamortized premium amount of the non-cash mark-to-market adjustment.

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

Through February 11, 2016, interest on \$92.0 million of the outstanding loan balance was effectively capped at 5.97% and 4.25% on \$50.0 million and \$42.0 million, respectively, of the loan through the use of two interest rate caps. These interest rate caps were not renewed after maturity.

(9) This loan bears interest only. Interest on the full loan amount has been effectively fixed at 3.71% per annum through use of an interest rate swap. See Note 6 for details.

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.

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

#### 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 the Sunset Gower and Sunset Bronson properties, the Company's separate property-owning subsidiaries are not obligors of or under 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 has been no events of default associated with the Company's loans.

The minimum future principal payments due on the Company's secured and unsecured notes payable at March 31, 2016 were as follows (before the impact of extension options, if applicable):

| Year ended                                  | Annual<br>Principal<br>Payments |
|---|---------------------------------|
| 2016 (nine months ending December 31, 2016) | \$ 117,701                      |
| 2017  | 2,714                           |
| 2018  | 101,157                         |
| 2019  | 167,886                         |
| 2020  | 617,493                         |



|            |             |
|------------|-------------|
| Thereafter | 1,090,588   |
| Total      | \$2,097,539 |

#### Senior Unsecured Revolving Credit Facility and Term Loan Facilities

##### New Term Loan Agreement

On November 17, 2015, the operating partnership entered into a new term loan credit agreement (the “New Term Loan Agreement”) with a group of lenders for an unsecured \$175.0 million five-year delayed draw term loan with a maturity date of November 2020 (“5-Year Term Loan due November 2020”) and an unsecured \$125.0 million seven-year delayed draw term loan with a maturity date of November 2022 (“7-Year Term Loan due November 2022”). These term loans were undrawn as of March 31, 2016. On May 3, 2016, these loans were fully drawn. See Note 14 for details.

##### A&R Credit

On April 1, 2015, the operating partnership entered into the Second Amended and Restated Credit Agreement dated as of March 31, 2015 (the “Credit Facility”), which extended the maturity dates and increased the availability of the credit facilities

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Notes to Consolidated Financial Statements—(Continued)

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governed by the prior agreement. On November 17, 2015, the operating partnership amended and restated the Credit Facility (“Amended and Restated Credit Facility”) to align certain terms therein with the less restrictive terms of the New Term Loan Agreement. Borrowings under the Credit Facility were used towards the EOP Acquisition in 2015 and the Amended and Restated Credit Facility is available for other purposes, including for payment of pre-development and development costs incurred in connection with properties owned by the Company, to finance capital expenditures and the repayment of indebtedness of the Company, to provide for general working capital needs and for general corporate purposes of the Company, and to pay fees and expenses incurred in connection with the Amended and Restated Credit Facility. On May 3, 2016, the unsecured revolving loan has been fully paid off and the five-year term loan due April 2020 has been partially paid off. See Note 14 for details.

#### Guaranteed Senior Notes

On November 16, 2015, the operating partnership entered into a Note Purchase Agreement (the “Note Purchase Agreement”) with various purchasers, which provides for the private placement of \$425.0 million of senior guaranteed notes by the operating partnership, designated as three notes with various interest rates and maturity dates (“Notes”). The Notes were issued on December 16, 2015 and upon issuance, the Notes pay interest semi-annually on the 16th day of June and December in each year until their respective maturities.

#### Debt Covenants

The operating partnership’s ability to borrow under the New Term Loan Agreement, the Amended and Restated Credit Facility, and the Note Purchase Agreement remains subject to ongoing compliance with financial and other covenants as defined in the respective agreements, including maintaining a 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 0.55:1.00), and unsecured interest coverage ratio (minimum 2.00:1.00). 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.

The operating partnership was in compliance with its financial covenants at March 31, 2016.

#### Repayment Guaranties

##### Sunset Gower and Sunset Bronson Loan

In connection with the loan secured by the Sunset Gower and Sunset Bronson 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. At March 31, 2016, the outstanding balance was \$115.0 million, which results in a maximum guarantee amount for the principal under this loan of \$22.4 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. On May 3, 2016, this loan has been partially paid off. See Note 14 for details.

### 901 Market Loan

In connection with its 901 Market Street loan, the Company has guaranteed in favor of and promised to pay to the lender 35.0% of the principal under the loan in the event the borrower, a wholly-owned entity of the operating partnership, does not do so. At March 31, 2016, the outstanding balance was \$30.0 million, which results in a maximum guarantee amount for the principal under this loan of \$10.5 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. The borrower has completed various of the improvements subject to this completion guaranty. 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. On May 3, 2016, this loan has been fully paid off. See Note 14 for details.

### Other Loans

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Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.  
Notes to Consolidated Financial Statements—(Continued)  
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Although the rest of the operating partnership's loans are secured and non-recourse to the operating partnership, the operating partnership provides limited customary secured debt guarantees for items such as voluntary bankruptcy, fraud, misapplication of payments and environmental liabilities.

## 6. Derivative Instruments

The Company entered into interest rate contracts in order to hedge interest rate risk. As of March 31, 2016, the Company had five interest rate swaps with notional amounts of \$714.5 million. As of December 31, 2015, the Company had two interest rate caps and five interest rate swaps with notional amounts of \$92.0 million and \$714.5 million, respectively.

Each of these derivatives was designated as effective cash flow hedges for accounting purposes.

The Company's derivative contracts 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 entered into a derivative contract with respect to \$300.0 million of the \$550.0 million 5-Year Term Loan due April 2020 which, effective as of May 1, 2015, swapped one-month LIBOR to a fixed rate of 1.36% through the loan's maturity. The remaining \$250.0 million bears interest at a rate equal to one-month LIBOR plus 1.30% to 2.20% depending on the Company's leverage ratio.

On April 1, 2015, the Company also entered into a derivative contract with respect to the \$350.0 million 7-year Term Loan due April 2022, which, effective as of May 1, 2015, swapped one-month LIBOR to a fixed rate of 1.61% through the loan's maturity.

During the three months ended March 31, 2016, the Company recognized an unrealized loss of \$2.1 million related to the ineffective portion of these derivative contracts.

### Sunset Gower and Sunset Bronson Mortgage

On February 11, 2011, the Company closed a five-year term loan totaling \$92.0 million with Wells Fargo Bank, N.A., secured by the Sunset Gower and Sunset Bronson properties. The loan initially bore interest at a rate equal to one-month LIBOR plus 3.50%. On March 16, 2011, the Company purchased an interest rate cap in order to cap one-month LIBOR at 3.715% on \$50.0 million of the loan through February 11, 2016. On January 11, 2012, the Company purchased an interest rate cap in order to cap one-month LIBOR at 2.00% with respect to \$42.0 million of the loan.

Effective August 22, 2013, the terms of this loan were amended to, among other changes, increase the outstanding balance from \$92.0 million to \$97.0 million, reduce the interest to a rate equal to one-month LIBOR plus 2.25%, and extend the maturity date from February 11, 2016 to February 11, 2018. The derivatives described above were not changed in connection with this loan amendment.

Effective March 4, 2015, the terms of this loan were amended and restated to introduce the ability to draw up to an additional \$160.0 million for budgeted construction costs associated with the ICON development and to extend the

maturity date from February 11, 2018 to March 4, 2019. The derivatives described above were not changed in connection with this loan amendment. These derivatives matured on February 11, 2016.

#### 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 swapped one-month LIBOR to a fixed rate of 2.16% through the loan's maturity on August 1, 2020.

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Overall

The fair market value of derivatives are presented on a gross basis in the Consolidated Balance Sheets. There were no derivative assets as of March 31, 2016. The derivative assets as of December 31, 2015 were \$2.1 million. The derivative liabilities as of March 31, 2016 and December 31, 2015 were \$17.7 million and \$2.0 million, respectively.

As of March 31, 2016, the Company expects \$6.2 million of unrealized loss included in accumulated other comprehensive loss will be reclassified to interest expense in the next twelve months.

7. Future Minimum Base Rents and Lease Payments Future Minimum Rents

The Company's properties are leased to tenants under operating leases with initial term expiration dates ranging from 2016 to 2031. Approximate future combined minimum rentals (excluding tenant reimbursements for operating expenses and without regard to cancellation options) for properties at March 31, 2016 are presented below for the years/periods ended December 31. The table below does not include rents under leases at the Company's media and entertainment properties with terms of one year or less.

Future minimum base rents under the Company's operating leases in each of the next five years and thereafter are as follows:

|   | Non-cancellable | Subject to<br>early<br>termination<br>options | Total       |
|---|-----------------|---|-------------|
| 2016 (nine months ending December 31, 2016) | \$ 325,049      | \$ 1,621                                      | \$326,670   |
| 2017  | 407,247         | 6,923   | 414,170     |
| 2018  | 332,569         | 24,503  | 357,072     |
| 2019  | 280,175         | 26,998  | 307,173     |
| 2020  | 220,738         | 6,357   | 227,095     |
| Thereafter                                  | 814,609         | 24,156  | 838,765     |
| Total                                       | \$ 2,380,387    | \$ 90,558                                     | \$2,470,945 |

## 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  |
|-----------------------|-----------------|--|
| Sunset Gower          | 3/31/2060       | Every 7 years rent adjusts to 7.5% of Fair Market Value ("FMV") of the land. 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.  |
| Del Amo               | 6/30/2049       | Additional rent is the sum by which 6% of gross rental from the prior calendar year exceeds the Minimum Rent.  |
| 9300 Wilshire Blvd.   | 8/14/2032       | Minimum annual rent is the greater of \$975 thousand or 20% of the first \$8.0 million of the tenant's "Operating Income" during any "Lease Year," as such terms are defined in the ground lease.  |
| 222 Kearny Street     | 6/14/2054       | Minimum annual rent (adjusted on 1/1/2019 and 1/1/2029) plus 25% of adjusted gross income ("AGI"), less minimum annual rent.   |
| 1500 Page Mill Center | 11/30/2041      | Minimum annual rent (adjusted every 10 years) plus 25% of AGI less minimum annual rent.  |
| Clocktower Square     | 9/26/2056       | Minimum annual rent (adjusted every 10 years starting 1/1/2022) plus 25% of AGI less minimum annual rent.  |
| Palo Alto Square      | 11/30/2045      | 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 consumer price index, or CPI, increase. Percentage annual rent is Lockheed's base rent x 24.125%.  |
| Lockheed Building     | 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 gross income x 24.125%.  |
| Foothill Research     | 6/30/2039       | 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 FMV of the land or \$1.0 million grown at 75% of the cumulative increases in 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 x 24.125%. This lease has been prepaid through October 31, 2017. |
| 3400 Hillview         | 10/31/2040      | Every 10 years rent adjusts to 7.233% of FMV of the land (since 2008) and rent also adjusts every 10 years to reflect the change in CPI from the preceding FMV adjustment date (since 2013).   |
| Metro Center 989      | 4/29/2054       | Every 10 years rent adjusts to 7.233% of FMV of the land (since 2008) and rent also adjusts every 10 years to reflect the change in CPI from the preceding FMV adjustment date (since 2013).   |
| Metro Center Retail   | 4/29/2054       | Every 10 years rent adjusts to 7.233% of FMV of the land (since 2008) and rent also adjusts every 10 years to reflect the change in CPI from the preceding FMV adjustment date (since 2013).   |
| Metro Center Tower    | 4/29/2054       | Every 10 years rent adjusts to 7.233% of FMV of the land (since 2008) and rent also adjusts every 10 years to reflect the change in CPI from the preceding FMV adjustment date (since 2013).   |
| Techmart Commerce     | 5/31/2053       | Subject to a 10% increase every 5 years.   |

Center

The following table provides information regarding the Company's future minimum lease payments for its ground lease and corporate office lease at March 31, 2016 (before the impact of extension options, if applicable):

|   | Ground<br>Leases<br>(1)(2)(3) | Operating<br>Leases |
|---|-------------------------------|---------------------|
| 2016 (nine months ending December 31, 2016) | \$9,064                       | \$ 1,496            |
| 2017  | 12,208                        | 2,072               |
| 2018  | 14,070                        | 2,134               |
| 2019  | 14,120                        | 2,198               |
| 2020  | 14,120                        | 2,264               |
| Thereafter                                  | 413,927                       | 11,487              |
| Total                                       | \$477,509                     | \$ 21,651           |



- (1) In situations where ground lease obligation adjustments are based on third-party appraisals of fair market land value, the future minimum lease amounts above include the lease rental obligations in affect as of March 31, 2016.
- (2) In situations where ground lease obligation adjustments are based on CPI adjustment, the future minimum lease amounts above include the lease rental obligations in affect as of March 31, 2016.
- (3) In situations where ground lease obligation adjustments are based on the percentages of gross income that exceeds the minimum annual rent, the future minimum lease amounts above include the lease rental obligations in affect as of March 31, 2016.

