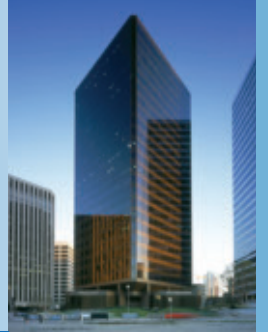


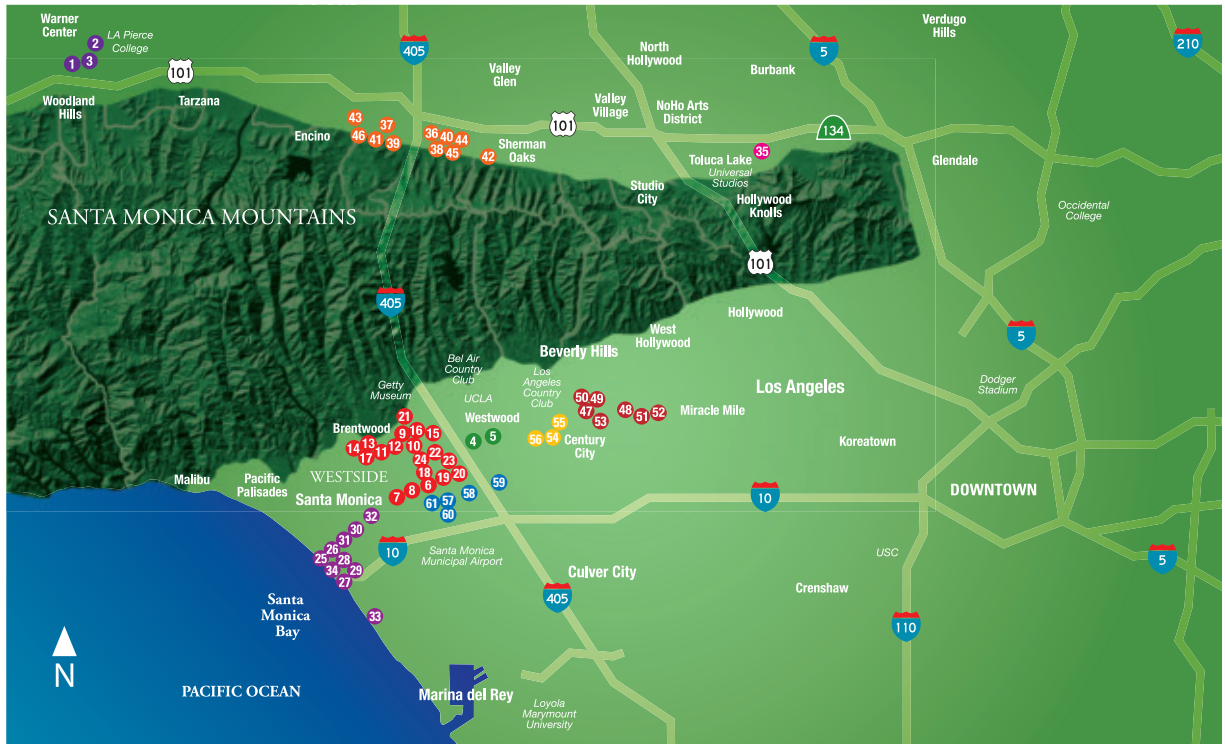
# Douglas Emmett



2010 Annual Report



# CONCENTRATION IN ATTRACTIVE LA SUBMARKETS



## WARNER CENTER/ WOODLAND HILLS

1. Warner Center Towers
2. Warner Corporate Center
3. The Trillium

## WESTWOOD

4. One Westwood
5. Westwood Place

## BRENTWOOD

6. Landmark II
7. Gateway Los Angeles
8. 12400 Wilshire
9. 11777 San Vicente
10. Brentwood Executive Plaza
11. Brentwood Medical Plaza
12. Coral Plaza
13. Brentwood/Saltair

14. Saltair/San Vicente
15. Brentwood San Vicente Medical
16. San Vicente Plaza
17. Brentwood Court
18. Wilshire Bundy Plaza
19. Barrington Plaza Commercial
20. Barrington Plaza
21. 555 Barrington
22. Barrington/Kiowa
23. Barry
24. Kiowa

## SANTA MONICA

25. 100 Wilshire
26. 401 Wilshire
27. Palisades Promenade
28. Second Street Plaza
29. Santa Monica Square
30. Lincoln/Wilshire

31. Verona
32. 2001 Wilshire
33. The Shores
34. Pacific Plaza

## BURBANK

35. Studio Plaza

## SHERMAN OAKS/ENCINO

36. Sherman Oaks Galleria
37. Encino Terrace
38. Valley Executive Tower
39. Encino Gateway
40. Valley Office Plaza
41. Encino Plaza
42. Tower at Sherman Oaks
43. MB Plaza
44. Columbus Center
45. 15250 Ventura
46. 16000 Ventura

## BEVERLY HILLS

47. 9601 Wilshire
48. 9100 Wilshire
49. Village on Canon
50. Camden Medical Arts
51. Beverly Hills Medical Center
52. 8383 Wilshire
53. 150 South Rodeo

## CENTURY CITY

54. 1901 Avenue of the Stars
55. Century Park Plaza
56. Century Park West

## OLYMPIC CORRIDOR

57. Westside Towers
58. Executive Tower
59. Olympic Center
60. Bundy/Olympic
61. Cornerstone Plaza

# HONOLULU SUBMARKET OVERVIEW



## HONOLULU PROPERTIES

62. Bishop Place
63. Harbor Court
64. The Honolulu Club
65. Bishop Square
66. Moanalulu Hillside Apartments
67. Villas at Royal Kunia

*Portfolio consists of 58 office properties and 9 multi-family communities.*

## **DEAR FELLOW SHAREHOLDERS,**

Market fundamentals remained challenging in 2010. However, like many tough economic periods in our company's history, I consider 2010 to be one of our best years. During 2010, we significantly added to our office portfolio, including filling out our Honolulu market strategy, where we now control in excess of 36% of the market. Also in 2010 we began refinancing our 2012 debt maturities and, so far, the results have been exceptional. But most important of all, our operating platform and management team are functioning more effectively and efficiently than at any other time in Ken's or my career.

**"Our company  
has refined its  
operating platform,  
strengthened its  
balance sheet,  
and expanded its  
competitive portfolio  
of properties."**

In the midst of the recession, our leasing department had a record year for new and renewal deal flow, our ratio of G&A to Revenues continues to be one of the lowest in the industry, and our capital markets group has purchased over 1.3 million square feet and refinanced over \$1 billion of debt at rates averaging below 4.5%. As a result, through one of the deepest recessions in the last 50 years, our company has refined its operating platform, strengthened its balance sheet, and expanded its competitive portfolio of properties. But, most important to us as fellow stockholders, we protected shareholder value by avoiding crisis response capital market transactions like dilutive stock sales at recessionary pricing or debt refinancing at subprime spreads.

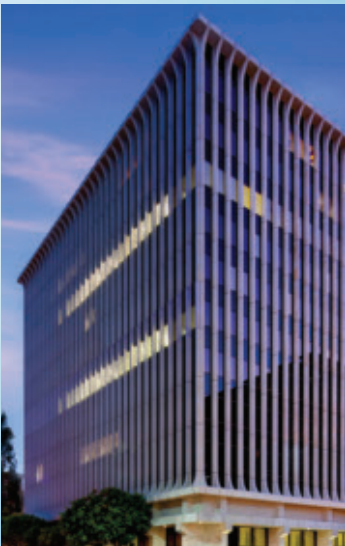
As I write this letter, the national economic headwinds seem to be abating and even without the large government stimulus that was primarily focused on the finance industry, we are seeing recovering tenant confidence from the industries supporting our markets, such as healthcare, entertainment, and technology.



Tenant defaults have almost returned to normal, and cost containment through downsizing is no longer a pervading tenant focus. Already, we are seeing signs of rising rents in our apartment portfolio.



Looking forward, I am excited about our company's future. We are operating in a number of the best markets in the United States with tenant demand coming from our country's most globally competitive industries and severely constrained new office supply. We are completing the refinance of our 2012 maturities at historically low rates and our balance sheet is extremely well positioned to take advantage of new opportunities in the future.



I am understandably proud of the results that our team has achieved over the last year. As always, the one thing I can promise for the future is that Ken, Bill, Dan, and I, along with the rest of the Douglas Emmett team, are committed to the strong work ethic and high standards that have been the hallmark of Douglas Emmett over the last 40 years.

Sincerely,

Jordan L. Kaplan

President & CEO

April 1, 2011



### **Long-Time Environmental Leader**

At Douglas Emmett, environmental advocacy is entrenched in our corporate culture. We are fully committed to having office and multifamily assets that meet and exceed sustainability measures. Through the years we have proactively introduced conservation improvements and practices across our portfolio. As a result, we have significantly reduced our energy and water consumption, increased our operational efficiencies and reduced our carbon footprint. Our service providers, suppliers, and tenants partner in our mission for a cleaner environment. They assist us in pursuing opportunities to merge cost savings and social responsibility.

In 2010, our office portfolio saved 15 million kWh of electricity, representing a 7% year-over-year reduction compared to 2009, the carbon footprint equivalent of planting over 4,000 trees. Currently we have 40 buildings that have attained an Energy Star Certification and several others that have received prestigious awards from the Los Angeles Department of Water and Power and the Southern California Gas Company.

Moving forward, our ongoing goals include continued energy benchmarking, retro-commissioning, cost effective energy retrofitting, and implementing sustainability best practices to ensure efficient property operations. We are active in a policy making role with various government entities, as well as promoting economically viable energy saving programs through partnerships with local utility providers. By staying abreast of technological advancements, we are well positioned to implement new and proven innovations quickly. At Douglas Emmett we know that sustainability is a yardstick for both social responsibility and fiscal management. We believe that thoughtful implementation of sustainable initiatives is good business.



**Douglas Emmett, Inc.**

**10-K**



**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

**FORM 10-K**

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010  
Commission file number: 1-33106**

**DOUGLAS EMMETT, INC.**

(Exact name of registrant as specified in its charter)

**MARYLAND**

(State or other jurisdiction of incorporation or organization)

**(20-3073047)**

(I.R.S. Employer Identification No.)

**808 Wilshire Boulevard, 2<sup>nd</sup> Floor  
Santa Monica, California 90401  
(310) 255-7700**

(Address, including Zip Code and Telephone Number, including Area Code, of Registrant's principal executive offices)

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

<b>Title of Each Class</b>	<b>Name of Each Exchange on Which Registered</b>
Common Stock, \$0.01 par value per share	New York Stock Exchange

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

Indicate by check mark if the registrant is a well known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  or No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15 (d) of the Act. Yes  or No

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

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

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

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

Large Accelerated Filer	<input checked="" type="checkbox"/>
Accelerated Filer	<input type="checkbox"/>
Non-Accelerated Filer	<input type="checkbox"/>
(Do not check if a smaller reporting company)	
Smaller reporting company	<input type="checkbox"/>

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

The aggregate market value of the common stock, \$0.01 par value, held by non-affiliates of the registrant, as of June 30, 2010, was \$1.6 billion.

The registrant had 124,269,930 shares of its common stock, \$0.01 par value, outstanding as of February 15, 2011.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's definitive proxy statement to be issued in conjunction with the registrant's annual meeting of shareholders to be held in 2011 ("Proxy Statement") are incorporated by reference in Part III of this Report on Form 10-K (this "Report"). The Proxy Statement will be filed by the registrant with the Securities and Exchange Commission not later than 120 days after the end of the registrant's fiscal year ended December 31, 2010.

**DOUGLAS EMMETT, INC.**  
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SIGNATURES

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Exhibit 32.2



## **Forward Looking Statements.**

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

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

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

## PART I.

### Item 1. Business Overview

Douglas Emmett, Inc. is a fully integrated, self-administered and self-managed Real Estate Investment Trust (REIT) and one of the largest owners and operators of high-quality office and multifamily properties located in premier submarkets in California and Hawaii. Through our interest in Douglas Emmett Properties, LP (our operating partnership) and its subsidiaries, including our investments in our unconsolidated institutional real estate funds (Funds), we own or partially own, manage, lease, acquire and develop real estate, consisting primarily of office and multifamily properties. At December 31, 2010, our consolidated portfolio of properties included 50 Class A office properties (including ancillary retail space) totaling approximately 12.8 million square feet of space and nine multifamily properties containing 2,868 apartment units. We also manage and own equity interests in unconsolidated Funds that, at December 31, 2010, owned seven additional Class A office properties totaling approximately 1.8 million square feet of space. We manage these seven properties alongside our consolidated portfolio; therefore we present our office portfolio statistics on a total portfolio basis, with a combined 57 Class A office properties totaling approximately 14.6 million square feet. All of these properties are concentrated in ten submarkets – Brentwood, Olympic Corridor, Century City, Santa Monica, Beverly Hills, Westwood, Sherman Oaks/Encino, Warner Center/Woodland Hills, Burbank and Honolulu. We focus on owning, acquiring and operating a substantial share of top-tier office properties and premier multifamily communities in neighborhoods that possess significant supply constraints, high-end executive housing and key lifestyle amenities. We maintain a web site at [www.douglasemmett.com](http://www.douglasemmett.com). None of the information on or hyperlinked from our website is incorporated into this Report.

We believe that we distinguish ourselves from other owners and operators of office and multifamily properties through the following competitive strengths and strategies:

- **Concentration of High Quality Office Assets and Multifamily Portfolio in Premier Submarkets.** We own and operate office and multifamily properties within submarkets that are supply constrained, have high barriers to entry, offer key lifestyle amenities, are close to high-end executive housing and typically exhibit strong economic characteristics such as population and job growth and a diverse economic base.
- **Disciplined Strategy of Developing Substantial Market Share.** Our significant market presence can provide us with extensive local transactional market information, enable us to leverage our pricing power in lease and vendor negotiations and enhance our ability to identify and seize emerging investment opportunities.
- **Diverse Tenant Base.** Our markets attract a diverse base of office tenants that operate a variety of legal, medical, financial and other professional businesses.
- **Proactive Asset and Property Management.** With few exceptions, we provide our own, fully integrated property management and leasing for our office and multifamily properties and our own tenant improvement construction services for our office properties. Our property management group oversees day-to-day property management of both our office and multifamily portfolios, allowing us to benefit from the operational efficiencies permitted by our submarket concentration. Our in-house leasing agents and legal specialists allow us to manage and lease a large property portfolio with a diverse group of smaller tenants.
- **Office and Multifamily Acquisition Strategy.** We intend to increase our market share in our existing submarkets of Los Angeles County and Honolulu, and may selectively enter into other submarkets with similar characteristics where we believe we can gain significant market share.

At December 31, 2010, our unconsolidated Funds had combined equity commitments totaling \$554.6 million, of which we committed \$196.3 million and certain of our officers committed \$2.25 million on the same terms as the other investors. The investment period of our unconsolidated Funds expires not later than October 2012, followed by a ten-year value creation period. With limited exceptions, our unconsolidated Funds will be our exclusive investment vehicle during their investment period, using the same underwriting and leverage principles and focusing primarily on the same markets as we have. While the financial data in this Report does not include our unconsolidated Funds on a consolidated basis, much of the property level data in this Report includes the properties owned by our unconsolidated Funds, as we believe it assists in understanding our business. For further information, see Note 3 to our consolidated financial statements in Item 8 of this Report.

For 2010, 2009 and 2008, no tenant exceeded 10% of our total rental revenue and tenant reimbursements.

## **Insurance**

We carry comprehensive liability, fire, extended coverage, business interruption and rental loss insurance covering all of the properties in our portfolio under a blanket insurance policy. We believe the policy specifications and insured limits are appropriate and adequate given the relative risk of loss, the cost of the coverage and industry practice; however, our insurance coverage may not be sufficient to fully cover our losses. We do not carry insurance for certain losses, including, but not limited to, losses caused by riots or war. Some of our policies, like those covering losses due to terrorism, earthquakes and floods, are insured subject to limitations involving substantial self-insurance portions and significant deductibles and co-payments for such events. In addition, most of our properties are located in Southern California, an area subject to an increased risk of earthquakes. While we presently carry earthquake insurance on our properties, the amount of our earthquake insurance coverage may not be sufficient to fully cover losses from earthquakes. We may reduce or discontinue earthquake, terrorism or other insurance on some or all of our properties in the future if the cost of premiums for any of these policies exceeds, in our judgment, the value of the coverage discounted for the risk of loss. In addition, if certain of our properties were destroyed, we might not be able to rebuild them due to current zoning and land use regulations. Also, our title insurance policies may not insure for the current aggregate market value of our portfolio, and we do not intend to increase our title insurance coverage as the market value of our portfolio increases.

## **Competition**

We compete with a number of developers, owners and operators of office and commercial real estate, many of which own properties similar to ours in the same markets in which our properties are located. If our competitors offer space at rental rates below current market rates, or below the rental rates we currently charge our tenants, we may lose potential tenants and we may face pressure to reduce our rental rates below those we currently charge or to offer more substantial rent abatements, tenant improvements, early termination rights or below-market renewal options in order to retain tenants when our tenants' leases expire. In that case, our financial condition, results of operations, cash flows, per share trading price of our common stock and ability to satisfy our debt service obligations and to pay dividends to our stockholders may be adversely affected.

In addition, all of our multifamily properties are located in developed areas that include a number of other multifamily properties, as well as single-family homes, condominiums and other residential properties. The number of competitive multifamily and other residential properties in a particular area could have a material adverse effect on our ability to lease units and on our rental rates.

## **Taxation of Douglas Emmett, Inc.**

We believe that we qualify, and intend to continue to qualify, for taxation as a REIT under the Internal Revenue Code, although we cannot assure that this has happened or will happen. See Item 1A. Risk Factors of this Report. The following summary is qualified in its entirety by the applicable Internal Revenue Code provisions and related rules, and administrative and judicial interpretations.

If we qualify for taxation as a REIT, we will generally not be required to pay federal corporate income taxes on the portion of our net income that is currently distributed to stockholders. This treatment substantially eliminates the "double taxation" (i.e., at the corporate and stockholder levels) that generally results from investment in a corporation. However, we will be required to pay federal income tax under certain circumstances.

The Internal Revenue Code defines a REIT as a corporation, trust or association (i) which is managed by one or more trustees or directors; (ii) the beneficial ownership of which is evidenced by transferable shares, or by transferable certificates of beneficial interest; (iii) which would be taxable, but for Sections 856 through 860 of the Internal Revenue Code, as a domestic corporation; (iv) which is neither a financial institution nor an insurance company subject to certain provisions of the Internal Revenue Code; (v) the beneficial ownership of which is held by 100 or more persons; (vi) of which, during the last half of each taxable year, not more than 50% in value of the outstanding stock is owned, actually or constructively, by five or fewer individuals; and (vii) which meets certain other tests, described below, regarding the amount of its distributions and the nature of its income and assets. The Internal Revenue Code provides that conditions (i) to (iv), inclusive, must be met during the entire taxable year and that condition (v) must be met during at least 335 days of a taxable year of 12 months, or during a proportionate part of a taxable year of less than 12 months.

There are presently two gross income requirements. First, at least 75% of our gross income (excluding gross income from "prohibited transactions" as defined below) for each taxable year must be derived directly or indirectly from investments relating to real property or mortgages on real property or from certain types of temporary investment income. Second, at least 95% of our gross income (excluding gross income from prohibited transactions and qualifying hedges) for each taxable year must be derived from income that qualifies under the 75% test and from other dividends, interest and gain from the sale or other disposition of stock or securities. A "prohibited transaction" is a sale or other disposition of property (other than foreclosure property) held for sale to customers in the ordinary course of business.

At the close of each quarter of our taxable year, we must also satisfy four tests relating to the nature of our assets. First, at least 75% of the value of our total assets must be represented by real estate assets including shares of stock of other REITs, certain other stock or debt instruments purchased with the proceeds of a stock offering or long term public debt offering by us (but only for the one-year period after such offering), cash, cash items and government securities. Second, not more than 25% of our total assets may be represented by securities other than those in the 75% asset class. Third, of the investments included in the 25% asset class, the value of any one issuer's securities owned by us may not exceed 5% of the value of our total assets and we may not own more than 10% of the vote or value of the securities of a non-REIT corporation, other than certain debt securities and interests in taxable REIT subsidiaries or qualified REIT subsidiaries, each as defined below. Fourth, not more than 25% of the value of our total assets may be represented by securities of one or more taxable REIT subsidiaries.

We own interests in various partnerships and limited liability companies. In the case of a REIT that is a partner in a partnership or a member of a limited liability company that is treated as a partnership under the Internal Revenue Code, Treasury Regulations provide that for purposes of the REIT income and asset tests, the REIT will be deemed to own its proportionate share of the assets of the partnership or limited liability company (determined in accordance with its capital interest in the entity), subject to special rules related to the 10% asset test, and will be deemed to be entitled to the income of the partnership or limited liability company attributable to such share. The ownership of an interest in a partnership or limited liability company by a REIT may involve special tax risks, including the challenge by the Internal Revenue Service (IRS) of the allocations of income and expense items of the partnership or limited liability company, which would affect the computation of taxable income of the REIT, and the status of the partnership or limited liability company as a partnership (as opposed to an association taxable as a corporation) for federal income tax purposes.