## 8. Fair Value of Financial Instruments

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

|                        | March 31, 2016 |         |         | December 31, 2015 |         |         |         |         |
|------------------------|----------------|---------|---------|-------------------|---------|---------|---------|---------|
|                        | Level 1        | Level 2 | Level 3 | Total             | Level 1 | Level 2 | Level 3 | Total   |
| Derivative assets      | \$—            | \$—     | \$—     | \$—               | \$2,061 | \$—     | \$—     | \$2,061 |
| Derivative liabilities | —              | 17,664  | —       | 17,664            | —       | 2,010   | —       | 2,010   |

## 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 because of the short-term nature of these instruments. Fair values for notes payable, notes receivable 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 assets and liabilities at:

|                                   | March 31, 2016 |             | December 31, 2015 |             |
|-----------------------------------|----------------|-------------|-------------------|-------------|
|                                   | Carrying Value | Fair Value  | Carrying Value    | Fair Value  |
| Notes payable, net <sup>(1)</sup> | \$2,098,412    | \$2,102,162 | \$2,279,755       | \$2,284,429 |
| Notes receivable, net             | 28,788         | 28,788      | 28,684            | 28,684      |

- (1) Amounts represent total notes payable including unamortized loan premium and excludes net deferred financing fees.

## 9. Stock-Based Compensation

The Company has various stock compensation arrangements, which are more fully described in Part IV, Item 15(a) "Financial Statement and Schedules—Note 9 to the Consolidated Financial Statements—Equity" in its 2015 Annual Report on Form 10-K. Under the 2010 Incentive Award Plan, as amended ("2010 Plan"), the board of directors of Hudson Pacific Properties, Inc., or its compensation committee, has the ability to grant, among other things, restricted stock, restricted stock units and performance units.

The board of directors of Hudson Pacific Properties, Inc. awards restricted shares to non-employee board members, other than directors designated by The Blackstone Group L.P. or its affiliates, on an annual basis as part of such board members' annual compensation and to newly elected non-employee board members, other than directors designated by The Blackstone Group L.P. or its affiliates, in accordance with the Company's Non-Employee Director Compensation Program. The share-based awards are generally issued in the second quarter, and the awards vest in equal annual installments over the applicable service vesting period, which is three years.

In addition, the board of directors of Hudson Pacific Properties, Inc. or its compensation committee awards time-based restricted shares to certain employees on an annual basis as part of the employees' annual compensation. The share-based awards are generally issued in the fourth quarter, and the awards vest in equal annual installments over the applicable service vesting period, which is three years. Additionally these awards are subject to a two-year hold upon vesting if the employee is a named executive officer at the time of grant.

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Starting in January 2012, during the first quarter, the compensation committee of the board of directors of Hudson Pacific Properties, Inc. adopts an Outperformance Plan (“OPP”) under the 2010 Plan. Each OPP is a multi-year outperformance program covering certain senior executives, and authorizes grants of incentive awards linked to absolute and relative total shareholder return (“TSR”) over the applicable three-year performance period. During March 2016, the Compensation Committee adopted the 2016 OPP Plan under the Company’s 2010 Plan. The 2016 OPP is substantially similar to the previous OPPs except that (i) the performance period will run from January 1, 2016 through December 31, 2018, (ii) the maximum bonus pool under the 2016 OPP is \$17.5 million, (iii) the 2016 OPP provides for a target bonus pool equal to \$3.7 million and (iv) the bonus pool will be equal to 3% of the amount by which Total stockholder Return (“TSR”) during the performance period exceeds the applicable goal. For certain participants the 2016 OPP awards will be settled in performance units of the operating partnership (rather than common stock of Hudson Pacific Properties, Inc.).

In December 2015, the board of directors of Hudson Pacific Properties, Inc. awarded special one-time retention grants to certain employees, which includes time-vesting restricted stock and performance-based RSUs. These awards vests over four years (subject to continued employment and, with respect to the RSUs, the achievement of performance goals). Additionally, these awards are subject to a two-year hold upon vesting.

The following table presents the classification and amount recognized for stock compensation related to the Company’s OPP plans and restricted stock awards:

|                                | Three months ended |         | Consolidated Financial Statement Classification                           |
|--------------------------------|--------------------|---------|---|
|                                | 2016               | 2015    |   |
| Expensed stock compensation    | \$3,342            | \$2,149 | general and administrative expenses                                       |
| Capitalized stock compensation | 82                 | 102     | deferred leasing costs and lease intangibles, net and tenant improvements |
| Total stock compensation       | \$3,424            | \$2,251 | additional paid-in capital  |

## 10. Earnings Per Share

The Company 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. The Company calculates diluted earnings per share by dividing the 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. 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 the Company’s basic and diluted per share computations for net income available to common stockholders:

|   | Three months ended |                |
|---|--------------------|----------------|
|   | March 31, 2016     | March 31, 2015 |
| Numerator:                                      |                    |                |
| Net income                                      | \$5,976            | \$24,574       |
| Preferred dividends                             | (159 )             | (3,195 )       |
| Income attributable to participating securities | (197 )             | (70 )          |

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|   |            |           |
|---|------------|-----------|
| Income attributable to non-controlling interest in consolidated entities      | (1,945 )   | (1,502 )  |
| Income attributable to non-controlling units of the operating partnership     | (1,422 )   | (596 )    |
| Numerator for basic and diluted net income available to common stockholders   | \$2,253    | \$ 19,211 |
| Denominator:  |            |           |
| Basic weighted average vested units outstanding                               | 89,190,807 | 6,783,351 |
| Effect of dilutive instruments <sup>(1)</sup>                                 | 407,000    | 547,000   |
| Diluted weighted average vested units and common unit equivalents outstanding | 89,597,807 | 7,330,351 |
| Basic earnings per common share:  | \$0.03     | \$ 0.25   |
| Diluted earnings per common share:  | \$0.03     | \$ 0.25   |

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We include unvested awards as contingently issuable shares in the computation of diluted EPS 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 EPS calculation. Shares related to our 2015 OPP, 2016 OPP (1) and performance based one-time retention grants were excluded from the calculation of dilutive net income per common share for March 31, 2016 because they are not currently expected to be earned. Shares related to our 2015 OPP were excluded from the calculation of dilutive net income per common share for March 31, 2015 since they were not expected to be earned.

## 11. Equity

The tables below present the effect of the Company's derivative financial instruments on accumulated other comprehensive loss ("OCI").

|   | Hudson<br>Pacific<br>Properties,<br>Inc.<br>Stockholder's<br>Equity | Non-controlling<br>interests | Total<br>Equity |
|---|---|------------------------------|-----------------|
| Balance as of January 1, 2016   | \$ 1,081  | \$ (1,017 )                  | \$ 64           |
| Unrealized loss recognized in OCI due to change in fair value of derivative | 10,809  | 6,823                        | 17,632          |
| Loss reclassified from OCI into income (as interest expense)                | (1,322 )  | (835 )                       | (2,157 )        |
| Net change in OCI   | \$ 9,487  | \$ 5,988                     | \$ 15,475       |
| Balance as of March 31, 2016  | \$ 10,568   | \$ 4,971                     | \$ 15,539       |
|   | Hudson<br>Pacific<br>Properties,<br>Inc.<br>Stockholder's<br>Equity | Non-controlling<br>interests | Total<br>Equity |
| Balance as of January 1, 2015   | \$ 2,443  | \$ 218                       | \$ 2,661        |
| Unrealized loss recognized in OCI due to change in fair value of derivative | 767   | 24                           | 791             |
| Loss reclassified from OCI into income (as interest expense)                | (161 )  | (5 )                         | (166 )          |
| Net change in OCI   | \$ 606  | \$ 19                        | \$ 625          |
| Balance as of March 31, 2015  | \$ 3,049  | \$ 237                       | \$ 3,286        |

### Non-controlling interests

#### Common units and performance units in the operating partnership

There were 56,296,315, 56,296,315, and 2,382,563 common units outstanding held by investors, executive officers and directors as of March 31, 2016, December 31, 2015, and March 31, 2015, respectively. Common units and shares

of common stock of Hudson Pacific Properties, Inc. 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 redeem 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 common stock of Hudson Pacific Properties, Inc. in exchange for common units on a one-for-one basis.

Performance units are partnership interests in the operating partnership. Each performance unit awarded will be deemed equivalent to an award of one unit 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 for tax purposes its assets 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.

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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. As of March 31, 2016, December 31, 2015, and March 31, 2015 the Company owned a 65.0% interest in the Pinnacle JV. The Company is the administrator for this joint venture. This joint venture meets the criteria of a VIE and the Company is the primary beneficiary of the Pinnacle JV.

On January 7, 2015, the Company entered into a joint venture with Canada Pension Plan Investment Board (“CPPIB”), through which CPPIB purchased a 45.0% interest in the 1455 Market Street office property located in San Francisco, California. As of March 31, 2016, December 31, 2015, and March 31, 2015 the Company owned a 55% interest in the 1455 Market JV. The Company is the general partner of this joint venture. This joint venture meets the criteria of a VIE and the Company is the primary beneficiary of the 1455 Market JV.

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

6.25% series A cumulative redeemable preferred units of the operating partnership are 407,066 series A preferred units of partnership interest in the operating partnership, or series A preferred units, that 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.

8.375% series B cumulative redeemable preferred stock

5,800,000 shares of 8.375% series B cumulative redeemable preferred stock of Hudson Pacific Properties, Inc., with a liquidation preference of \$25.00 per share, \$0.01 par value per share, were outstanding during the three months ended March 31, 2015. Dividends on the series B preferred stock were cumulative from the date of original issue and payable quarterly on or about the last calendar day of each March, June, September and December, at the rate of 8.375% per annum of its \$25.00 per share liquidation preference. On December 10, 2015, the Company redeemed its series B preferred stock in whole for cash at a redemption price of \$25.00 per share, plus accrued and unpaid dividends to, but not including, the date of redemption.

April 2015 Common Stock Secondary Offering

On April 10, 2015, certain funds affiliated with Farallon Capital Management completed a public offering of 6,037,500 shares of common stock of Hudson Pacific Properties, Inc. The Company did not receive any proceeds from the offering.

April 2015 Common Stock Issuance

On April 1, 2015, in connection with the EOP Acquisition, Hudson Pacific Properties, Inc. issued 8,626,311 shares of common stock as part of the consideration paid.

#### January 2015 Common Stock Offering

On January 20, 2015, Hudson Pacific Properties, Inc. completed the public offering of 11,000,000 shares of common stock and the exercise of the underwriters' over-allotment option to purchase an additional 1,650,000 shares of common stock at the public offering price of \$31.75 per share. Total proceeds from the public offering, after underwriters' discount, were approximately \$385.6 million (before transaction costs).

#### At-the-market program



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The Company's at-the-market ("ATM") program permits sales of up to \$125.0 million of stock. During 2015 and the three months ended March 31, 2016, the Company did not utilize the ATM program. A cumulative total of \$14.5 million has been sold through March 31, 2016.

#### Share repurchase program

On January 20, 2016, the board of directors of Hudson Pacific Properties, Inc. 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 were made during the three months ended March 31, 2016.

#### Dividends

During the first quarter for 2016, the Company declared dividends on common stock and non-controlling common partnership interests of \$0.20 per share and unit. The operating partnership also declared distributions on series A preferred partnership interests of \$0.3906 per unit. The first quarter dividends were declared on March 10, 2016 to holders of record on March 20, 2016.

#### Taxability of Dividends

Earnings and profits, which determine the taxability of distributions to stockholders, may differ from income reported for financial reporting purposes because of 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.

## 12. 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.

#### Corporate Headquarters Lease with 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 Real Estate Partners V and Blackstone Real Estate Partners VI) for the Company's corporate headquarters at 11601 Wilshire Boulevard. The Company previously occupied approximately 40,120 square feet of the property's space. On December 16, 2015, the Company entered into an amendment of that lease to expand the space to approximately 42,371 square feet of the property's space and to extend the term by an additional three years, to a total of ten years, through August 31, 2025. The lease commencement date was September 1, 2015. As of March 31, 2016, the minimum future rents payable under the new lease is \$21.7 million.

#### Agreement 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, proration, 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.

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## The Stockholders Agreement

On April 1, 2015, in connection with the closing of the EOP Acquisition as described above, the Company entered into the Stockholders Agreement (the “Stockholders Agreement”) by and among the Company, the operating partnership, Blackstone Real Estate Advisors L.P. (“BREA”) and Blackstone. The Stockholders Agreement sets forth various arrangements and restrictions with respect to the governance of the Company and certain rights of Blackstone with respect to the shares of common stock of Hudson Pacific Properties, Inc. and common units of the operating partnership received by Blackstone in connection with the EOP Acquisition (the “Equity Consideration”).

Pursuant to the terms of the Stockholders Agreement, in April 2015 the board of directors of Hudson Pacific Properties, Inc. (the “Board”) was expanded from eight to eleven directors, and three director nominees designated by Blackstone to the Board were elected. On January 13, 2016, one of Blackstone’s nominees resigned from the Board, and Blackstone indicated that it would not designate an individual to replace him. Subsequently, the Board voted to decrease its size to ten directors. Subject to certain exceptions, the Board will continue to include Blackstone’s designees in its slate of nominees, and will continue to recommend such nominees, and will otherwise use its reasonable best efforts to solicit the vote of the stockholders of Hudson Pacific Properties, Inc. to elect to the Board the slate of nominees which includes those designated by Blackstone. Blackstone will have the right to designate three nominees for so long as it continues to beneficially own, in the aggregate, greater than 50% of the Equity Consideration. If Blackstone’s beneficial ownership of the Equity Consideration decreases, then the number of director nominees that Blackstone will have the right to designate will be reduced (i) to two, if Blackstone beneficially owns greater than or equal to 30% but less than or equal to 50% of the Equity Consideration and (ii) to one, if Blackstone beneficially owns greater than or equal to 15% but less than 30% of the Equity Consideration. The Board nomination rights of Blackstone will terminate at such time as Blackstone beneficially owns less than 15% of the Equity Consideration or upon written notice of waiver or termination of such rights by Blackstone. So long as Blackstone retains the right to designate at least one nominee to the Board, Hudson Pacific Properties, Inc. will not be permitted to increase the total number of directors comprising the Board to more than twelve persons without the prior written consent of Blackstone.

For so long as Blackstone has the right to designate at least two director nominees, subject to the satisfaction of applicable NYSE independence requirements, Blackstone will also be entitled to appoint one such nominee then serving on the Board to serve on each committee of the Board (other than certain specified committees).

The Stockholders Agreement also includes standstill provisions, which require that, until such time as Blackstone beneficially owns shares of common stock representing less than 10% of the total number of issued and outstanding shares of common stock on a fully-diluted basis, Blackstone and BREA are restricted from, among other things, acquiring additional equity or debt securities (other than non-recourse debt and certain other debt) of the Company without the Company’s prior written consent.

In addition, pursuant to the Stockholders Agreement, until April 1, 2017, the Company is required to obtain the prior written consent of Blackstone prior to the issuance of common equity securities by it or any of its subsidiaries other than up to an aggregate of 16,843,028 shares of common stock (and certain other exceptions).

Further, until such time as Blackstone beneficially owns, in the aggregate, less than 15% of the Equity Consideration, Blackstone will cause all common stock held by it to be voted by proxy (i) in favor of all persons nominated to serve as directors by the Board (or the Nominating and Corporate Governance Committee thereof) in any slate of nominees which includes Blackstone’s nominees and (ii) otherwise in accordance with the recommendation of the Board (to the

extent the recommendation is not inconsistent with the rights of Blackstone under the Stockholders Agreement) with respect to any other action, proposal or other matter to be voted upon by the stockholders of Hudson Pacific Properties, Inc., other than in connection with (A) any proposed transaction relating to a change of control of Hudson Pacific Properties, Inc., (B) any amendments to the charter or bylaws of Hudson Pacific Properties, Inc., (C) any other transaction that Hudson Pacific Properties, Inc. submits to a vote of its stockholders pursuant to Section 312.03 of the NYSE Listed Company Manual or (D) any other transaction that Hudson Pacific Properties, Inc. submits to a vote of its stockholders for approval.

As required by the Stockholders Agreement, the Company has agreed that Blackstone and certain of its affiliates may engage in investments, strategic relationships or other business relationships with entities engaged in other business, including those that compete with the Company, and will have no obligation to present any particular investment or business opportunity to the Company, even if the opportunity is of a character that, if presented to the Company, could be undertaken by the Company. As required by the Stockholders Agreement, to the maximum extent permitted under Maryland law, the Company has renounced

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any interest or expectancy in, or in being offered an opportunity to participate in, any such investment, opportunity or activity presented to or developed by Blackstone, its nominees for election as directors and certain of its affiliates, other than any opportunity expressly offered to a director nominated at the direction of Blackstone in his or her capacity as a director of Hudson Pacific Properties, Inc.

Further, without the prior written consent of Blackstone, Hudson Pacific Properties, Inc. may not amend certain provisions of its bylaws relating to the ability of its directors and officers to engage in other business or to adopt qualification for directors other than those in effect as of the date of the Stockholders Agreement or as are generally applicable to all directors, respectively.

The Stockholders Agreement also includes certain provisions that, together, are intended to enhance the liquidity of common units to be held by Blackstone.

#### Redemption Rights of Blackstone

Under the terms of the Stockholders Agreement, the Company (in its capacity as the general partner of the operating partnership) has waived the 14-month holding period set forth in the Fourth Amended and Restated Limited Partnership Agreement before Blackstone may require the operating partnership to redeem the common units and grants certain additional rights to Blackstone in connection with such redemptions. Among other things, the Company generally must give Blackstone notice before 9:30 a.m. Eastern time on the business day after the business day on which Blackstone gives the Company notice of redemption of any common units of the Company's election, in its sole and absolute discretion, to either (a) cause the operating partnership to redeem all of the tendered common units in exchange for a cash amount per common units equal to the value of one share of common stock on the date that Blackstone provided its notice of redemption, calculated in accordance with and subject to adjustment as provided in the Fourth Amended and Restated Limited Partnership Agreement and the Stockholders Agreement, or (b) subject to the restrictions on ownership and transfer of the Company's stock set forth in its charter, acquire all of the tendered common units from Blackstone in exchange for shares of common stock, based on an exchange ratio of one share of common stock for each common unit, subject to adjustment as provided in the Fourth Amended and Restated Limited Partnership Agreement. If the Company fails to timely provide such notice, the Company will be deemed to have elected to cause the operating partnership to redeem all such tendered common units in exchange for shares of common stock.

The Company may also elect to cause the operating partnership to redeem all common units tendered by Blackstone with the proceeds of a public or private offering of common stock under certain circumstances as discussed more fully below.

#### Restrictions on Transfer of Common Units by Blackstone

Under the terms of the Stockholders Agreement, the Company (in its capacity as the general partner of the operating partnership) has waived the 14-month holding period set forth in the Fourth Amended and Restated Limited Partnership Agreement before Blackstone may transfer any common units, and has agreed to admit any permitted transferee of Blackstone as a substituted limited partner of the operating partnership upon the satisfaction of certain conditions described in the Fourth Amended and Restated Limited Partnership Agreement and the Stockholders Agreement. Nevertheless, the Covered Securities are subject to the transfer restrictions described above.

#### Ownership Limit Waiver

In connection with the issuance of the Equity Consideration, the Board granted to Blackstone and certain of its affiliates a limited exception to the restrictions on ownership and transfer of common stock set forth in the charter of Hudson Pacific Properties, Inc. (the “Charter”) that allows Blackstone and certain of its affiliates to own, directly or indirectly, in the aggregate, up to 17,707,056 shares of common stock of Hudson Pacific Properties, Inc. (the “Excepted Holder Limit”). This exception is conditioned upon the continued accuracy of various representations and covenants set forth in Blackstone’s waiver request delivered on April 1, 2015, confirming, among other things, that neither Blackstone nor certain of its affiliates may own, directly or indirectly, (i) more than 9.9% of the interests in a tenant of the Company (other than a tenant of the 1455 Market Street office property) or (ii) more than 5.45% of the interests in a tenant of the 1455 Market Street office property, in each case subject to certain exceptions that may reduce such ownership percentage, but not below 2% and representations intended to confirm that Blackstone’s and certain of its affiliates’ ownership of common stock of Hudson Pacific Properties, Inc. will not cause Hudson Pacific Properties, Inc. to otherwise fail to qualify as a REIT.

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The exception for Blackstone and certain of its affiliates will apply until (i) Blackstone or any such affiliate violates any of the representations or covenants in Blackstone's waiver request or (ii) (a) Blackstone or any such affiliate owns, directly or indirectly, more than the applicable ownership percentage (as described above) of the interests in any tenant(s) and (b) the maximum rental income expected to be produced by such tenant(s) exceeds (x) 0.5% of the Company's gross income (in the case of tenants other than tenants of the 1455 Market Street office property) or (y) 0.5% of the 1455 Market Street Joint Venture's gross income (in the case of tenants of the 1455 Market Street office property) for any taxable year (the "Rent Threshold"), at which time the number of shares of common stock that Blackstone and certain of its affiliates may directly or indirectly own will be reduced to the number of shares of common stock which would result in the amount of rent from such tenant(s) (that would be treated as related party rents under certain tax rules) representing no more than the Rent Threshold.

In addition, due to Blackstone's ownership of common units of limited partnership interest in the operating partnership and the application of certain constructive ownership rules, the operating partnership will be considered to own the common stock that is directly or indirectly owned by Blackstone and certain of its affiliates. For this reason, the Board has also granted the operating partnership an exception to the restrictions on ownership and transfer of common stock set forth in the Charter.

#### The Registration Rights Agreement

On April 1, 2015, in connection with the closing of the EOP Acquisition, the Company entered into a Registration Rights Agreement, dated April 1, 2015 (the "Registration Rights Agreement"), by and among the Company and Blackstone. The Registration Rights Agreement provides for customary registration rights with respect to the Equity Consideration, including the following:

**Shelf Registration.** On October 27, 2015, the Company filed a prospectus covering Blackstone's shares of common stock received as part of the Equity Consideration as well as shares issuable upon redemption of common units received as part of the Equity Consideration. The Company is required to use its reasonable best efforts to keep such resale shelf registration statement effective for as long as Blackstone continues to hold such shares of common stock.

**Demand Registrations.** Beginning November 1, 2015 (or earlier if transfer restrictions under the Stockholders Agreement are terminated earlier), Blackstone may cause the Company to register their shares if the foregoing resale shelf registration statement is not effective or if the Company is not eligible to file a shelf registration statement.

**Qualified Offerings.** Any registered offerings requested by Blackstone that are to an underwriter on a firm commitment basis for reoffering and resale to the public, in an offering that is a "bought deal" with one or more investment banks or in a block trade with a broker-dealer will be (subject to certain specified exceptions): (i) no more frequent than once in any 120-day period, (ii) subject to underwriter lock-ups from prior offerings then in effect, and (iii) subject to a minimum offering size of \$50.0 million.