We also own an interest in a subsidiary which is intended to be treated as a qualified REIT subsidiary (QRS). The Internal Revenue Code provides that a QRS will be ignored for federal income tax purposes and all assets, liabilities and items of income, deduction and credit of the QRS will be treated as our assets, liabilities and items of income. If any partnership, limited liability company, or subsidiary in which we own an interest were treated as a regular corporation (and not as a partnership, subsidiary REIT, QRS or taxable REIT subsidiary, as the case may be) for federal income tax purposes, we would likely fail to satisfy the REIT asset tests described above and would therefore fail to qualify as a REIT, unless certain relief provisions apply. We believe that each of the partnerships, limited liability companies, and subsidiaries (other than taxable REIT subsidiaries) in which we own an interest will be treated for tax purposes as a partnership, disregarded entity (in the case of a 100% owned partnership or limited liability company), REIT or QRS, as applicable, although no assurance can be given that the IRS will not successfully challenge the status of any such organization.

As of December 31, 2010, we owned interests in certain corporations which have elected to be treated as a taxable REIT subsidiary. A REIT may own any percentage of the voting stock and value of the securities of a corporation which jointly elects with the REIT to be a taxable REIT subsidiary, provided certain requirements are met. A taxable REIT subsidiary generally may engage in any business, including the provision of customary or non-customary services to tenants of its parent REIT and of others, except a taxable REIT subsidiary may not manage or operate a hotel or healthcare facility. A taxable REIT subsidiary is treated as a regular corporation and is subject to federal income tax and applicable state income and franchise taxes at regular corporate rates. In addition, a 100% tax may be imposed on a REIT if its rental, service or other agreements with its taxable REIT subsidiary, or the taxable REIT subsidiary's agreements with the REIT's tenants, are not on arm's-length terms.

In order to qualify as a REIT, we are required to distribute dividends (other than capital gain dividends) to our stockholders in an amount at least equal to (A) the sum of (i) 90% of our "real estate investment trust taxable income" (computed without regard to the dividends paid deduction and our net capital gain) and (ii) 90% of the net income, if any (after tax), from foreclosure property, minus (B) the sum of certain items of non-cash income. Such distributions must be paid in the taxable year to which they relate, or in the following taxable year if declared before we timely file our tax return for such year, if paid on or before the first regular dividend payment date after such declaration and if we so elect and specify the dollar amount in our tax return. To the extent that we do not distribute all of our net long-term capital gain or distribute at least 90%, but less than 100%, of our REIT taxable income, we will be required to pay tax thereon at regular corporate tax rates. Furthermore, if we should fail to distribute during each calendar year at least the sum of (i) 85% of our ordinary income for such year, (ii) 95% of our capital gain income for such year, and (iii) any undistributed taxable income from prior periods, we would be required to pay a 4% excise tax on the excess of such required distributions over the amounts actually distributed.

If we fail to qualify for taxation as a REIT in any taxable year, and certain relief provisions do not apply, we will be required to pay tax (including any applicable alternative minimum tax) on our taxable income at regular corporate rates. Distributions to our stockholders in any year in which we fail to qualify will not be deductible by us nor will such distributions be required to be made. Unless entitled to relief under specific statutory provisions, we will also be disqualified from taxation as a REIT for the four taxable years following the year during which qualification was lost. It is not possible to state whether in all circumstances we would be entitled to the statutory relief. Failure to qualify for even one year could substantially reduce distributions to stockholders and could result in our incurring substantial indebtedness (to the extent borrowings are feasible) or liquidating substantial investments in order to pay the resulting taxes.

We and our stockholders may be required to pay state or local tax in various state or local jurisdictions, including those in which we or they transact business or reside. The state and local tax treatment of us and our stockholders may not conform to the federal income tax consequences discussed above. We may also be subject to certain taxes applicable to REITs, including taxes in lieu of disqualification as a REIT, on undistributed income, on income from prohibited transactions and on built-in gains from the sale of certain assets acquired from C corporations in tax-free transactions during a specified time period.

Our Funds each own properties through an entity which is intended to also qualify as a REIT, and its failure to so qualify could have similar impacts on us.

## **Regulation**

Our properties are subject to various covenants, laws, ordinances and regulations, including for example regulations relating to common areas, fire and safety requirements, various environmental laws, the Americans with Disabilities Act of 1990 (ADA) and rent control laws. Various environmental laws impose liability for release, disposal or exposure to various hazardous materials, including for example asbestos-containing materials, a substance known to be present in a number of our buildings. Such laws could impose liability on us even if we neither knew about nor were responsible for the contamination. Under the ADA, we must meet federal requirements related to access and use by disabled persons to the extent that our properties are “public accommodations”. The costs of our on-going efforts to comply with these laws are substantial. Moreover, as we have not conducted a comprehensive audit or investigation of all of our properties to determine our compliance with applicable laws, we may be liable for investigation and remediation costs, penalties, and/or damages, which could be substantial and could adversely affect our ability to sell or rent our property or to borrow using such property as collateral.

The Cities of Los Angeles and Santa Monica have enacted rent control legislation, and portions of the Honolulu multifamily market are subject to low and moderate-income housing regulations. Such laws and regulations limit our ability to increase rents, evict tenants or recover increases in our operating expenses and could make it more difficult for us to dispose of properties in certain circumstances. In addition, any failure to comply with low and moderate-income housing regulations could result in the loss of certain tax benefits and the forfeiture of rent payments. Although under current California law we are able to increase rents to market rates once a tenant vacates a rent-controlled unit, any subsequent increases in rental rates will remain limited by Los Angeles and Santa Monica rent control regulations.

For more information about the potential impact of laws and regulations, see Item 1A “Risk Factors” of this Report.

## **Employees**

As of December 31, 2010, we employed approximately 540 people. We believe that our relationships with our employees are good.

## **Corporate Structure**

We were formed as a Maryland corporation on June 28, 2005 to continue and expand the operations of Douglas Emmett Realty Advisors and its nine institutional funds. All of our assets are directly or indirectly held by our operating partnership, which was formed as a Delaware limited partnership on July 25, 2005. Our interest in our operating partnership entitles us to share in cash distributions, profits and losses of our operating partnership in proportion to our percentage ownership. As the sole stockholder of the general partner of our operating partnership, under the partnership agreement of our operating partnership we generally have the exclusive power to manage and conduct its business, subject to certain limited approval and voting rights of the other limited partners.

## **Segments**

We have two reportable segments: Office Properties and Multifamily Properties. Information related to our business segments for 2010, 2009 and 2008 is set forth in Note 16 to our consolidated financial statements in Item 8 of this Report.

## **Principal Executive Offices**

Our principal executive offices are located in the building we own at 808 Wilshire Boulevard, Santa Monica, California 90401 (telephone 310-255-7700). We believe that our current facilities are adequate for our present and future operations.

## Available Information

We make available free of charge on our website at [www.douglasemmett.com](http://www.douglasemmett.com) our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all amendments thereto, as soon as reasonably practicable after we file such reports with, or furnish them to, the Securities and Exchange Commission (SEC). None of the information on or hyperlinked from our website is incorporated into this Report.

## Item 1A. Risk Factors

The following section includes the most significant factors that may adversely affect our business and operations. This is not an exhaustive list, and additional factors could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risk factors emerge from time to time and it is not possible for us to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. This discussion of risk factors includes many forward-looking statements. For cautions about relying on forward-looking statements, please refer to the section entitled “Forward Looking Statements” at the beginning of this Report immediately prior to Item 1.

### Risks Related to Our Properties and Our Business

**All of our properties (including the properties owned by our unconsolidated Funds) are located in Los Angeles County, California and Honolulu, Hawaii, and we are dependent on the Southern California and Honolulu economies. Therefore, we are susceptible to adverse local conditions and regulations, as well as natural disasters in those areas.** Because all of our properties are concentrated in Los Angeles County, California and Honolulu, Hawaii, we are exposed to greater economic risks than if we owned a more geographically dispersed portfolio. Further, within Los Angeles County, our properties are concentrated in certain submarkets, exposing us to risks associated with those specific areas. We are susceptible to adverse developments in the Los Angeles County and Honolulu economic and regulatory environments (such as business layoffs or downsizing, industry slowdowns, relocations of businesses, increases in real estate and other taxes, costs of complying with governmental regulations or increased regulation and other factors) as well as natural disasters that occur in these areas (such as earthquakes, floods, wildfires and other events). In addition, California is also regarded as more litigious and more highly regulated and taxed than many other states, which may reduce demand for office space in California. Any adverse developments in the economy or real estate market in Los Angeles County and the surrounding region, or in Honolulu, or any decrease in demand for office space resulting from the California or Honolulu regulatory or business environment could adversely impact the market price of our common stock, our financial condition, our results of operations and our cash flows, including our ability to satisfy our debt service obligations and to pay dividends to our stockholders. We cannot assure any level of growth in the Los Angeles County or Honolulu economies or of our company.

**Our operating performance is subject to risks associated with the real estate industry.** Real estate investments are subject to various risks and fluctuations and cycles in value and demand, many of which are beyond our control. Certain events may decrease cash available for dividends, as well as the value of our properties. These events include, but are not limited to:

- adverse changes in international, national or local economic and demographic conditions, such as the recent global economic downturn;
- vacancies or our inability to rent space on favorable terms, including possible market pressures to offer tenants rent abatements, tenant improvements, early termination rights or below-market renewal options;
- adverse changes in financial conditions of buyers, sellers and tenants of properties;
- inability to collect rent from tenants;
- competition from other real estate investors with significant capital, including other real estate operating companies, publicly-traded REITs and institutional investment funds;
- reductions in the level of demand for commercial space and residential units, and changes in the relative popularity of properties;
- increases in the supply of office space and multifamily units;
- fluctuations in interest rates and the availability of credit, and the pronounced tightening of credit markets that has occurred in the recent liquidity crisis, which could adversely affect our ability, or the ability of buyers and tenants of properties, to obtain financing on favorable terms or at all;



- increases in expenses and the possible inability to recover from our tenants the increased expenses, including, without limitation, insurance costs, labor costs (such as the unionization of our employees and our subcontractors' employees that provide services to our buildings could substantially increase our operating costs), energy prices, real estate assessments and other taxes, as well as costs of compliance with laws, regulations and governmental policies;
- the effects of rent controls, stabilization laws and other laws or covenants regulating rental rates; and
- changes in, and changes in enforcement of, laws, regulations and governmental policies, including, without limitation, health, safety, environmental, zoning and tax laws, governmental fiscal policies and the ADA.

In addition, periods of economic slowdown or recession, such as the recent global economic downturn, rising interest rates or declining demand for real estate, or the public perception that any of these events may occur, could result in a general decline in rents and property values and an increased incidence of defaults under existing leases. If we cannot operate our properties effectively, or if we do not acquire desirable properties, and when appropriate dispose of properties, on favorable terms at appropriate times, the market price of our common stock, our financial condition, our results of operations and our cash flows, including our ability to satisfy our debt service obligations and to pay dividends to our stockholders, could be adversely affected. There can be no assurance that we can achieve our return objectives.