**Piggy-Back Rights.** Beginning November 1, 2015 (or earlier if transfer restrictions under the Stockholders Agreement are terminated earlier), Blackstone is permitted to, among other things, participate in offerings for the Company's account or the account of any other security holder of the Company (other than in certain specified cases). If underwriters advise that the success of a proposed offering would be significantly and adversely affected by the inclusion of all securities in an offering initiated by the Company for the Company's own account, then the securities proposed to be included by Blackstone together with other stockholders exercising similar piggy-back rights are cut back first.

## Limited Partnership Agreement

On April 1, 2015, in connection with the closing of the EOP Acquisition, the Company, as the general partner of the operating partnership, entered into the Third Amended and Restated Agreement of Limited Partnership of the operating partnership dated April 1, 2015 along with Blackstone and the other limited partners of the operating partnership. The principal changes to the Second Amended and Restated Agreement of Limited Partnership of the operating partnership, as amended and as in effect immediately prior to the closing of the EOP Acquisition, made by the Third Amended and Restated Limited Partnership Agreement were to add the provisions described below. The Third Amended and Restated Limited Partnership Agreement was subsequently amended and restated on December 17, 2015 by the Fourth Amended and Restated Limited Partnership Agreement of the operating partnership.



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

The Stockholders Agreement prohibits the Company, without the prior written consent of Blackstone, from amending certain provisions of the Fourth Amended and Restated Limited Partnership Agreement in a manner adverse in any respect to Blackstone (in its capacity as limited partners of the operating partnership), or to add any new provision to the Fourth Amended and Restated Limited Partnership Agreement that would have a substantially identical effect or from taking any action that is intended to or otherwise would have a substantially identical effect.

#### Restrictions on Mergers, Sales, Transfers and Other Significant Transactions of the Company

Prior to the date on which Blackstone and any of its affiliates own less than 9.8% of the Equity Consideration, the Company may not consummate any of (a) a merger, consolidation or other combination of the Company's or the operating partnership's assets with another person, (b) a sale of all or substantially all of the assets of the operating partnership, (c) sale of all or substantially all of the Company's assets not in the ordinary course of the operating partnership's business or (d) a reclassification, recapitalization or change in the Company's outstanding equity securities (other than in connection with a stock split, reverse stock split, stock dividend, change in par value, increase in authorized shares, designation or issuance of new classes of equity securities or any event that does not require the approval of the Company's stockholders), in each case, which is submitted to the holders of the common stock of Hudson Pacific Properties, Inc. for approval, unless such transaction is also approved by the partners of the operating partnership holding common units on a "pass through" basis, which, in effect, affords the limited partners of the operating partnership that hold common units the right to vote on such transaction as though such limited partners held the number of shares of common stock into which their common units were then exchangeable and voted together with the holders of the outstanding common stock of Hudson Pacific Properties, Inc. with respect to such transaction.

#### Stock Offering Funding of Redemption

If Blackstone or any of its affiliates who become limited partners of the operating partnership ("Specified Limited Partners") delivers a notice of redemption with respect to common units that, if exchanged for common stock, would result in a violation of the Excepted Holder Limit (as defined below) or otherwise violate the restrictions on ownership and transfer of the Company's stock set forth in its charter and that have an aggregate value in excess of \$50.0 million as calculated pursuant to the terms of the Fourth Amended and Restated Limited Partnership Agreement, then, if the Company is then eligible to register the offering of its securities on Form S-3 (or any successor form similar thereto), the Company may elect to cause the operating partnership to redeem such common units with the net proceeds from a public or private offering of the number of shares of common stock that would be deliverable in exchange for such common units but for the application of the Excepted Holder Limit and other restrictions on ownership and transfer of the Company's stock. If the Company elects to fund the redemption of any common units with such an offering, it will allow all Specified Limited Partners the opportunity to include additional common units held by such Specified Limited Partners in such redemption.

#### Blackstone Margin Loan

HPP BREP V Holdco A LLC ("Borrower"), an affiliate of Blackstone, has entered into (i) a Margin Loan Agreement (the "Loan Agreement") dated as of December 29, 2015 with the lenders party thereto (each, a "Lender" and, collectively, the "Lenders") and the administrative agent party thereto and (ii) Pledge and Security Agreements dated as of December 31, 2015, in each case, between one of the Lenders, as secured party, and Borrower, as pledgor (the "Borrower Pledge Agreements"), and certain of Borrower's affiliates (each, a "Holdco A Guarantor" and collectively, the "Holdco A Guarantors") each entered into (i) with each Lender, a Pledge and Security Agreement dated as of December 31, 2015

(each, a “Holdco A Guarantor Pledge Agreement” and, collectively with the Borrower Pledge Agreements, the “Pledge Agreements”) and (ii) with the administrative agent and the Lenders, a Guarantee dated as of December 31, 2015 of the Borrower’s obligations under the Loan Agreement (each, a “Holdco A Guarantee” and collectively the “Holdco A Guarantees”). In addition, certain of Borrower’s other affiliates (each, a “Holdco B Guarantor” and collectively, the “Holdco B Guarantors” and, together with the Holdco A Guarantors, the “Guarantors”) each entered into, with the administrative agent and the Lenders, a Guarantee dated as of December 31, 2015 of the Borrower’s obligations under the Loan Agreement (each, a “Holdco B Guarantee” and, collectively with the Holdco A Guarantees, the Loan Agreement, the Pledge Agreements and substantially similar pledge and security agreements entered into since December 31, 2015, the “Loan Documents”). Each of the Borrower, the Holdco A Guarantors and the Holdco B Guarantors is affiliated with Blackstone.

As of December 31, 2015, the Borrower has borrowed an aggregate of \$350.0 million under the Loan Agreement. Subject to the satisfaction of certain conditions, the Borrower may borrow up to an additional \$150.0 million on or after March 1, 2016. The scheduled maturity date of the loans under the Loan Agreement is December 31, 2017, which may be extended at the election

Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P.  
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of the Borrower until December 31, 2018. To secure borrowings under the Loan Agreement, the Borrower and the Guarantors have collectively pledged 8,276,945 shares of common stock and 52,627,118 common units in the operating partnership, as well as their respective rights under the Registration Rights Agreement.

Upon the occurrence of certain events that are customary for this type of loan, the Lenders may exercise their rights to require the Borrower to pre-pay the loan proceeds, post additional collateral, or foreclose on, and dispose of, the pledged shares of common stock of Hudson Pacific Properties, Inc. and pledged common units in the operating partnership in accordance with the Loan Documents.

The Company did not independently verify the foregoing disclosure regarding the margin loan. In addition, the Company is not a party to the Loan Documents and has no obligations thereunder, but has delivered an Issuer Agreement to each of the Lenders in which it has, among other things, agreed to certain obligations relating to the pledged shares of the common stock of Hudson Pacific Properties, Inc. and pledged common units in the operating partnership and, subject to applicable law and stock exchange rules, agreed not to take any actions that are intended to materially hinder or delay the exercise of any remedies with respect to the pledged shares of the common stock of Hudson Pacific Properties, Inc. and pledged common units in the operating partnership.

### 13. 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 March 31, 2016, 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 March 31, 2016, 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, entertainment and technology industries. As of March 31, 2016, approximately 13.3% and 28.3% of rentable square feet were related to the media and entertainment and technology industries, respectively.

As of March 31, 2016, the Company's 15 largest tenants represented approximately 27.7% of its rentable square feet. During the three months ended March 31, 2016, no single tenant accounted for more than 10%.

#### Letters of Credit

As of March 31, 2016, the Company has outstanding letters of credit totaling approximately \$3.3 million under the unsecured revolving credit facility. The letters of credit are primarily related to utility company security deposit requirements.

### 14. Subsequent Events

Patrick Henry Drive disposition

On April 7, 2016, the Company sold its 70,520-square-foot Patrick Henry Drive office property in Santa Clara, California for \$19.0 million (before certain credits, prorations, and closing costs). The Company acquired Patrick Henry Drive from Blackstone as part of the EOP Acquisition in 2015.

#### Sales agreements

On April 25, 2016, the Company entered into an agreement to sell its now fully pre-leased, 100,007-square-foot 12655 Jefferson redevelopment in Playa Vista, California for \$80.0 million (before certain credits, prorations and closing costs).

#### Significant leasing activity

On May 4, 2016, the Company executed a long-term renewal with Qualcomm Technologies Inc. for 365,502 square feet at the three-building, Skyport Plaza office campus in North San Jose, California. The terms of the renewal became effective as of April 1, 2016, increased office rental income and extended the expiration of this major lease to August 2022.

#### Debt activity

On May 3, 2016, the Company drew on the \$175.0 million 5-Year Term Loan due November 2020 and \$125.0 million 7-Year Term Loan due November 2022 that were entered into on November 17, 2015. Amounts drawn were used to fully pay down the 901 Market mortgage loan and unsecured revolving credit facility, and partially pay down the Sunset Gower/Sunset Bronson mortgage loans and the 5-Year Term Loan due April 2020. Additionally, the Company entered into a interest rate swap on its 7-Year Term Loan due November 2022 to effectively fix the interest rate at 3.03% to 3.98%.

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.

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;

• 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;

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• 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.

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.



## Historical Results of Operations

This Quarterly Report on Form 10-Q of Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P. for the three months ended March 31, 2016 represents an update to the more detailed and comprehensive disclosures included in the Annual Report on Form 10-K of Hudson Pacific Properties, Inc. and Hudson Pacific Properties, L.P. for the year ended December 31, 2015. Accordingly, you should read the following discussion in conjunction with the information included in our Annual Report on Form 10-K for the year ended December 31, 2015, as well as the unaudited financial statements included in Part I, Item I 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 first quarter and beyond. See “Forward-Looking Statements.”

## Overview

The following table identifies each of the properties in our portfolio acquired through March 31, 2016 and their respective actual or estimated acquisition date.

| Properties  | Actual or Estimated Acquisition Date | Square Feet | Consideration Paid (In thousands) |
|---|--------------------------------------|-------------|-----------------------------------|
| Predecessor properties:   |                                      |             |                                   |
| 875 Howard Street   | 2/15/2007                            | 286,270     | \$ —                              |
| Sunset Gower  | 8/17/2007                            | 545,673     | —                                 |
| Sunset Bronson  | 1/30/2008                            | 308,026     | —                                 |
| Technicolor Building  | 6/1/2008                             | 114,958     | —                                 |
| Properties acquired after initial public offering:  |                                      |             |                                   |
| Del Amo Office  | 8/13/2010                            | 113,000     | 27,327                            |
| 9300 Wilshire Blvd.   | 8/24/2010                            | 61,224      | 14,684                            |
| 222 Kearny Street   | 10/8/2010                            | 148,797     | 34,174                            |
| 1455 Market <sup>(1)</sup>  | 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   | 8/19/2011                            | 54,673      | 12,370                            |
| 625 Second Street   | 9/1/2011                             | 138,080     | 57,119                            |
| 6922 Hollywood Blvd.  | 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 <sup>(2)</sup>   | 11/8/2012                            | 393,777     | 209,504                           |
| 3401 Exposition   | 5/22/2013                            | 63,376      | 25,722                            |
| Pinnacle II <sup>(2)</sup>  | 6/14/2013                            | 230,000     | 136,275                           |
| Seattle Portfolio (First & King, Met Park North and Northview)                              | 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                            |
| 3402 Pico Blvd. (Existing Office)   | 2/28/2014                            | 50,687      | 18,546                            |
| 12655 Jefferson   | 10/14/2014                           | 100,756     | 38,000                            |
| EOP Northern California Portfolio (see table on next page for property list) <sup>(3)</sup> | 4/1/2015                             | 8,201,456   | 3,815,727                         |
| 4th & Traction  | 5/22/2015                            | 120,937     | 49,250                            |
| 405 Mateo   | 8/17/2015                            | 83,285      | 40,000                            |
| Properties under development <sup>(4)</sup> :   |                                      |             |                                   |
| Icon—Building I Tower   | Q4-2016                              | 323,273     | N/A                               |
| Icon—Building II  | Q3-2017                              | 90,000      | N/A                               |
| Merrill Place—450 Alaskan Way   | Q4-2017                              | 166,800     | N/A                               |
| Total   |                                      | 15,174,779  | \$ 5,543,940                      |

(1) We sold a 45% joint venture interest in the 1455 Market property on January 7, 2015.