**We have a substantial amount of indebtedness, which may affect our ability to pay dividends, may expose us to interest rate fluctuation risk and may expose us to the risk of default under our debt obligations.** As of December 31, 2010, our total consolidated indebtedness was approximately \$3.66 billion, excluding loan premiums, and we may incur significant additional debt for various purposes, including, without limitation, to fund future acquisition and development activities and operational needs. A substantial portion of our debt at December 31, 2010 matures in August 2012.

Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate our properties or to pay the distributions currently contemplated or necessary to maintain our REIT qualification. Our substantial outstanding indebtedness, and the limitations and other constraints imposed on us by our debt agreements, especially in periods like the present when credit is harder to obtain, could have significant other adverse consequences, including the following:

- our cash flows may be insufficient to meet our required principal and interest payments;
- we may be unable to borrow additional funds as needed or on favorable terms, which could, among other things, adversely affect our ability to capitalize upon emerging acquisition opportunities or meet operational needs;
- we may be unable to refinance our indebtedness at maturity or the refinancing terms may be less favorable than the terms of our original indebtedness;
- we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms;
- we may violate restrictive covenants in our loan documents, which would entitle the lenders to accelerate our debt obligations;
- we may be unable to hedge floating rate debt, counterparties may fail to honor their obligations under our hedge agreements, these agreements may not effectively hedge interest rate fluctuation risk, and, upon the expiration of any hedge agreements we do have, we will be exposed to then-existing market rates of interest and future interest rate volatility with respect to indebtedness that is currently hedged;
- we may default on our obligations and the lenders or mortgagees may foreclose on our properties that secure their loans and receive an assignment of rents and leases; and
- our default under any of our indebtedness with cross default provisions could result in a default on other indebtedness.

If any one of these events were to occur, the market price of our common stock, our financial condition, our results of operations and our cash flows, including our ability to satisfy our debt service obligations and to pay dividends to our stockholders, could be adversely affected. In addition, any foreclosure on our properties could create taxable income without accompanying cash proceeds, which could adversely affect our ability to meet the REIT distribution requirements imposed by the Internal Revenue Code.

**The recent global financial downturn may adversely affect our business and performance.** Our operations and performance depend on general economic conditions. The United States economy has recently experienced a financial crisis and recession, with some financial and economic analysts predicting that the world economy may encounter a prolonged economic period characterized by high unemployment, limited availability of credit and decreased consumer and business spending.

The downturn has had, and may continue to have, an unprecedented negative impact on the global credit markets. Credit tightened significantly. If this reoccurs or other factors affect the availability of credit to us, we might not be able to obtain mortgage loans to purchase additional properties or successfully refinance our properties as loans become due. Further, even if we are able to obtain the financing we need, it may be on terms that are not favorable to us, with increased financing costs and restrictive covenants, including restricting our ability to pay dividends and our institutional Funds' ability to make distributions to its respective members, including us.

The economic downturn has adversely affected, and may continue to adversely affect, the businesses of many of our tenants. As a result, we have seen increases in bankruptcies of our tenants and increased defaults by tenants, which could continue, and we may experience higher vacancy rates and delays in re-leasing vacant space, which could negatively impact our business and results of operations.

Overall, these factors have resulted in uncertainty in the real estate markets. As a result, the valuation of real-estate related assets has been volatile and may continue to be volatile in the future. This volatility in the markets may make it more difficult for us to obtain adequate financing or realize gains on our investments, which could have an adverse effect on our business and results of operations.

**The actual rents we receive for the properties in our portfolio may be less than our asking rents, and we may experience lease roll-down from time to time.** As a result of various factors, including competitive pricing pressure in our submarkets, adverse conditions in the Los Angeles County or Honolulu real estate market, a general economic downturn, such as the recent global economic downturn, and the desirability of our properties compared to other properties in our submarkets, we may be unable to realize our asking rents across the properties in our portfolio. In addition, the degree of discrepancy between our asking rents and the actual rents we are able to obtain may vary both from property to property and among different leased spaces within a single property. If we are unable to obtain rental rates that are on average comparable to our asking rents across our portfolio, then our ability to generate cash flow growth will be negatively impacted. In addition, depending on asking rental rates at any given time as compared to expiring leases in our portfolio, from time to time rental rates for expiring leases may be higher than starting rental rates for new leases. Significant rent reductions could result in a write-down of one or more of our consolidated properties, or our equity investments in our Funds.

**Potential losses, including from adverse weather conditions, natural disasters and title claims, may not be covered by insurance.** Our business operations in Los Angeles County, California and Honolulu, Hawaii are susceptible to, and could be significantly affected by, adverse weather conditions and natural disasters such as earthquakes, tsunamis, hurricanes, volcanoes, wind, floods, landslides and fires. These adverse weather conditions and natural disasters could cause significant damage to the properties in our portfolio, the risk of which is enhanced by the concentration of our properties' locations. Our insurance may not be adequate to cover business interruption or losses resulting from adverse weather or natural disasters. In addition, our insurance policies include substantial self-insurance portions and significant deductibles and co-payments for such events, and we are subject to the availability of insurance in the United States and the pricing thereof. As a result, we may be required to incur significant costs in the event of adverse weather conditions and natural disasters. We may reduce or discontinue earthquake or any other insurance coverage on some or all of our properties in the future if the cost of premiums for any of these policies in our judgment exceeds the value of the coverage discounted for the risk of loss.

Furthermore, we do not carry insurance for certain losses, including, but not limited to, losses caused by certain environmental conditions, asbestos, riots or war. In addition, our title insurance policies may not insure for the current aggregate market value of our portfolio, and we do not intend to increase our title insurance coverage as the market value of our portfolio increases. As a result, we may not have sufficient coverage against all losses that we may experience, including from adverse title claims.

If we experience a loss that is uninsured or which exceeds policy limits, we could incur significant costs and lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if these properties were irreparably damaged.

In addition, if any of our properties were destroyed or damaged, then we might not be permitted to rebuild many of those properties to their existing height or size at their existing location under current land-use laws and policies. In the event that we experience a substantial or comprehensive loss of one of our properties, we may not be able to rebuild such property to its existing specifications and otherwise may have to upgrade such property to meet current code requirements.

**Terrorism and other factors affecting demand for our properties could harm our operating results.** The strength and profitability of our business depends on demand for and the value of our properties. Possible future terrorist attacks in the United States, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001, and other acts of terrorism or war may have a negative impact on our operations, even if they are not directed at our properties. In addition, the terrorist attacks of September 11, 2001 substantially affected the availability and price of insurance coverage for certain types of damages or occurrences, and our insurance policies for terrorism include large deductibles and co-payments. The lack of sufficient insurance for these types of acts could expose us to significant losses and could have a negative impact on our operations.

**We face intense competition, which may decrease or prevent increases of the occupancy and rental rates of our properties.** We compete with a number of developers, owners and operators of office and multifamily real estate, many of which own properties similar to ours in the same markets in which our properties are located. If our competitors offer space at rental rates below current market rates, or below the rental rates we currently charge our tenants, we may lose existing or potential tenants, and we may be pressured to reduce our rental rates below those we currently charge or to offer more substantial rent abatements, tenant improvements, early termination rights or below-market renewal options in order to retain tenants when our tenants' leases expire. In that case, the market price of our common stock, our financial condition, our results of operations and our cash flows, including our ability to satisfy our debt service obligations and to pay dividends to our stockholders, may be adversely affected.

In addition, all of our multifamily properties are located in developed areas that include a significant number of other multifamily properties, as well as single-family homes, condominiums and other residential properties. The number of competitive multifamily and other residential properties in a particular area could have a material adverse effect on our ability to lease units and on our rental rates.

**We may be unable to renew leases or lease vacant space.** As of December 31, 2010, leases representing approximately 11.6% of the square footage of the properties in our total office portfolio will expire in 2011, and an additional 11.4% of the square footage of the properties in our total office portfolio was available for lease. Excluding the properties held by our unconsolidated Funds, which are managed by us, but are only contained in our consolidated financial statements using equity accounting, as of December 31, 2010, the percentage of leases expiring in 2011 is 11.5% and the available square footage represents 10.4% of our owned and consolidated office portfolio. In addition, as of December 31, 2010, approximately 0.8% of the units in our multifamily portfolio were available for lease, and substantially all of the leases in our multifamily portfolio are originally renewable on an annual basis at the tenant's option and, if not renewed or terminated, automatically convert to month-to-month terms. Our leases may not be renewed, in which case we must find new tenants for that space. To attract new tenants or retain existing tenants, particularly in periods of contraction, we may have to accept rental rates below our existing rental rates or offer substantial rent abatements, tenant improvements, early termination rights or below-market renewal options. Accordingly, portions of our office and multifamily properties may remain vacant for extended periods of time. In addition, some existing leases currently provide tenants with options to renew the terms of their leases at rates that are less than the current market rate or to terminate their leases prior to the expiration date thereof.

Furthermore, as part of our business strategy, we have focused and intend to continue to focus on securing smaller-sized companies as tenants for our office portfolios. Smaller tenants may present greater credit risks and be more susceptible to economic downturns than larger tenants, and may be more likely to cancel or elect not to renew their leases. In addition, we intend to actively pursue opportunities for what we believe to be well-located and high quality buildings that may be in a transitional phase due to current or impending vacancies. We cannot assure you that any such vacancies will be filled following a property acquisition, or that any new tenancies will be established at or above market rates. If the rental rates for our properties decrease, other tenant incentives increase, our existing tenants do not renew their leases or we do not re-lease a significant portion of our available space, the market price of our common stock, our financial condition, our results of operations and our cash flows, including our ability to satisfy our debt service obligations and to pay dividends to our stockholders, would be adversely affected.

**Real estate investments are generally illiquid.** Our real estate investments are relatively difficult to sell quickly. Return of capital and realization of gains, if any, from an investment generally will occur upon disposition or refinance of the underlying property. We may be unable to realize our investment objectives by sale, other disposition or refinance at attractive prices within any given period of time or may otherwise be unable to complete any exit strategy. In particular, these risks could arise from weakness in or even the lack of an established market for a property, changes in the financial condition or prospects of prospective purchasers, changes in national or international economic conditions, such as the recent economic downturn, and changes in laws, regulations or fiscal policies of jurisdictions in which the property is located. Furthermore, certain properties may be adversely affected by contractual rights, such as rights of first offer.

**Because we own real property, we are subject to extensive environmental regulation, which creates uncertainty regarding future environmental expenditures and liabilities.** Environmental laws regulate, and impose liability for, releases of hazardous or toxic substances into the environment. Under various provisions of these laws, an owner or operator of real estate may be liable for costs related to soil or groundwater contamination on, in, or migrating to or from its property. In addition, persons who arrange for the disposal or treatment of hazardous or toxic substances may be liable for the costs of cleaning up contamination at the disposal site. Such laws often impose liability regardless of whether the person knew of, or was responsible for, the presence of the hazardous or toxic substances that caused the contamination. The presence of, or contamination resulting from, any of these substances, or the failure to properly remediate them, may adversely affect our ability to sell or rent our property or to borrow using such property as collateral. In addition, persons exposed to hazardous or toxic substances may sue for personal injury damages. For example, some laws impose liability for release of or exposure to asbestos-containing materials, a substance known to be present in a number of our buildings. In other cases, some of our properties have been (or may have been) impacted by contamination from past operations or from off-site sources. As a result, in connection with our current or former ownership, operation, management and development of real properties, we may be potentially liable for investigation and cleanup costs, penalties, and damages under environmental laws.