We acquired a 98.25% joint venture interest in the Pinnacle I property on November 8, 2012. On June 14, 2013, (2) our joint venture partner contributed its interest in Pinnacle II, which reduced our entire interest in the joint venture to 65.0%.

(3) Includes Bayhill Office Center, which was sold on January 14, 2016, and Patrick Henry Drive, which was sold on April 7, 2016.

(4) The properties under development were included within acquisitions listed above.

(5) We estimate this development will be completed in the fourth quarter of 2016 and stabilized in the third quarter of 2018.

(6) We estimate this development will be completed in the third quarter of 2017 and stabilized in the third quarter of 2018.

(7) We estimate this development will be completed in the fourth quarter of 2017 and stabilized in the first quarter of 2018.

The following table identifies each of the properties that were part of the EOP Acquisition:

EOP Northern California Portfolio

| Properties                         | Actual Acquisition Date | Square Feet |
|------------------------------------|-------------------------|-------------|
| Properties currently owned:        |                         |             |
| One Bay Plaza                      | 4/1/2015                | 195,739     |
| Metro Center Tower                 | 4/1/2015                | 730,215     |
| 2180 Sand Hill Road                | 4/1/2015                | 45,613      |
| Campus Center                      | 4/1/2015                | 471,580     |
| Palo Alto Square                   | 4/1/2015                | 328,251     |
| Lockheed Building                  | 4/1/2015                | 42,899      |
| 3400 Hillview                      | 4/1/2015                | 207,857     |
| Foothill Research Ctr              | 4/1/2015                | 195,376     |
| Clocktower Square Bldg             | 4/1/2015                | 100,344     |
| Page Mill Center                   | 4/1/2015                | 176,245     |
| 555 Twin Dolphin Plaza             | 4/1/2015                | 198,936     |
| Shorebreeze                        | 4/1/2015                | 230,932     |
| 333 Twin Dolphin Plaza             | 4/1/2015                | 182,789     |
| Towers at Shore Center             | 4/1/2015                | 334,483     |
| Skyway Landing                     | 4/1/2015                | 247,173     |
| Gateway Office                     | 4/1/2015                | 609,093     |
| Metro Plaza                        | 4/1/2015                | 456,921     |
| 1740 Technology                    | 4/1/2015                | 206,876     |
| Skyport Plaza                      | 4/1/2015                | 418,086     |
| Peninsula Office Park              | 4/1/2015                | 510,789     |
| Concourse                          | 4/1/2015                | 944,386     |
| Techmart Commerce Center           | 4/1/2015                | 284,440     |
| Embarcadero Place                  | 4/1/2015                | 197,402     |
| Properties sold/held for sale:     |                         |             |
| Bayhill Office Center              | 4/1/2015                | 554,328     |
| Patrick Henry Drive <sup>(1)</sup> | 4/1/2015                | 70,520      |
| Total                              |                         | 7,941,273   |

(1) Sold on April 7, 2016 and reflected as held for sale on our Consolidated Balance Sheets.



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 I of this Quarterly Report rather than the rounded numbers appearing in this discussion.

Comparison of the three months ended March 31, 2016 to the three months ended March 31, 2015

### 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 as measured by GAAP and should not be considered an alternative to income from continuing operations or cash flows, as an indication of our performance or of our ability to make distributions, or as a measure of our liquidity. 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 on occupancy rates, rental rates and operating costs, thus providing a perspective not immediately apparent from income from continuing operations. 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 excludes corporate general and administrative expenses, depreciation and amortization, impairments, gain/loss on sale of real estate, interest expense, acquisition-related expenses and other non-operating items. We believe that NOI on a cash basis (which we define as NOI on a GAAP basis, adjusted to exclude the effect of straight-line rent and other non-cash adjustments required by GAAP) is helpful to investors as an additional measure of operating performance.

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

Same-store properties, which include all of the properties owned and included in our stabilized portfolio as of January 1, 2015 and still owned and included in the stabilized portfolio as of March 31, 2016;

Non-same-store properties, development projects, redevelopment properties and lease-up properties as of March 31, 2016 and other properties not owned or in operation from January 1, 2015 through March 31, 2016. For the three months ended March 31, 2016, the non-same-store properties include the activity from the EOP Acquisition.

|  | Three Months Ended March 31, |           |                |
|--|------------------------------|-----------|----------------|
|  | 2016                         | 2015      | Percent Change |
| <b>Same-store office statistics</b>        |                              |           |                |
| Number of properties                       | 21                           | 21        |                |
| Rentable square feet                       | 4,582,485                    | 4,582,485 |                |
| Ending % leased                            | 94.2 %                       | 94.1 %    | 0.1 %          |
| Ending % occupied                          | 91.9 %                       | 93.2 %    | (1.4 )%        |
| Average % occupied for the period          | 90.4 %                       | 91.9 %    | (1.6 )%        |
| Average annual rental rate per square foot | \$35.34                      | \$33.33   | 6.0 %          |
| <b>Same-store media statistics</b>         |                              |           |                |
| Number of properties                       | 2                            | 2         |                |
| Rentable square feet                       | 879,652                      | 879,652   |                |
| Average % occupied for the period          | 81.6 %                       | 76.5 %    | 6.7 %          |



|  | Three Months Ended March 31, |                |           | 2015       |                |          |
|--|------------------------------|----------------|-----------|------------|----------------|----------|
|  | 2016                         |                | Total     | 2015       |                | Total    |
|  | Same-store                   | Non-same-store | Total     | Same-store | Non-same-store | Total    |
| <b>Operating Revenues</b>                |                              |                |           |            |                |          |
| <b>Office</b>                            |                              |                |           |            |                |          |
| Rental                                   | \$39,278                     | \$ 76,949      | \$116,227 | \$37,787   | \$ 3,789       | \$41,576 |
| Tenant recoveries                        | 7,873                        | 12,660         | 20,533    | 5,493      | 571            | 6,064    |
| Parking and other                        | 4,167                        | 1,365          | 5,532     | 4,227      | 1,068          | 5,295    |
| Total office revenues                    | \$51,318                     | \$ 90,974      | \$142,292 | \$47,507   | \$ 5,428       | \$52,935 |
| <b>Media &amp; Entertainment</b>         |                              |                |           |            |                |          |
| Rental                                   | \$6,028                      | \$ —           | \$6,028   | \$5,467    | \$ —           | \$5,467  |
| Tenant recoveries                        | 199                          | —              | 199       | 240        | —              | 240      |
| Other property-related revenue           | 4,969                        | —              | 4,969     | 4,109      | —              | 4,109    |
| Other                                    | 49                           | —              | 49        | 73         | —              | 73       |
| Total Media & Entertainment revenues     | \$11,245                     | \$ —           | \$11,245  | \$9,889    | \$ —           | \$9,889  |
| Total revenues                           | \$62,563                     | \$ 90,974      | \$153,537 | \$57,396   | \$ 5,428       | \$62,824 |
| <b>Operating expenses</b>                |                              |                |           |            |                |          |
| Office operating expenses                | \$17,762                     | \$ 29,941      | \$47,703  | \$15,955   | \$ 1,180       | \$17,135 |
| Media & Entertainment operating expenses | 5,952                        | —              | 5,952     | 6,005      | —              | 6,005    |
| Total operating expenses                 | \$23,714                     | \$ 29,941      | \$53,655  | \$21,960   | \$ 1,180       | \$23,140 |
| Office NOI                               | \$33,556                     | \$ 61,033      | \$94,589  | \$31,552   | \$ 4,248       | \$35,800 |
| Media & entertainment NOI                | 5,293                        | —              | 5,293     | 3,884      | —              | 3,884    |
| NOI                                      | \$38,849                     | \$ 61,033      | \$99,882  | \$35,436   | \$ 4,248       | \$39,684 |



|  | Three months ended March 31, 2016 as compared to<br>Three months ended March 31, 2015 |         |                |          |          |         |
|--|---|---------|----------------|----------|----------|---------|
|  | Same-store  |         | Non-same-store |          | Total    |         |
|  | Dollar  | Percent | Dollar         | Percent  | Dollar   | Percent |
|  | Change  | Change  | Change         | Change   | Change   | Change  |
| Operating Revenues                       |   |         |                |          |          |         |
| Office                                   |   |         |                |          |          |         |
| Rental                                   | \$1,491   | 3.9 %   | \$73,160       | 1,930.9% | \$74,651 | 179.6 % |
| Tenant recoveries                        | 2,380   | 43.3    | 12,089         | 2,117.2  | 14,469   | 238.6   |
| Parking and other                        | (60)  | (1.4)   | 297            | 27.8     | 237      | 4.5     |
| Total office revenues                    | \$3,811   | 8.0 %   | \$85,546       | 1,576.0% | \$89,357 | 168.8 % |
| Media & Entertainment                    |   |         |                |          |          |         |
| Rental                                   | \$561   | 10.3 %  | \$—            | —        | \$561    | 10.3 %  |
| Tenant recoveries                        | (41)  | (17.1)  | —              | —        | (41)     | (17.1)  |
| Other property-related revenue           | 860   | 20.9    | —              | —        | 860      | 20.9    |
| Other                                    | (24)  | (32.9)  | —              | —        | (24)     | (32.9)  |
| Total Media & Entertainment revenues     | \$1,356   | 13.7 %  | \$—            | —        | \$1,356  | 13.7 %  |
| Total revenues                           | \$5,167   | 9.0 %   | \$85,546       | 1,576.0% | \$90,713 | 144.4 % |
| Operating expenses                       |   |         |                |          |          |         |
| Office operating expenses                | \$1,807   | 11.3 %  | \$28,761       | 2,437.4% | \$30,568 | 178.4 % |
| Media & Entertainment operating expenses | (53)  | (0.9)   | —              | —        | (53)     | (0.9)   |
| Total operating expenses                 | \$1,754   | 8.0 %   | \$28,761       | 2,437.4% | \$30,515 | 131.9 % |
| Office NOI                               | \$2,004   | 6.4 %   | \$56,785       | 1,336.7% | \$58,789 | 164.2 % |
| Media & entertainment NOI                | 1,409   | 36.3    | —              | —        | 1,409    | 36.3    |
| NOI                                      | \$3,413   | 9.6 %   | \$56,785       | 1,336.7% | \$60,198 | 151.7 % |

|   | Three months ended |                |               |                   |
|---|--------------------|----------------|---------------|-------------------|
|   | March 31, 2016     | March 31, 2015 | Dollar Change | Percentage Change |
| Reconciliation to net income                                    |                    |                |               |                   |
| Same-store NOI  | \$38,849           | \$35,436       | \$3,413       | 9.6 %             |
| Non-same-store NOI  | 61,033             | 4,248          | 56,785        | 1,336.7           |
| General and administrative                                      | (12,503)           | (9,200)        | (3,303)       | 35.9              |
| Depreciation and amortization                                   | (68,368)           | (17,158)       | (51,210)      | 298.5             |
| Income from operations  | \$19,011           | \$13,326       | \$5,685       | 42.7 %            |
| Interest expense  | \$(17,251)         | \$(5,493)      | \$(11,758)    | 214.1 %           |
| Interest income   | 13                 | 53             | (40)          | (75.5)            |
| Unrealized loss on ineffective portion of derivative instrument | (2,125)            | —              | (2,125)       | 100.0             |
| Acquisition-related expense                                     | —                  | (6,044)        | 6,044         | (100.0)           |
| Other (expense) income  | (24)               | 41             | (65)          | (158.5)           |
| Gain from sale of real estate                                   | 6,352              | 22,691         | (16,339)      | (72.0)            |
| Net income  | \$5,976            | \$24,574       | \$(18,598)    | (75.7) %          |

Total NOI increased \$60.2 million, or 152%, for the three months ended March 31, 2016 as compared to the three months ended March 31, 2015, primarily due to:

A \$2.0 million, or 6%, increase in NOI from our same-store office properties resulting primarily from the lease-up of our 1455 Market (Uber) property and increased tenant recoveries at our Technicolor property due to a non-recurring property tax refund in 2015. The increase was partially offset by decreased occupancy at the Pinnacle I and 6922 Hollywood properties.