Although most of our properties have been subjected to preliminary environmental assessments, known as Phase I assessments, by independent environmental consultants that identify certain liabilities, Phase I assessments are limited in scope, and may not include or identify all potential environmental liabilities or risks associated with the property. Unless required by applicable laws or regulations, we may not further investigate, remedy or ameliorate the liabilities disclosed in the Phase I assessments.

We cannot assure you that these or other environmental studies identified all potential environmental liabilities, or that we will not incur material environmental liabilities in the future. If we do incur material environmental liabilities in the future, we may face significant remediation costs, and we may find it difficult to sell any affected properties.

**We may incur significant costs complying with laws, regulations and covenants that are applicable to our properties.** The properties in our portfolio are subject to various covenants and federal, state and local laws and regulatory requirements, including permitting and licensing requirements. Such laws and regulations, including municipal or local ordinances, zoning restrictions and restrictive covenants imposed by community developers may restrict our use of our properties and may require us to obtain approval from local officials or community standards organizations at any time with respect to our properties, including prior to acquiring a property or when undertaking renovations of any of our existing properties. Among other things, these restrictions may relate to fire and safety, seismic, asbestos-cleanup or hazardous material abatement requirements. There can be no assurance that existing laws and regulations will not adversely affect us or the timing or cost of any future acquisitions or renovations, or that additional regulations will not be adopted that increase such delays or result in additional costs. Our failure to obtain required permits, licenses and zoning relief or to comply with applicable laws could have a material adverse effect on our business, financial condition and results of operations.

**Rent control or rent stabilization legislation and other regulatory restrictions may limit our ability to increase rents and pass through new or increased operating costs to our tenants.** Certain states and municipalities have adopted laws and regulations imposing restrictions on the timing or amount of rent increases or have imposed regulations relating to low- and moderate-income housing. Currently, neither California nor Hawaii have state mandated rent control, but various municipalities within Southern California, such as the Cities of Los Angeles and Santa Monica, have enacted rent control legislation. All but one of the properties in our Los Angeles County multifamily portfolio are affected by these laws and regulations. In addition, we have agreed to provide low- and moderate-income housing in many of the units in our Honolulu multifamily portfolio in exchange for certain tax benefits. We presently expect to continue operating and acquiring properties in areas that either are subject to these types of laws or regulations or where legislation with respect to such laws or regulations may be enacted in the future. Such laws and regulations limit our ability to charge market rents, increase rents, evict tenants or recover increases in our operating expenses and could make it more difficult for us to dispose of properties in certain circumstances. Similarly, compliance procedures associated with rent control statutes and low- and moderate-income housing regulations could have a negative impact on our operating costs, and any failure to comply with low- and moderate-income housing regulations could result in the loss of certain tax benefits and the forfeiture of rent payments. In addition, such low- and moderate-income housing regulations require us to rent a certain number of units at below-market rents, which has a negative impact on our ability to increase cash flows from our properties subject to such regulations. Furthermore, such regulations may negatively impact our ability to attract higher-paying tenants to such properties.

**We may be unable to complete acquisitions that would grow our business, and even if consummated, we may fail to successfully integrate and operate acquired properties.** Our planned growth strategy includes the disciplined acquisition of properties as opportunities arise. Our ability to acquire properties on favorable terms and successfully integrate and operate them is subject to significant risks, including the following:

- we may be unable to acquire desired properties because of competition from other real estate investors with more capital, including other real estate operating companies, publicly-traded REITs and investment funds;

- we may acquire properties that are not accretive to our results upon acquisition, and we may not successfully manage and lease those properties to meet our expectations;
- competition from other potential acquirers may significantly increase the purchase price of a desired property;
- we may be unable to generate sufficient cash from operations, or obtain the necessary debt financing, equity financing, or private equity contributions to consummate an acquisition or, if obtainable, financing may not be on favorable terms;
- our cash flows may be insufficient to meet our required principal and interest payments;
- we may need to spend more than budgeted amounts to make necessary improvements or renovations to acquired properties;
- agreements for the acquisition of office properties are typically subject to customary conditions to closing, including satisfactory completion of due diligence investigations, and we may spend significant time and money on potential acquisitions that we do not consummate;
- the process of acquiring or pursuing the acquisition of a new property may divert the attention of our senior management team from our existing business operations;
- we may be unable to quickly and efficiently integrate new acquisitions, particularly acquisitions of portfolios of properties, into our existing operations;
- market conditions may result in higher than expected vacancy rates and lower than expected rental rates; and
- we may acquire properties without any recourse, or with only limited recourse, for liabilities, whether known or unknown, such as clean-up of environmental contamination, claims by tenants, vendors or other persons against the former owners of the properties and claims for indemnification by general partners, directors, officers and others indemnified by the former owners of the properties.

If we cannot complete property acquisitions on favorable terms, or operate acquired properties to meet our goals or expectations, the market price of our common stock, our financial condition, our results of operations and our cash flows, including our ability to satisfy our debt service obligations and to pay dividends to our stockholders, could be adversely affected.

**We may be unable to successfully expand our operations into new markets.** If the opportunity arises, we may explore acquisitions of properties in new markets. Each of the risks applicable to our ability to acquire, integrate and operate properties in our current markets is also applicable to our ability to acquire and successfully integrate and operate properties in new markets. In addition to these risks, we will not possess the same level of familiarity with the dynamics and market conditions of any new markets that we may enter, which could adversely affect our ability to expand into those markets. We may be unable to build a significant market share or achieve a desired return on our investments in new markets. If we are unsuccessful in expanding into new markets, it could adversely affect the market price of our common stock, our financial condition, our results of operations and our cash flows, including our ability to satisfy our debt service obligations and to pay dividends to our stockholders.

**We are exposed to risks associated with property development.** We may engage in development and redevelopment activities with respect to certain of our properties. To the extent that we do so, we will be subject to certain risks, including, without limitation:

- the availability and pricing of financing on favorable terms or at all;
- the availability and timely receipt of zoning and other regulatory approvals; and
- the cost and timely completion of construction (including risks beyond our control, such as weather or labor conditions, or material shortages).

These risks could result in substantial unanticipated delays or expenses and, under certain circumstances, could prevent completion of development activities once undertaken, any of which could have an adverse effect on the market price of our common stock, our financial condition, our results of operations and our cash flows, including our ability to satisfy our debt service obligations and to pay dividends to our stockholders.

**If we default on the leases to which some of our properties are subject, our business could be adversely affected.** We have leasehold interests in certain of our properties. If we default under the terms of these leases, we may be liable for damages and could lose our leasehold interest in the property or our options to purchase the fee interest in such properties. If any of these events were to occur, our business and results of operations would be adversely affected.

**The cash available for distribution to stockholders may not be sufficient to pay dividends at expected levels, nor can we assure you of our ability to make distributions in the future. We may elect to distribute the minimum amount to remain compliant with REIT requirements while retaining excess capital for future operations. We may use borrowed funds to make distributions or pay some of the required distributions in equity.** Our annual distributions may exceed estimated cash available from operations. While we intend to fund the difference out of excess cash or by incurring additional debt, if necessary, our inability to make, or election to not make, the expected distributions could result in a decrease in the market price of our common stock.

**Our property taxes could increase due to property tax rate changes or reassessment, which would impact our cash flows.** Even as a REIT for federal income tax purposes, we are required to pay some state and local taxes on our properties. The real property taxes on our properties may increase as property tax rates change or as our properties are assessed or reassessed by taxing authorities. In California, under current law, reassessment occurs primarily as a result of a “change in ownership”. The impact of a potential reassessment may take a considerable amount of time, during which the property taxing authorities make a determination of the occurrence of a “change of ownership”, as well as the actual reassessed value. Therefore, the amount of property taxes we pay could increase substantially from what we have paid in the past. If the property taxes we pay increase, our cash flows would be impacted, and our ability to pay expected dividends to our stockholders could be adversely affected.

### **Risks Related to Our Organization and Structure**

**Tax consequences to holders of operating partnership units upon a sale or refinancing of our properties may cause the interests of our executive officers to differ from the interests of other stockholders.** As a result of the unrealized built-in gain attributable to the contributed property at the time of contribution, some holders of operating partnership units, including our principals, may suffer different and more adverse tax consequences than holders of our common stock upon the sale or refinancing of the properties owned by our operating partnership, including disproportionately greater allocations of items of taxable income and gain upon a realization event. As those holders will not receive a correspondingly greater distribution of cash proceeds, they may have different objectives regarding the appropriate pricing, timing and other material terms of any sale or refinancing of certain properties, or whether to sell or refinance such properties at all.

**Our executive officers will have significant influence over our affairs.** At December 31, 2010, our executive officers owned approximately 7% of our outstanding common stock, or approximately 29% assuming that they convert all of their interests in our operating partnership and exercise all of their options. As a result, our executive officers, to the extent they vote their shares in a similar manner, will have influence over our affairs and could exercise such influence in a manner that is not in the best interests of our other stockholders, including by attempting to delay, defer or prevent a change of control transaction that might otherwise be in the best interests of our stockholders. If our executive officers exercise their redemption rights with respect to their operating partnership units and we issue common stock in exchange for those units, our executive officers’ influence over our affairs would increase substantially.

**Our growth depends on external sources of capital which are outside of our control.** In order to qualify as a REIT, we are required under the Internal Revenue Code to distribute annually at least 90% of our “real estate investment trust” taxable income, determined without regard to the dividends paid deduction and by excluding any net capital gain. To the extent that we do not distribute all of our net long-term capital gain or distribute at least 90% of our REIT taxable income, we will be required to pay tax thereon at regular corporate tax rates. Because of these distribution requirements, we may not be able to fund future capital needs, including any necessary acquisition financing, from operating cash flows. Consequently, we may rely on third-party sources to fund our capital needs. We may not be able to obtain financing on favorable terms or at all. Any additional debt we incur will increase our leverage. Our access to third-party sources of capital depends on many factors, some of which include:

- general market conditions;
- the market’s perception of our growth potential;
- our current debt levels;
- our current and expected future earnings;
- our cash flows and cash dividends; and
- the market price per share of our common stock.



Recently, the credit markets have been subject to significant disruptions. If we cannot obtain capital from third-party sources, we may not be able to acquire or develop properties when strategic opportunities exist, meet the capital and operating needs of our existing properties, satisfy our debt service obligations or pay dividends to our stockholders necessary to maintain our qualification as a REIT.

**Our charter, the partnership agreement of our operating partnership and Maryland law contain provisions that may delay or prevent a change of control transaction.**

***Our charter contains a 5.0% ownership limit.*** Our charter, subject to certain exceptions, contains restrictions on ownership that limit, and authorizes our directors to take such actions as are necessary and desirable to limit, any person to actual or constructive ownership of no more than 5.0% in value of the outstanding shares of our stock and no more than 5.0% of the value or number, whichever is more restrictive, of the outstanding shares of our common stock. Our board of directors, in its sole discretion, may exempt a proposed transferee from the ownership limit. However, our board of directors may not grant an exemption from the ownership limit to any proposed transferee whose ownership, direct or indirect, of more than 5.0% of the value or number of our outstanding shares of our common stock could jeopardize our status as a REIT. The ownership limit contained in our charter and the restrictions on ownership of our common stock may delay or prevent a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

***Our board of directors may create and issue a class or series of preferred stock without stockholder approval.*** Our board of directors is empowered under our charter to amend our charter to increase or decrease the aggregate number of shares of our common stock or the number of shares of stock of any class or series that we have authority to issue, to designate and issue from time to time one or more classes or series of preferred stock and to classify or reclassify any unissued shares of our common stock or preferred stock without stockholder approval. Our board of directors may determine the relative rights, preferences and privileges of any class or series of preferred stock issued. As a result, we may issue series or classes of preferred stock with preferences, dividends, powers and rights, voting or otherwise, senior to the rights of holders of our common stock. The issuance of preferred stock could also have the effect of delaying or preventing a change of control transaction that might otherwise be in the best interests of our stockholders.

***Certain provisions in the partnership agreement for our operating partnership may delay or prevent unsolicited acquisitions of us.*** Provisions in the partnership agreement for our operating partnership may delay or make more difficult unsolicited acquisitions of us or changes in our control. These provisions could discourage third parties from making proposals involving an unsolicited acquisition of us or change of our control, although some stockholders might consider such proposals, if made, desirable. These provisions include, among others:

- redemption rights of qualifying parties;
- transfer restrictions on our operating partnership units;
- the ability of the general partner in some cases to amend the partnership agreement without the consent of the limited partners; and
- the right of the limited partners to consent to transfers of the general partnership interest and mergers under specified circumstances.

Any potential change of control transaction may be further limited as a result of provisions of the partnership unit designation for certain long-term incentive plan units (LTIP units), which require us to preserve the rights of LTIP unit holders and may restrict us from amending the partnership agreement for our operating partnership in a manner that would have an adverse effect on the rights of LTIP unit holders.

***Certain provisions of Maryland law could inhibit changes in control.*** Certain provisions of the Maryland General Corporation Law (MGCL) may have the effect of inhibiting a third party from making a proposal to acquire us or impeding a change of control under circumstances that otherwise could provide our stockholders with the opportunity to realize a premium over the then-prevailing market price of our common stock, including:

- “business combination” provisions that, subject to limitations, prohibit certain business combinations between us and an “interested stockholder” (defined generally as any person who beneficially owns 10% or more of the voting power of our shares or an affiliate thereof) for five years after the most recent date on which the stockholder becomes an interested stockholder, and thereafter impose special appraisal rights and special stockholder voting requirements on these combinations; and

- “control share” provisions that provide that “control shares” of our company (defined as shares which, when aggregated with other shares controlled by the stockholder, entitle the stockholder to exercise one of three increasing ranges of voting power in electing directors) acquired in a “control share acquisition” (defined as the direct or indirect acquisition of ownership or control of “control shares”) have no voting rights except to the extent approved by our stockholders by the affirmative vote of at least two-thirds of all the votes entitled to be cast on the matter, excluding all interested shares.

We have elected to opt out of these provisions of the MGCL, in the case of the business combination provisions of the MGCL, by resolution of our board of directors, and in the case of the control share provisions of the MGCL, pursuant to a provision in our bylaws. However, our board of directors may by resolution elect to repeal the foregoing opt-outs from the business combination provisions of the MGCL and we may, by amendment to our bylaws, opt in to the control share provisions of the MGCL in the future.

Our charter, bylaws, the partnership agreement for our operating partnership and Maryland law also contain other provisions that may delay, defer or prevent a transaction or a change of control that might involve a premium price for our common stock or otherwise be in the best interest of our stockholders.

**Under their employment agreements, certain of our executive officers will have the right to terminate their employment and receive severance if there is a change of control.** We have employment agreements with Jordan L. Kaplan, Kenneth M. Panzer, William Kamer and Theodore Guth, which provide that each executive may terminate his employment under certain conditions, including after a change of control, and receive severance based on two or three times (depending on the officer) his annual total of salary, bonus and incentive compensation such as LTIP units, options or outperformance grants. In addition, these executive officers would not be restricted from competing with us after their departure.

**Our fiduciary duties as sole stockholder of the general partner of our operating partnership could create conflicts of interest.** We, as the sole stockholder of the general partner of our operating partnership, have fiduciary duties to the other limited partners in our operating partnership, the discharge of which may conflict with the interests of our stockholders. The limited partners of our operating partnership have agreed that, in the event of a conflict in the fiduciary duties owed by us to our stockholders and, in our capacity as general partner of our operating partnership, to such limited partners, we are under no obligation to give priority to the interests of such limited partners. In addition, those persons holding operating partnership units will have the right to vote on certain amendments to the operating partnership agreement (which require approval by a majority in interest of the limited partners, including us) and individually to approve certain amendments that would adversely affect their rights. These voting rights may be exercised in a manner that conflicts with the interests of our stockholders. For example, we are unable to modify the rights of limited partners to receive distributions as set forth in the operating partnership agreement in a manner that adversely affects their rights without their consent, even though such modification might be in the best interest of our stockholders.

**The loss of any member of our executive officers or certain other key senior personnel could significantly harm our business.** Our ability to maintain our competitive position is dependent to a large degree on the efforts and skills of our executive officers, including Dan A. Emmett, Jordan L. Kaplan, Kenneth M. Panzer, William Kamer and Theodore Guth. If we lose the services of any member of our executive officers, our business may be significantly impaired. In addition, many of our executives have strong industry reputations, which aid us in identifying acquisition and borrowing opportunities, having such opportunities brought to us, and negotiating with tenants and sellers of properties. The loss of the services of these key personnel could materially and adversely affect our operations because of diminished relationships with lenders, existing and prospective tenants, property sellers and industry personnel.

**If we fail to maintain an effective system of integrated internal control over financial reporting, we may not be able to accurately report our financial results.** An effective system of internal control over financial reporting is necessary for us to provide reliable financial reports, prevent fraud and operate successfully as a public company. As part of our ongoing monitoring of internal controls, we may discover material weaknesses or significant deficiencies in our internal controls that we believe require remediation. If we discover such weaknesses, we will make efforts to improve our internal controls in a timely manner. Any system of internal controls, however well designed and operated, is based in part on certain assumptions and can only provide reasonable, not absolute, assurance that the objectives of the system are met. Any failure to maintain effective internal controls, or implement any necessary improvements in a timely manner, could have a material adverse effect on our business and operating results, or cause us to not meet our reporting obligations, which could affect our ability to remain listed with the New York Stock Exchange. Ineffective internal controls could also cause investors to lose confidence in our reported financial information, which would likely have a negative effect on the trading price of our securities.

**Our board of directors may change significant corporate policies without stockholder approval.** Our investment, financing, borrowing and dividend policies and our policies with respect to all other activities, including growth, debt, capitalization and operations, will be determined by our board of directors. These policies may be amended or revised at any time and from time to time at the discretion of the board of directors without a vote of our stockholders. In addition, the board of directors may change our policies with respect to conflicts of interest provided that such changes are consistent with applicable legal requirements. A change in these policies could have an adverse effect on the market price of our common stock, our financial condition, our results of operations and our cash flows, including our ability to satisfy our debt service obligations and to pay dividends to our stockholders.

**Compensation awards to our management may not be tied to or correspond with our improved financial results or share price.** The compensation committee of our board of directors is responsible for overseeing our compensation and employee benefit plans and practices, including our executive compensation plans and our incentive compensation and equity-based compensation plans. Our compensation committee has significant discretion in structuring compensation packages and may make compensation decisions based on any number of factors. As a result, compensation awards may not be tied to or correspond with improved financial results at our company or the share price of our common stock.

### **Tax Risks Related to Ownership of REIT Shares**

**Our failure to qualify as a REIT would result in higher taxes and reduce cash available for dividends.** We currently operate and have operated commencing with our taxable year ended December 31, 2006 in a manner that is intended to allow us to qualify as a REIT for federal income tax purposes. Qualification as a REIT involves the application of highly technical and complex Internal Revenue Code provisions for which there are only limited judicial and administrative interpretations. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. To qualify as a REIT, we must satisfy certain asset, income, organizational, distribution, stockholder ownership and other requirements on a continuing basis. For example, to qualify as a REIT, at least 95% of our gross income in any year must be derived from qualifying sources; at least 75% of the value of our total assets must be represented by certain real estate assets including shares of stock of other REITs, certain other stock or debt instruments purchased with the proceeds of a stock offering or long term public debt offering by us (but only for the one-year period after such offering), cash, cash items and government securities; and we must make distributions to our stockholders aggregating annually at least 90% of our REIT taxable income, excluding capital gains. Our ability to satisfy the asset tests depends upon our analysis of the characterization and fair market values of our assets, some of which are not susceptible to a precise determination, and for which we may not obtain independent appraisals. Our compliance with the REIT income and quarterly asset requirements also depends upon our ability to successfully manage the composition of our income and assets on an ongoing basis. The fact that we hold most of our assets through the operating partnership further complicates the application of the REIT requirements. Even a technical or inadvertent mistake could jeopardize our REIT status. In addition, legislation, new regulations, administrative interpretations or court decisions might significantly change the tax laws with respect to the requirements for qualification as a REIT or the federal income tax consequences of qualification as a REIT. Although we believe that we have been organized and have operated in a manner that is intended to allow us to qualify for taxation as a REIT, we can give no assurance that we have qualified or will continue to qualify as a REIT for tax purposes. We have not requested and do not plan to request a ruling from the IRS regarding our qualification as a REIT.

If we were to fail to qualify as a REIT in any taxable year, we would be subject to federal income tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates, and distributions to stockholders would not be deductible by us in computing our taxable income. Any such corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our stockholders, which in turn could have an adverse impact on the value of, and trading prices for, our common stock. Unless entitled to relief under certain Internal Revenue Code provisions, we also would be disqualified from taxation as a REIT for the four taxable years following the year during which we ceased to qualify as a REIT. In addition, if we fail to qualify as a REIT, we will not be required to make distributions to stockholders, and all distributions to stockholders will be subject to tax as dividend income to the extent of our current and accumulated earnings and profits. As a result of all these factors, our failure to qualify as a REIT also could impair our ability to expand our business and raise capital, and would adversely affect the value of our common stock. If we fail to qualify as a REIT for federal income tax purposes and are able to avail ourselves of one or more of the relief provisions under the Internal Revenue Code in order to maintain our REIT status, we would nevertheless be required to pay penalty taxes of \$50,000 or more for each such failure.