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A \$56.8 million, or 1,337%, increase in NOI from our non-same-store office store properties resulting primarily from the EOP Acquisition. The remaining increase is as a result of lease-up of our Element LA (Riot Games) and 901 Market (Saks) properties. This increase was partially offset by the sale of our First Financial property on March 5, 2015.

A \$1.4 million, or 36% increase in NOI from our same-store media and entertainment properties resulting primarily from a result of lease-up of Sunset Bronson. In the first quarter of 2015, the Company decided to take certain buildings and stages off-line to facilitate our ICON development and other longer-term plans for the Sunset Bronson property.

#### Office NOI

##### Same-Store

Office rental revenue increased \$1.5 million, or 4%, to \$39.3 million for the three months ended March 31, 2016 compared to \$37.8 million for the three months ended March 31, 2015. The increase is primarily due to rental income relating to new leases signed at our 1455 Market (Uber) at higher rents than expiring leases, partially offset by a decrease in occupancy at our Pinnacle I and 6922 Hollywood properties.

Office tenant recoveries increased \$2.4 million, or 43%, to \$7.9 million for three months ended March 31, 2016 compared to \$5.5 million for the three months ended March 31, 2015. The increase is primarily related to a \$1.1 million one-time property tax recoveries resulting from the reassessment of the Technicolor property in 2016. The remaining increase in tenant recoveries is related to various same-store properties increases in occupancy and operating expenses.

Office parking and other revenue was flat at \$4.2 million for the three months ended March 31, 2016 and March 31, 2015.

Office operating expenses increased by \$1.8 million, or 11%, to \$17.8 million for the three months ended March 31, 2016 compared to \$16.0 million for the three months ended March 31, 2015. Increase in operating expenses is due to general increases in occupancy.

##### Non-Same-Store

Office rental revenue increased \$73.2 million, or 1,931%, to \$76.9 million for the three months ended March 31, 2016 compared to \$3.8 million for the three months ended March 31, 2015. The increase is primarily due to the EOP Acquisition and 100% occupancy at our Element LA property, partially offset by the sale of First Financial during the first quarter of 2015.

Office tenant recoveries increased \$12.1 million, or 2,117%, to \$12.7 million for three months ended March 31, 2016 compared to \$0.6 million for the three months ended March 31, 2015. The increase is primarily due to the EOP Acquisition and 100% occupancy at our Element LA property, partially offset by the sale of First Financial during the first quarter of 2015.

Office parking and other revenue increased by \$0.3 million, or 28%, to \$1.4 million for the three months ended March 31, 2016 compare to \$1.1 million for the three months ended March 31, 2015. The increase is primarily due to the EOP Acquisition.

Office operating expenses increased by \$28.8 million, or 2,437%, to \$29.9 million for the three months ended March 31, 2016 compared to \$1.2 million for the three months ended March 31, 2015. The increase is primarily due to the EOP Acquisition and 100% occupancy at our Element LA property, partially offset by the sale of First Financial during the first quarter of 2015.

#### Same-Store Media & Entertainment NOI

Media and entertainment, rental revenue, tenant recoveries and other property-related revenue increased by \$1.4 million, or 14%, to \$11.2 million for the three months ended March 31, 2016 compared to \$9.9 million for the three months ended March 31, 2015. The increase is primarily due to a \$0.9 million increase in other property-related revenue to \$5.0 million and a \$0.6 million increase in rental revenue to \$6.0 million. The increase in other property-related revenue largely

resulted from higher production activity at Sunset Bronson compared to the same period a year ago, while the increase in rental revenue stemmed from higher occupancy at both Sunset Gower and Sunset Bronson.

Media and entertainment operating expenses were flat at \$6.0 million for the three months ended March 31, 2016 and March 31, 2015.

#### Other Expenses (Income)

##### General and Administrative Expenses

General and administrative expense include wages and salaries for corporate-level employees, accounting, legal and other professional services, office supplies, entertainment, travel, and automobile expenses, telecommunications and computer-related expenses, and other miscellaneous items. General and administrative expenses increased \$3.3 million, or 35.9%, to \$12.5 million for the three months ended March 31, 2016 compared to \$9.2 million for the three months ended March 31, 2015. The increase in general and administrative expenses was primarily attributable to the adoption of the 2016 OPP, granting of the special one-time retention awards, and increased staffing to meet operational needs arising from growth related to the EOP Acquisition.

##### Depreciation and Amortization

Depreciation and amortization expense increased \$51.2 million, or 298.5%, to \$68.4 million for the three months ended March 31, 2016 compared to \$17.2 million for the three months ended March 31, 2015. The increase was primarily related to depreciation expenses associated with properties in the EOP Acquisition. The remaining increase is related to tenant improvement depreciation expense associated with the lease-up of our Element LA and 1455 Market properties, partially offset by the reduction of depreciation expense as a result of the sale of our First Financial property on March 5, 2015.

##### Interest Expense

Interest expense increased \$11.8 million, or 214.1%, to \$17.3 million for the three months ended March 31, 2016 compared to \$5.5 million for the three months ended March 31, 2015. At March 31, 2016, we had \$2.1 billion of notes payable, compared to \$920.9 million at March 31, 2015, excluding net deferred financing costs and net unamortized loan premium. The increase was primarily attributable to \$1.3 billion of term loan borrowings as a result of the EOP Acquisition, partially offset by interest savings related to our repayment of indebtedness associated with our 275 Brannan property and repayment of debt associated with the sale of our First Financial property on March 5, 2015.

##### Unrealized loss on ineffective portion of derivative instruments

During the three months ended March 31, 2016, we incurred a one-time expense of \$2.1 million related to a portion of our derivative instruments that were evaluated to be ineffective during the first quarter of 2016.

##### Acquisition-related expenses

During the three months ended March 31, 2015, we incurred \$6.0 million of acquisition-related expenses associated with the EOP Acquisition with no such expense during the three months ended March 31, 2016.

##### Gain on sale of real estate

On January 14, 2016, we completed the sale of our Bayhill Office property for \$215.0 million (before certain credits, prorations, and closing costs), which generated a \$6.4 million of gain on sale of real estate for three months ended March 31, 2016 as compared to a \$22.7 million gain on sale of real estate for the three months ended March 31, 2015 resulting from the sale of our First Financial property for \$89.0 million (before certain credits, prorations, and closing costs) on March 5, 2015.

## Liquidity and Capital Resources

We had approximately \$57.4 million of cash and cash equivalents at March 31, 2016.

As of March 31, 2016, we had total borrowing capacity of \$400.0 million under our unsecured revolving credit facility, \$50.0 million of which had been drawn.

We have an at-the-market equity offering program, or ATM program, that allows us to sell up to \$125.0 million of common stock, \$14.5 million of which has been sold as of March 31, 2016.

On January 20, 2016, our board of directors authorized a share repurchase program to buy up to \$100.0 million of our outstanding common stock. No share repurchases were made during the three months ended March 31, 2016.

We intend to use the unsecured revolving credit facility, the term loan agreements entered in November 2015 and ATM program, among other things, 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.

Based on the closing price of our common stock of \$28.92 on March 31, 2016, our ratio of debt to total market capitalization was approximately 33.2% (counting series A preferred units as debt) as of March 31, 2016. Our total market capitalization is defined as the sum of the market value of our outstanding common stock (which may decrease, thereby increasing our debt to total capitalization ratio), including restricted stock that we may issue to certain of our directors and executive officers, plus the aggregate value of common units not owned by us, plus the liquidation preference of outstanding series A preferred units, plus the book value of our total consolidated indebtedness.

Our short-term liquidity requirements primarily consist of operating expenses and other expenditures associated with our properties, distributions to our limited partners and dividend payments to our stockholders required to maintain our REIT status, capital expenditures and, potentially, acquisitions. We expect to meet our short-term liquidity requirements through cash on hand, net cash provided by operations, reserves established from existing cash and, if necessary, by drawing upon our unsecured revolving credit facility.

Our long-term liquidity needs consist primarily of funds necessary to pay for the repayment of debt at maturity, property acquisitions and non-recurring capital improvements. We expect to meet our long-term liquidity requirements with net cash from operations, long-term secured and unsecured indebtedness and the issuance of equity and debt securities. We also may fund property acquisitions and non-recurring capital improvements using our unsecured revolving credit facility pending permanent financing.

We believe we have access to multiple sources of capital to fund our long-term liquidity requirements, including the incurrence of additional debt and the issuance of additional equity. However, our ability to incur additional debt will be dependent on a number of factors, including our degree of leverage, the value of our unencumbered assets and borrowing restrictions that may be imposed by lenders. Our ability to access the equity capital markets will be dependent on a number of factors as well, including general market conditions for REITs and market perceptions about us.

## Outstanding Indebtedness

Our indebtedness creates the possibility that we may be unable to generate cash sufficient to pay the principal of, interest on or other amounts in respect of our indebtedness and other obligations. In addition, we may incur additional

debt from time to time to finance strategic acquisitions, investments, joint ventures or for other purposes, subject to the restrictions contained in the documents governing our indebtedness. If we incur additional debt, the risks associated with our leverage, including our ability to service our debt, would increase.

As of March 31, 2016, we had outstanding notes payable of \$2.1 billion (before \$0.9 million loan premium and \$18.4 million of deferred finance costs), of which \$1.16 billion, or 55.3%, was variable rate debt. \$714.5 million of the variable rate debt is subject to the interest rate contracts described in Note 6 to our Consolidated Financial Statements—Derivative Instruments.



The following table sets forth information as of March 31, 2016 and December 31, 2015 with respect to our outstanding indebtedness, excluding net deferred financing costs related to unsecured revolving credit facility and undrawn term loans.