Our Funds each own properties through an entity which is intended to also qualify as a REIT, and the failure of those entities to so qualify could have similar impacts on us.

**Even if we qualify as a REIT, we will be required to pay some taxes.** Even if we qualify as a REIT for federal income tax purposes, we will be required to pay certain federal, state and local taxes on our income and property. For example, we will be subject to income tax to the extent we distribute less than 100% of our REIT taxable income (including capital gains). Moreover, if we have net income from “prohibited transactions,” that income will be subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property held primarily for sale to customers in the ordinary course of business.

**The tax imposed on REITs engaging in “prohibited transactions” will limit our ability to engage in transactions which would be treated as sales for federal income tax purposes.** A REIT’s net income from prohibited transactions is subject to a 100% tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property but including any property held in inventory primarily for sale to customers in the ordinary course of business. Although we do not intend to hold any properties that would be characterized as inventory held for sale to customers in the ordinary course of our business, such characterization is a factual determination and we cannot guarantee that the IRS would agree with our characterization of our properties.

In addition, any net taxable income earned directly by our taxable REIT subsidiaries, or through entities that are disregarded for federal income tax purposes as entities separate from our taxable REIT subsidiary, will be subject to federal and possibly state corporate income tax. We have elected to treat several subsidiaries as taxable REIT subsidiaries, and we may elect to treat other subsidiaries as taxable REIT subsidiaries in the future. In this regard, several provisions of the laws applicable to REITs and their subsidiaries ensure that a taxable REIT subsidiary will be subject to an appropriate level of federal income taxation. For example, a taxable REIT subsidiary is limited in its ability to deduct interest payments made to an affiliated REIT. In addition, the REIT has to pay a 100% tax on some payments that it receives or on some deductions taken by its taxable REIT subsidiaries if the economic arrangements between the REIT, the REIT’s tenants, and the taxable REIT subsidiary are not comparable to similar arrangements between unrelated parties. Finally, some state and local jurisdictions may tax some of our income even though as a REIT we are not subject to federal income tax on that income because not all states and localities treat REITs the same as they are treated for federal income tax purposes. To the extent that we and our affiliates are required to pay federal, state and local taxes, we will have less cash available for distributions to our stockholders.

**REIT distribution requirements could adversely affect our liquidity.** We generally must distribute annually at least 90% of our REIT taxable income, excluding any net capital gain, in order to qualify as a REIT. To the extent that we do not distribute all of our net long-term capital gain or distribute at least 90% of our REIT taxable income, we will be required to pay tax thereon at regular corporate tax rates. We intend to make distributions to our stockholders to comply with the requirements of the Internal Revenue Code for REITs and to minimize or eliminate our corporate income tax obligation. However, differences between the recognition of taxable income and the actual receipt of cash could require us to sell assets or borrow funds on a short-term or long-term basis to meet the distribution requirements of the Internal Revenue Code. Certain types of assets generate substantial mismatches between taxable income and available cash. Such assets include rental real estate that has been financed through financing structures which require some or all of available cash flows to be used to service borrowings. As a result, the requirement to distribute a substantial portion of our taxable income could cause us to sell assets in adverse market conditions, borrow on unfavorable terms, or distribute amounts that would otherwise be invested in future acquisitions, capital expenditures or repayment of debt in order to comply with REIT requirements. Further, amounts distributed will not be available to fund our operations.

**Item 1B. Unresolved Staff Comments.**

None.

## Item 2. Properties

Our total portfolio of 66 properties consists of 50 office properties that we directly own and operate, seven office properties that we operate and indirectly own through our equity interest in our unconsolidated Funds, and nine wholly-owned multifamily properties. Our properties are located in the Brentwood, Olympic Corridor, Century City, Beverly Hills, Santa Monica, Westwood, Sherman Oaks/Encino, Warner Center/Woodland Hills and Burbank submarkets of Los Angeles County, California, and in Honolulu, Hawaii.

### Office Portfolio

Presented below is an overview of certain information regarding our total office portfolio as of December 31, 2010:

<b>Office Portfolio by Submarket <sup>(1)</sup></b>	<b>Number of Properties</b>	<b>Rentable Square Feet <sup>(2)</sup></b>	<b>Square Feet as a Percent of Total</b>
West Los Angeles			
Brentwood	14	1,700,872	11.6 %
Olympic Corridor	5	1,097,922	7.5
Century City	3	915,980	6.3
Santa Monica	8	970,185	6.6
Beverly Hills	6	1,344,275	9.2
Westwood	2	396,807	2.7
San Fernando Valley			
Sherman Oaks/Encino	11	3,181,171	21.8
Warner Center/Woodland Hills	3	2,855,872	19.6
Tri-Cities			
Burbank	1	420,949	2.9
Honolulu	4	1,716,264	11.8
<b>Total</b>	<b>57</b>	<b>14,600,297</b>	<b>100.0 %</b>

- (1) All properties are 100% owned except 7 properties totaling 1.8 million square feet owned by our unconsolidated Funds and a 78,000 square foot property owned by a consolidated joint venture in which we own a 66.7% interest.
- (2) Based on Building Owners and Managers Association (BOMA) 1996 remeasurement. Total consists of 12,731,151 leased square feet, 1,658,112 available square feet, 95,328 building management use square feet, and 115,706 square feet of BOMA 1996 adjustment on leased space.

The following table presents our total office portfolio occupancy and in-place rents as of December 31, 2010:

Office Portfolio by Submarket <sup>(1)</sup>	Percent Leased <sup>(2)</sup>	Annualized Rent <sup>(3)</sup>	Annualized Rent Per Leased Square Foot <sup>(4)</sup>
West Los Angeles			
Brentwood	90.0 %	\$ 57,818,490	\$ 38.86
Olympic Corridor	86.3	31,380,891	34.26
Century City	95.5	32,739,896	38.24
Santa Monica <sup>(5)</sup>	94.9	47,943,758	53.37
Beverly Hills	89.4	47,818,185	41.64
Westwood	88.0	13,034,562	37.71
San Fernando Valley			
Sherman Oaks/Encino	88.5	87,014,571	32.07
Warner Center/Woodland Hills	81.7	65,854,337	29.39
Tri-Cities			
Burbank	100.0	14,099,514	33.49
Honolulu	90.4	48,043,600	33.03
<b>Total / Weighted Average</b>	<b>88.6</b>	<b><u>\$ 445,747,804</u></b>	<b>35.71</b>

- (1) All properties are 100% owned except 7 properties totaling 1.8 million square feet owned by our unconsolidated Funds and a 78,000 square foot property owned by a consolidated joint venture in which we own a 66.7% interest.
- (2) Includes 249,188 square feet with respect to signed leases not yet commenced.
- (3) Represents annualized monthly cash base rent (i.e., excludes tenant reimbursements, parking and other revenue) under leases commenced as of December 31, 2010 (does not include 249,188 square feet with respect to signed leases not yet commenced). The amount reflects total cash base rent before abatements. For our Burbank and Honolulu office properties, annualized base rent is converted from triple net to gross by adding expense reimbursements to base rent.
- (4) Represents annualized rent divided by leased square feet (excluding 249,188 square feet with respect to signed leases not commenced as set forth in note (2) above for the total).
- (5) Includes \$1,332,386 of annualized rent attributable to our corporate headquarters at our Lincoln/Wilshire property.



The following table presents the submarket concentration for our total office portfolio as of December 31, 2010:

<b>Office Portfolio by Submarket <sup>(1)</sup></b>	<b>Douglas Emmett Rentable Square Feet</b>	<b>Submarket Rentable Square Feet</b>	<b>Douglas Emmett Market Share</b>
West Los Angeles			
Brentwood	1,700,872	3,356,126	50.7 %
Olympic Corridor	1,097,922	3,022,969	36.3
Century City	915,980	10,064,599	9.1
Santa Monica	970,185	8,700,348	11.2
Beverly Hills	1,344,275	7,545,990	17.8
Westwood	396,807	4,408,094	9.0
San Fernando Valley			
Sherman Oaks/Encino	3,181,171	6,080,530	52.3
Warner Center/Woodland Hills	2,855,872	7,429,172	38.4
Tri-Cities			
Burbank	420,949	6,804,391	6.2
<b>Subtotal/Weighted Average LA County</b>	<b>12,884,033</b>	<b>57,412,219</b>	<b>22.4 %</b>
Honolulu	1,716,264	8,169,295	21.0
<b>Total</b>	<b>14,600,297</b>	<b>65,581,514</b>	<b>22.3 %</b>

- (1) All properties are 100% owned except 7 properties totaling 1.8 million square feet owned by our unconsolidated Funds and a 78,000 square foot property owned by a consolidated joint venture in which we own a 66.7% interest .

## Tenant Diversification

Our total office portfolio is currently leased to approximately 2,100 tenants in a variety of industries, including entertainment, real estate, technology, legal and financial services. The following table sets forth information regarding tenants with 1.0% or more of portfolio annualized rent in our total office portfolio as of December 31, 2010:

Office Portfolio by Tenant <sup>(1)</sup>	Number of Leases	Number of Properties	Lease Expiration <sup>(2)</sup>	Total Leased Square Feet	Percent of Rentable Square Feet	Annualized Rent <sup>(3)</sup>	Percent of Annualized Rent
Time Warner <sup>(4)</sup>	4	4	2013-2020	625,748	4.3 %	\$20,868,736	4.7 %
William Morris Endeavor <sup>(5)</sup>	2	1	2014-2019	136,171	0.9	6,557,039	1.5
Bank of America <sup>(6)</sup>	13	10	2011-2018	152,712	1.0	6,300,265	1.4
AIG (Sun America Life Insurance)	1	1	2013	182,010	1.3	5,747,059	1.3
The Macerich Partnership, L.P.	1	1	2018	90,832	0.6	4,446,387	1.0
<b>Total</b>	<b>21</b>	<b>17</b>		<b>1,187,473</b>	<b>8.1 %</b>	<b>\$43,919,486</b>	<b>9.9 %</b>

- (1) All properties are 100% owned except 7 properties totaling 1.8 million square feet owned by our unconsolidated Funds and a 78,000 square foot property owned by a consolidated joint venture in which we own a 66.7% interest .
- (2) Expiration dates are per leases and do not assume exercise of renewal, extension or termination options. For tenants with multiple leases, expirations are shown as a range.
- (3) Represents annualized monthly cash base rent under leases commenced as of December 31, 2010. The amount reflects total cash base rent before abatements. For our Burbank and Honolulu office properties, annualized base rent is converted from triple net to gross by adding expense reimbursements to base rent.
- (4) Includes a 10,000 square foot lease expiring in October 2013, a 150,000 square foot lease expiring in April 2016, a 421,000 square foot lease expiring in September 2019 and a 45,000 square foot lease expiring in December 2020.
- (5) Includes a 2,000 square foot lease expiring in March 2014 and a 134,000 square foot lease expiring in June 2019.
- (6) The notable leases include a 14,000 square foot lease which expired in January 2011, a 2,000 square foot lease expiring in May 2011, a 16,000 square foot lease expiring in July 2011, a 41,000 square foot lease expiring in January 2012, a 6,000 square foot lease expiring in May 2012, an 8,000 square foot lease expiring in July 2013, a 7,000 square foot lease expiring in March 2014, a 9,000 square foot lease expiring in September 2014, an 11,000 square foot lease expiring in November 2014, a 4,000 square foot lease expiring in February 2015, a 23,000 square foot lease expiring in December 2015, and a 12,000 square foot lease expiring in March 2018; as well as a small ATM lease.