|   | March 31, 2016   |  | December 31, 2015        |  | Interest Rate <sup>(1)</sup> | Contractual Maturity Date |      |
|---|------------------|--|--------------------------|--|------------------------------|---------------------------|------|
|   | Principal Amount | Unamortized Loan Premium and Deferred Financing Costs, net | Principal Amount         | Unamortized Loan Premium and Deferred Financing Costs, net |                              |                           |      |
| <b>Unsecured Loans</b>  |                  |  |                          |  |                              |                           |      |
| Unsecured Revolving Credit Facility <sup>(2)</sup>                  | \$ 50,000        | \$ —   | \$ 230,000               | \$ —   | LIBOR+ 1.15% to 1.85%        | 4/1/2019                  | (11) |
| 5-Year Term Loan due April 2020 <sup>(2)(3)</sup>                   | 550,000          | (5,243 )   | 550,000                  | (5,571 )   | LIBOR+ 1.30% to 2.20%        | 4/1/2020                  |      |
| 5-Year Term Loan due November 2020 <sup>(2)</sup>                   | —                | —  | —                        | —  | LIBOR +1.30% to 2.20%        | 11/17/2020                |      |
| 7-Year Term Loan due April 2022 <sup>(2)(4)</sup>                   | 350,000          | (2,549 )   | 350,000                  | (2,656 )   | LIBOR+ 1.60% to 2.55%        | 4/1/2022                  |      |
| 7-Year Term Loan due November 2022 <sup>(2)</sup>                   | —                | —  | —                        | —  | LIBOR + 1.60% to 2.55%       | 11/17/2022                |      |
| Series A Notes  | 110,000          | (1,049 )   | 110,000                  | (1,011 )   | 4.34%                        | 1/2/2023                  |      |
| Series B Notes  | 259,000          | (2,462 )   | 259,000                  | (2,378 )   | 4.69%                        | 12/16/2025                |      |
| Series C Notes  | 56,000           | (576 )   | 56,000                   | (509 )   | 4.79%                        | 12/16/2027                |      |
| Total Unsecured Loans   | \$ 1,375,000     | \$ (11,879 )   | \$ 1,555,000             | \$ (12,125 )   |                              |                           |      |
| <b>Mortgage Loans</b>   |                  |  |                          |  |                              |                           |      |
| Mortgage loan secured by Pinnacle II <sup>(5)</sup>                 | \$ 85,914        | \$ 873   | <sup>(6)</sup> \$ 86,228 | 1,310  | <sup>(6)</sup> 6.31%         | 9/6/2016                  |      |
| Mortgage loan secured by 901 Market                                 | 30,000           | (83 )  | 30,000                   | (119 )   | LIBOR+2.25%                  | 10/31/2016                |      |
| Mortgage loan secured by Rincon Center <sup>(7)</sup>               | 101,836          | (315 )   | 102,309                  | (355 )   | 5.13%                        | 5/1/2018                  |      |
| Mortgage loan secured by Sunset Gower/Sunset Bronson <sup>(8)</sup> | 115,001          | (2,055 )   | 115,001                  | (2,232 )   | LIBOR+2.25%                  | 3/4/2019                  | (11) |
| Mortgage loan secured by Met Park North <sup>(9)</sup>              | 64,500           | (481 )   | 64,500                   | (509 )   | LIBOR+1.55%                  | 8/1/2020                  |      |
| Mortgage loan secured by 10950 Washington <sup>(7)</sup>            | 28,288           | (404 )   | 28,407                   | (421 )   | 5.32%                        | 3/11/2022                 |      |
| Mortgage loan secured by Pinnacle I <sup>(10)</sup>                 | 129,000          | (669 )   | 129,000                  | (694 )   | 3.95%                        | 11/7/2022                 |      |
| Mortgage loan secured by Element L.A.                               | 168,000          | (2,521 )   | 168,000                  | (2,584 )   | 4.59%                        | 11/6/2025                 |      |
| Total mortgage loans  | \$ 722,539       | \$ (5,655 )  | \$ 723,445               | \$ (5,604 )  |                              |                           |      |
| Total   | \$ 2,097,539     | \$ (17,534 )   | \$ 2,278,445             | \$ (17,729 )   |                              |                           |      |

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Interest rate with respect to indebtedness is calculated on the basis of a 360-day year for the actual days elapsed.

(1) Interest rates are as of March 31, 2016, which may be different than the interest rates as of December 31, 2015 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 March 31, 2016, no such election has been made.

Effective May 1, 2015, \$300.0 million of the \$550.0 million term loan has been effectively fixed at 2.66% to

(3) 3.56% per annum through the use of an interest rate swap. See Note 6 to our Consolidated Financial Statements—Derivative Instruments.

Effective May 1, 2015, the outstanding balance of the term loan has been effectively fixed at 3.21% to 4.16% per

(4) annum through the use of an interest rate swap. See Note 6 to our Consolidated Financial Statements—Derivative Instruments.

This loan bore interest only for the first five years. Beginning with the payment due October 6, 2011, monthly debt

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

(6) Represents unamortized premium amount of the non-cash mark-to-market adjustment.

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

Through February 11, 2016, interest on \$92.0 million of the outstanding loan balance was effectively capped (8) at 5.97% and 4.25% on \$50.0 million and \$42.0 million, respectively, of the loan through the use of two interest rate caps. These interest rate caps were not renewed after maturity.

(9) This loan bears interest only. Interest on the full loan amount has been effectively fixed at 3.71% per annum through use of an interest rate swap. See Note 6 to our Consolidated Financial Statements—Derivative Instruments.

This loan bears interest only for the first five years. Beginning with the payment due December 6, 2017, monthly (10) debt service will include annual debt amortization payments based on a 30-year amortization schedule with a balloon payment at maturity.

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

The operating partnership was in compliance with its financial covenants at March 31, 2016.

## Cash Flows

Comparison of the three months ended March 31, 2016 to the three months ended March 31, 2015 is as follows:

|  | Three Months<br>Ended<br>March 31, |           | Dollar<br>Change | Percentage<br>Change |
|--|------------------------------------|-----------|------------------|----------------------|
|  | 2016                               | 2015      |                  |                      |
| Net cash provided by operating activities            | \$58,897                           | \$27,125  | \$31,772         | 117.1 %              |
| Net cash provided by (used for) investing activities | 158,214                            | (203,967) | 362,181          | (177.6 )%            |
| Net cash (used for) provided by financing activities | (213,295)                          | 406,979   | (620,274)        | (152.4 )%            |

Cash and cash equivalents were \$57.4 million and \$53.6 million at March 31, 2016 and December 31, 2015, respectively.

## Operating Activities

Net cash provided by operating activities increased by \$31.8 million to \$58.9 million for the three months ended March 31, 2016 compared to \$27.1 million for the three months ended March 31, 2015. The increase was primarily attributable to an increase in cash NOI, as defined, from our office properties, primarily from the acquisition of the EOP Northern California portfolio, increased occupancy and higher rental revenue from our 1455 Market and Element LA properties, partially offset by lower gain recognized related to our Bayhill Office Center property in 2016 as compared to the gain recognized related to our First Financial property in 2015.

## Investing Activities

Net cash provided by investing activities increased by \$362.2 million to \$158.2 million for the three months ended March 31, 2016 compared to net cash used for investing activities of \$204.0 million for three months ended March 31, 2015. The net cash provided by investing activities in 2016 included proceeds of the sale of Bay park offset by payments for additions to investment property. The net cash used in investing activities in 2015 included payment for a deposit related to the acquisition of the EOP portfolio and payments for additions in investment property offset by proceeds from the sale of our First Financial property.

## Financing Activities

Net cash used for financing activities increased \$620.3 million to \$213.3 million for the three months ended March 31, 2016 compared to net cash provided by financing activities of \$407.0 million for the three months ended March 31,

2015. The net cash used by financing activities in 2016 is primarily a result of pay downs of notes payable and distributions to our stock and unit holders partially offset by proceeds from notes payable. The net cash provided by financings in 2015 is a result of proceeds generated by the issuance of common equity securities, after underwriters' discounts, of approximately \$385.6 million (before transaction costs) used to partially fund the EOP portfolio acquisition and proceeds from our joint venture sale of our 1455 Market property of \$219.2 million partially offset by payments of notes payable and distributions to our stock and unit holders.

### Contractual Obligations and Commitments

During the three months ended March 31, 2016, there were no material changes outside the ordinary course of business in the information regarding specified contractual obligations contained in our Annual Report on Form 10-K for the year ended December 31, 2015.

### Off-Balance Sheet Arrangements

We currently do not have any off-balance sheet arrangements.

### Critical Accounting Policies

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

In addition, we identified certain critical accounting policies that affect certain of our more significant estimates and assumptions used in preparing our consolidated financial statements in our 2015 Annual Report on Form 10-K. We have not made any material changes to these policies during the periods covered by this Report.

## Non-GAAP Supplemental Financial Measure: Funds From Operations

We calculate FFO in accordance with the White Paper on FFO approved by the Board of Governors of the National Association of Real Estate Investment Trusts. The White Paper defines FFO as net income or loss calculated in accordance with GAAP, excluding extraordinary items, as defined by GAAP, gains and losses from sales of depreciable real estate and impairment write-downs associated with depreciable real estate, plus real estate-related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets) and after adjustment for unconsolidated partnerships and joint ventures. The calculation of FFO includes the amortization of deferred revenue related to tenant-funded tenant improvements and excludes the depreciation of the related tenant improvement assets. We believe that FFO is a useful supplemental measure of our operating performance. The exclusion from FFO of gains and losses from the sale of operating real estate assets allows investors and analysts to readily identify the operating results of the assets that form the core of our activity and assists in comparing those operating results between periods. Also, because FFO is generally recognized as the industry standard for reporting the operations of REITs, it facilitates comparisons of operating performance to other REITs. However, other REITs may use different methodologies to calculate FFO, and accordingly, our FFO may not be comparable to all other REITs.

Implicit in historical cost accounting for real estate assets in accordance with GAAP is the assumption that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered presentations of operating results for real estate companies using historical cost accounting alone to be insufficient. Because FFO excludes depreciation and amortization of real estate assets, we believe that FFO along with the required GAAP presentations provides a more complete measurement of our performance relative to our competitors and a more appropriate basis on which to make decisions involving operating, financing and investing activities than the required GAAP presentations alone would provide.

However, FFO should not be viewed as an alternative measure of our operating performance because it does not reflect either depreciation and amortization costs or the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties, which are significant economic costs and could materially impact our results from operations.

The following table presents our FFO for the three months ended March 31, 2016 and 2015 and a reconciliation of FFO to net income:

|  | Three Months<br>Ended<br>March 31, |           |
|--|------------------------------------|-----------|
|  | 2016                               | 2015      |
| Net income   | \$5,976                            | \$24,574  |
| Adjustments:   |                                    |           |
| Depreciation and amortization of real estate assets  | 67,905                             | 17,073    |
| Gain from Sale of Real Estate                        | (6,352 )                           | (22,691 ) |
| FFO attributable to non-controlling interest         | (4,162 )                           | (3,312 )  |
| Net income attributable to preferred stock and units | (159 )                             | (3,195 )  |
| FFO to common stockholders and unitholders           | \$63,208                           | \$12,449  |

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary market risk we face is interest rate risk. Our future income, cash flows and fair values relevant to financial instruments are dependent upon prevalent market interest rates. Market risk refers to the risk of loss from adverse changes in market prices and interest rates. As more fully described below, we use derivative financial instruments to manage, or hedge, interest rate risks related to our borrowings. We only enter into contracts with major financial institutions based on their credit rating and other factors.

Interest risk amounts were determined by considering the impact of hypothetical interest rates on our financial instruments. These analyses do not consider the effect of any change in overall economic activity that could occur in that environment. Further, in the event of a change of that magnitude, we may take actions to further mitigate our exposure to the change. However, due to the uncertainty of the specific actions that would be taken and their possible effects, these analyses assume no changes in our financial structure.

On February 11, 2011, we closed a five-year term loan totaling \$92.0 million with Wells Fargo Bank, N.A., secured by our Sunset Gower and Sunset Bronson media and entertainment properties. The loan initially bore interest at a rate equal to one-month LIBOR plus 3.50%. On March 16, 2011, we purchased an interest rate cap in order to cap one-month LIBOR at 3.715% on \$50.0 million of the loan through its original maturity of February 11, 2016. On January 11, 2012 we purchased an interest rate cap in order to cap one-month LIBOR at 2.00% with respect to \$42.0 million of the loan through its original maturity of February 11, 2016. Effective August 22, 2013, the terms of this loan were amended to, among other changes, increase the outstanding balance from \$92.0 million to \$97.0 million, reduce the interest rate from one-month LIBOR plus 3.50% to one-month LIBOR plus 2.25%, and extend the maturity date from February 11, 2016 to February 11, 2018. The derivatives described above were not changed in connection with this loan amendment. Effective March 4, 2015, the terms of this loan were amended and restated to provide the ability to draw up to an additional \$160.0 million for budgeted construction costs associated with our ICON development and to extend the maturity date from February 11, 2018 to March 4, 2019. The derivatives described above were not changed in connection with this loan amendment and matured during the first quarter of 2016. During the period from maturity to March 31, 2016, the interest rate on the full outstanding balance was not hedged.

On July 31, 2013, we closed a seven-year loan totaling \$64.5 million with Union Bank, N.A., secured by our Met Park North property. The loan bears interest at a rate equal to one-month LIBOR plus 155 basis points. The full loan is subject to an interest rate contract that swapped one-month LIBOR to a fixed rate of 2.16% through the loans maturity on August 1, 2020.

Effective as of May 1, 2015, we entered into an interest rate contract with respect to \$300.0 million of the \$550.0 million 5-Year Term Loan due April 2020 that swapped one-month LIBOR to a fixed rate of 1.36% through the loan's maturity on April 1, 2020. As a result, \$300.0 million of the 5-Year Term Loan due April 2020 currently bears interest at a rate equal to 2.66% to 3.56% per annum depending on our leverage ratio (\$250.0 million of which is not subject to an interest rate contract). Effective as of May 1, 2015, we entered into an interest rate contract with respect to the entire \$350.0 million 7-Year Term Loan due April 2022 that swapped one-month LIBOR to a fixed rate of 1.61% through the loan's maturity on April 1, 2022. As a result, the 7-Year Term Loan due April 2022 currently bears interest at a rate equal to 3.21% to 4.16% per annum depending on our leverage ratio.

The remaining variable debt rate, which consists of our unsecured revolving credit facility, unsecured term loans, as well as the loan on our 901 Market property, is not subject to interest rate hedges.

For sensitivity purposes with respect to the \$50.0 million drawn under our unsecured revolving credit facility, the \$550.0 million drawn under our 5-Year Term Loan due April 2020 (\$250.0 million of which is not subject to an interest rate hedge), the \$30.0 million loan on our 901 Market property, and the \$115.0 million loan on our Sunset

Gower and Sunset Bronson media and entertainment properties, if one-month LIBOR as of March 31, 2016 was to increase by 100 basis points, or 1.0%, the resulting increase in annual interest expense would impact our future earnings and cash flows by \$4.5 million.

As of March 31, 2016, we had outstanding notes payable of \$2.10 billion (before unamortized loan premium and deferred financing costs), of which \$1.2 billion, or 55.3%, was variable rate debt. \$714.5 million of the variable rate debt is subject to derivatives discussed in Note 6 to our Consolidated Financial Statements—Derivative Instruments. As of March 31, 2016, the estimated fair value of our fixed rate secured mortgage loans was \$941.8 million. The estimated fair value of our variable rate debt equals the carrying value.



#### ITEM 4. CONTROLS AND PROCEDURES

##### Disclosure Controls and Procedures (Hudson Pacific Properties, Inc.)

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

As required by Rule 13a-15(b) under the Exchange Act, Hudson Pacific Properties, Inc. carried out an evaluation, under the supervision and with the participation of management including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures as of the end of the period covered by this report.

Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded, as of that time, that Hudson Pacific Properties, Inc.'s disclosure controls and procedures were effective in providing a reasonable level of assurance that information Hudson Pacific Properties, Inc. is required to disclose in reports that Hudson Pacific Properties, Inc. files under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure.

##### Disclosure Controls and Procedures (Hudson Pacific Properties, L.P.)

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

As required by Rule 13a-15(b) under the Exchange Act, Hudson Pacific Properties, L.P. carried out an evaluation, under the supervision and with the participation of management including the Chief Executive Officer and Chief Financial Officer of Hudson Pacific Properties, Inc. (the sole general partner of Hudson Pacific Properties, L.P.), of the effectiveness of the design and operation of the disclosure controls and procedures as of the end of the period covered by this report.

Based on the foregoing, the Chief Executive Officer and Chief Financial Officer of Hudson Pacific Properties, Inc. (the sole general partner of Hudson Pacific Properties, L.P.) concluded, as of that time, that Hudson Pacific Properties, L.P.'s disclosure controls and procedures were effective in providing a reasonable level of assurance that information

Hudson Pacific Properties, L.P. is required to disclose in reports that Hudson Pacific Properties, L.P. files under the Exchange Act is processed, recorded, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer of Hudson Pacific Properties, Inc. (the sole general partner of Hudson Pacific Properties, L.P.), as appropriate, to allow for timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting (Hudson Pacific Properties, Inc.)

There have been no changes that occurred during the quarter covered by this report in Hudson Pacific Properties, Inc.'s internal control over financial reporting identified in connection with the evaluation referenced above that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Changes in Internal Control Over Financial Reporting (Hudson Pacific Properties, L.P.)

There have been no changes that occurred during the quarter covered by this report in Hudson Pacific Properties, L.P.'s internal control over financial reporting identified in connection with the evaluation referenced above that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## PART II—OTHER INFORMATION

## ITEM 1. LEGAL PROCEEDINGS

From time to time, we are a party to various lawsuits, claims and other legal proceedings arising out of, or incident to, our ordinary course of business. We are not currently a party, as plaintiff or defendant, to any legal proceedings that we believe to be material or that, individually or in the aggregate, would be expected to have a material adverse effect on our business, financial condition, results of operations or cash flows if determined adversely to us.

## ITEM 1A. RISK FACTORS

There have been no material changes to the risk factors included in the section entitled “Risk Factors” in our Annual Report on Form 10-K for the year ended December 31, 2015. Please review the Risk Factors set forth in our Annual Report on Form 10-K for the year ended December 31, 2015.

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

## (a) Recent Sales of Unregistered Securities:

During the first quarter of 2016, our operating partnership issued partnership units in private placements in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act, in the amounts and for the consideration set forth below:

During the first quarter of 2016, Hudson Pacific Properties, Inc. issued an aggregate of 156,697 shares of its common stock in connection with restricted stock awards for no cash consideration, out of which 68,294 shares of common stock were forfeited to Hudson Pacific Properties, Inc. in connection with restricted stock awards for a net issuance of 88,403 shares of common stock. For each share of common stock issued by Hudson Pacific Properties, Inc. in connection with such an award, our operating partnership issued a restricted common unit to Hudson Pacific Properties, Inc. as provided in our operating partnership’s partnership agreement. During the first quarter of 2016, our operating partnership issued an aggregate of 88,403 common units to Hudson Pacific Properties, Inc.

All other issuances of unregistered equity securities of our operating partnership during the first quarter of 2016 have previously been disclosed in filings with the SEC. For all issuances of units to Hudson Pacific Properties, Inc., our operating partnership relied on Hudson Pacific Properties, Inc.’s status as a publicly traded NYSE-listed company with over \$6.04 billion in total consolidated assets and as our operating partnership’s majority owner and sole general partner as the basis for the exemption under Section 4(a)(2) of the Securities Act.

## (b) Use of Proceeds from Registered Securities: None

## (c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers:

During the three months ended March 31, 2016, certain employees surrendered common shares owned by them to satisfy their statutory minimum federal income tax obligation associated with the vesting of restricted common shares of beneficial interest issued under the Company’s 2010 Incentive Award Plan.

The following table summarizes all of the repurchases during the first quarter of 2016:

| Period | Total Number of Shares Purchased | Average Price Paid Per Share(1) | Total Number Of Shares Purchased As Part Of Publicly | Maximum Number Of Shares That May Yet Be Purchased |
|--------|----------------------------------|---------------------------------|--|--|
|--------|----------------------------------|---------------------------------|--|--|

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|   |        |          | Announced Plans<br>Or Programs | Under The Plans Or<br>Programs |
|---|--------|----------|--------------------------------|--------------------------------|
| January 1, 2016 through January 31, 2016      | —      | \$ —     | N/A                            | N/A                            |
| February 1, 2016 through February 29,<br>2016 | 68,294 | 24.63    | N/A                            | N/A                            |
| March 1, 2016 through March 31, 2016          | —      | —        | N/A                            | N/A                            |
| Total   | 68,294 | \$ 24.63 | N/A                            | N/A                            |

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(1) The price paid per share is based on the closing price of our common shares as of the date of the determination of the statutory minimum federal tax income.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

None.

ITEM 5. OTHER INFORMATION.

None.

## ITEM 6. EXHIBITS.

| Exhibit No. | Description  | Incorporated by Reference |            |             | Filing Date       |
|-------------|--|---------------------------|------------|-------------|-------------------|
|             |  | Form                      | File No.   | Exhibit No. |                   |
| 3.1         | Articles of Amendment and Restatement of Hudson Pacific Properties, Inc.   | S-11/A                    | 333-164916 | 3.1         | May 12, 2010      |
| 3.2         | Second Amended and Restated Bylaws of Hudson Pacific Properties, Inc.  | 8-K                       | 001-34789  | 3.1         | January 12, 2015  |
| 10.1        | Amended and Restated Employment Agreement between Hudson Pacific Properties, Inc. and Victor J. Coleman, dated January 1, 2016.*   | 8-K                       | 001-34789  | 10.2        | December 21, 2015 |
| 10.2        | Amended and Restated Employment Agreement between Hudson Pacific Properties, Inc. and Mark T. Lammas, dated January 1, 2016.*  | 8-K                       | 001-34789  | 10.3        | December 21, 2015 |
| 10.3        | Amended and Restated Employment Agreement between Hudson Pacific Properties, Inc. and Christopher Barton, dated January 1, 2016.*  | 8-K                       | 001-34789  | 10.4        | December 21, 2015 |
| 10.4        | Amended and Restated Employment Agreement between Hudson Pacific Properties, Inc. and Alex Vouvalides, dated January 1, 2016.*   | 8-K                       | 001-34789  | 10.5        | December 21, 2015 |
| 10.5        | Employment Agreement between Hudson Pacific Properties, Inc. and Joshua Hatfield.*   | 10-K                      | 001-34789  | 10.95       | February 26, 2016 |
| 10.6        | 2016 Outperformance Award Agreement  | 8-K                       | 001-34789  | 10.1        | March 21, 2016    |
| 10.7        | 2016 Outperformance Program OPP Unit Agreement   | 8-K                       | 001-34789  | 10.2        | March 21, 2016    |
| 31.1        | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Hudson Pacific Properties, Inc.   |                           |            |             |                   |
| 31.2        | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Hudson Pacific Properties, Inc.   |                           |            |             |                   |
| 31.3        | Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for Hudson Pacific Properties, L.P.   |                           |            |             |                   |
| 31.4        | Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 Hudson Pacific Properties, L.P.   |                           |            |             |                   |
| 32.1        | Certifications by Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Hudson Pacific Properties, Inc.  |                           |            |             |                   |
| 32.2        | Certifications by Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 for Hudson Pacific Properties, L.P.  |                           |            |             |                   |
| 101         | The following financial information from Hudson Pacific Properties, Inc.'s Quarterly Report on Form 10-Q for the quarter ended March 31, 2016 formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets (unaudited), (ii) Consolidated Statements of Operations (unaudited), (iii) |                           |            |             |                   |

Consolidated Statements of Comprehensive Income (unaudited),  
(iv) Consolidated Statement of Equity (unaudited), (v)  
Consolidated Statements of Cash Flows (unaudited) and (vi) Notes  
to Consolidated Financial Statements \*\*

\* Denotes a management contract or compensatory plan or arrangement.

\*\* Pursuant to Rule 406T of Regulation S-T, the interactive data files on Exhibit 101 hereto are deemed not filed or part of a registration statement or prospectus for purposes of Section 11 or 12 of the Securities Act of 1933, as amended, are deemed not filed for purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, and otherwise are not subject to liability under those sections.



SIGNATURES

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

HUDSON PACIFIC PROPERTIES, INC.

Date: May 6, 2016 /S/ VICTOR J. COLEMAN

Victor J. Coleman

Chief Executive Officer (principal executive officer)

HUDSON PACIFIC PROPERTIES, INC.

Date: May 6, 2016 /S/ MARK T. LAMMAS

Mark T. Lammas

Chief Operating Officer, Chief Financial Officer and Treasurer  
(principal financial officer)

SIGNATURES

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

HUDSON PACIFIC PROPERTIES, L.P.

Date: May 6, 2016 /S/ VICTOR J. COLEMAN

Victor J. Coleman

Chief Executive Officer (principal executive officer)

HUDSON PACIFIC PROPERTIES, L.P.

Date: May 6, 2016 /S/ MARK T. LAMMAS

Mark T. Lammas

Chief Financial Officer (principal financial officer)