## Industry Diversification

The following table sets forth information relating to tenant diversification by industry in our total office portfolio based on annualized rent as of December 31, 2010:

<b>Industry</b>	<b>Number of Leases<sup>(1)</sup></b>	<b>Annualized Rent as a Percent of Total</b>
Legal	451	18.1 %
Financial Services	286	14.5
Entertainment	132	12.4
Real Estate	183	9.8
Accounting & Consulting	265	9.4
Health Services	315	8.2
Insurance	107	8.0
Retail	197	7.1
Technology	86	3.9
Advertising	66	3.0
Public Administration	61	2.4
Educational Services	19	1.3
Other	85	1.9
<b>Total</b>	<b>2,253</b>	<b>100.0 %</b>

- (1) All properties are 100% owned except 7 properties totaling 1.8 million square feet owned by our unconsolidated Funds and a 78,000 square foot property owned by a consolidated joint venture in which we own a 66.7% interest.

## Lease Distribution

The following table sets forth information relating to the distribution of leases in our total office portfolio, based on rentable square feet leased as of December 31, 2010:

<b>Square Feet Under Lease</b>	<b>Number of Leases</b>	<b>Leases as a Percent of Total</b>	<b>Rentable Square Feet <sup>(1)</sup></b>	<b>Square Feet as a Percent of Total</b>	<b>Annualized Rent <sup>(2)(3)</sup></b>	<b>Annualized Rent as a Percent of Total</b>
2,500 or less	1,160	51.5%	1,530,431	10.5%	\$ 56,977,180	12.8%
2,501-10,000	795	35.3	3,859,272	26.4	138,563,001	31.1
10,001-20,000	197	8.7	2,743,927	18.8	98,812,718	22.2
20,001-40,000	75	3.3	2,034,047	13.9	70,089,193	15.7
40,001-100,000	20	0.9	1,185,047	8.1	43,690,087	9.8
Greater than 100,000	6	0.3	1,129,239	7.8	37,615,625	8.4
<b>Subtotal</b>	<b>2,253</b>	<b>100.0%</b>	<b>12,481,963 <sup>(4)</sup></b>	<b>85.5%</b>	<b>\$ 445,747,804</b>	<b>100.0%</b>
Signed leases not commenced	-	-	249,188	1.7	-	-
Available	-	-	1,658,112	11.4	-	-
Building Management Use	-	-	95,328	0.6	-	-
BOMA Adjustment <sup>(5)</sup>	-	-	115,706	0.8	-	-
<b>Total</b>	<b>2,253</b>	<b>100.0%</b>	<b>14,600,297</b>	<b>100.0%</b>	<b>\$ 445,747,804</b>	<b>100.0%</b>

- (1) Based on BOMA 1996 remeasurement. Total consists of 12,731,151 leased square feet (includes 249,188 square feet with respect to signed leases not commenced), 1,658,112 available square feet, 95,328 building management use square feet, and 115,706 square feet of BOMA 1996 adjustment on leased space.
- (2) Represents annualized monthly cash base rent (i.e., excludes tenant reimbursements, parking and other revenue) under leases commenced as of December 31, 2010 (does not include 249,188 square feet with respect to signed leases not yet commenced). The amount reflects total cash base rent before abatements. For our Burbank and Honolulu office properties, annualized base rent is converted from triple net to gross by adding expense reimbursements to base rent.
- (3) All properties are 100% owned except 7 properties totaling 1.8 million square feet owned by our unconsolidated Funds and a 78,000 square foot property owned by a consolidated joint venture in which we own a 66.7% interest.
- (4) Average tenant size is approximately 5,500 square feet. Median is approximately 2,400 square feet.
- (5) Represents square footage adjustments for leases that do not reflect BOMA 1996 remeasurement.

## Lease Expirations

The following table sets forth a summary schedule of lease expirations for leases in place as of December 31, 2010, plus available space, for each of the ten years beginning January 1, 2011 and thereafter in our total office portfolio (unless otherwise stated in the footnotes, the information set forth in the table assumes that tenants exercise no renewal options and no early termination rights):

Year of Lease Expiration	Number of Leases Expiring	Rentable Square Feet <sup>(1)</sup>	Expiring Square Feet as a Percent of Total	Annualized Rent <sup>(2)(3)</sup>	Annualized Rent as a Percent of Total	Annualized Rent Per Leased Square Foot <sup>(4)</sup>	Annualized Rent Per Leased Square Foot at Expiration <sup>(5)</sup>
2011	508	1,688,699	11.6 %	\$ 59,794,896	13.4 %	\$ 35.41	\$ 35.61
2012	444	1,893,226	13.0	66,802,939	15.0	35.29	36.66
2013	386	1,855,947	12.7	70,741,590	15.9	38.12	40.97
2014	290	1,606,821	11.0	56,732,905	12.7	35.31	38.56
2015	256	1,468,932	10.0	49,073,760	11.0	33.41	37.83
2016	159	1,242,237	8.5	41,992,415	9.4	33.80	37.96
2017	71	662,149	4.5	22,830,390	5.1	34.48	41.29
2018	46	463,900	3.2	20,445,512	4.6	44.07	53.53
2019	29	836,010	5.7	30,817,659	6.9	36.86	45.44
2020	42	419,316	2.9	13,788,133	3.1	32.88	43.04
Thereafter	22	344,726	2.4	12,727,605	2.9	36.92	47.43
<b>Subtotal</b>	<b>2,253</b>	<b>12,481,963</b>	<b>85.5 %</b>	<b>\$ 445,747,804</b>	<b>100.0 %</b>	<b>\$ 35.71</b>	<b>\$ 39.64</b>
Signed leases not commenced	-	249,188	1.7	-	-	-	-
Available	-	1,658,112	11.4	-	-	-	-
Building management use	-	95,328	0.6	-	-	-	-
BOMA adjustment <sup>(6)</sup>	-	115,706	0.8	-	-	-	-
<b>Total/Weighted Average</b>	<b>2,253</b>	<b>14,600,297</b>	<b>100.0 %</b>	<b>\$ 445,747,804</b>	<b>100.0 %</b>	<b>\$ 35.71</b>	<b>\$ 39.64</b>

- (1) Based on BOMA 1996 remeasurement. Total consists of 12,731,151 leased square feet (includes 249,188 square feet with respect to signed leases not commenced), 1,658,112 available square feet, 95,328 building management use square feet, and 115,706 square feet of BOMA 1996 adjustment on leased space.
- (2) Represents annualized monthly cash base rent (i.e., excludes tenant reimbursements, parking and other revenue) under leases commenced as of December 31, 2010 (does not include 249,188 square feet with respect to signed leases not yet commenced). The amount reflects total cash base rent before abatements. For our Burbank and Honolulu office properties, annualized base rent is converted from triple net to gross by adding expense reimbursements to base rent.
- (3) All properties are 100% owned except 7 properties totaling 1.8 million square feet owned by our unconsolidated Funds and a 78,000 square foot property owned by a consolidated joint venture in which we own a 66.7% interest.
- (4) Represents annualized base rent divided by leased square feet.
- (5) Represents annualized base rent at expiration divided by leased square feet.
- (6) Represents the square footage adjustments for leases that do not reflect BOMA 1996 remeasurement.

## Multifamily Portfolio

The following table presents an overview of our wholly-owned multifamily portfolio, including occupancy and in-place rents, as of December 31, 2010:

<b>Submarket</b>	<b>Number of Properties</b>	<b>Number of Units</b>	<b>Unit as a Percent of Total</b>
West Los Angeles			
Brentwood	5	950	33 %
Santa Monica	2	820	29
Honolulu	2	1,098	38
<b>Total</b>	<b>9</b>	<b>2,868</b>	<b>100 %</b>

<b>Submarket</b>	<b>Percent Leased</b>	<b>Annualized Rent <sup>(1)</sup></b>	<b>Monthly Rent per Lease Unit</b>
West Los Angeles			
Brentwood	99.5 %	\$ 22,328,107	\$ 1,969
Santa Monica <sup>(2)</sup>	98.8	20,819,076	2,142
Honolulu	99.4	17,861,124	1,364
<b>Total / Weighted Average</b>	<b>99.2 %</b>	<b>\$ 61,008,307</b>	<b>\$ 1,786</b>

(1) Represents annualized monthly multifamily rental income under leases commenced as of December 31, 2010.

(2) Excludes 10,013 square feet of ancillary retail space, which generates \$308,340 of annualized rent as of December 31, 2010.



## Historical Tenant Improvements and Leasing Commissions

The following table sets forth certain historical information regarding tenant improvement and leasing commission costs for tenants at the properties in our total office portfolio through December 31, 2010:

	Year Ended December 31,		
	2010 <sup>(1)</sup>	2009 <sup>(1)</sup>	2008 <sup>(2)</sup>
<b>Renewals <sup>(3)</sup></b>			
Number of leases	406	324	252
Square feet	1,808,739	1,516,453	1,075,281
Tenant improvement costs per square foot <sup>(4)(5)</sup>	\$ 10.66	\$ 7.14	\$ 4.07
Leasing commission costs per square foot <sup>(4)</sup>	6.29	6.53	7.60
<b>Total tenant improvement and leasing commission costs <sup>(4)</sup></b>	<b>\$ 16.95</b>	<b>\$ 13.67</b>	<b>\$ 11.67</b>
<b>New leases <sup>(6)</sup></b>			
Number of leases	275	223	172
Square feet	897,196	654,558	586,574
Tenant improvement costs per square foot <sup>(4)(5)</sup>	\$ 18.43	\$ 15.21	\$ 10.96
Leasing commission costs per square foot <sup>(4)</sup>	7.61	8.65	8.55
<b>Total tenant improvement and leasing commission costs <sup>(4)</sup></b>	<b>\$ 26.04</b>	<b>\$ 23.86</b>	<b>\$ 19.51</b>
<b>Total</b>			
Number of leases	681	547	424
Square feet	2,705,935	2,171,011	1,661,855
Tenant improvement costs per square foot <sup>(4)(5)</sup>	\$ 13.23	\$ 9.57	\$ 6.50
Leasing commission costs per square foot <sup>(4)</sup>	6.73	7.17	7.94
<b>Total tenant improvement and leasing commission costs <sup>(4)</sup></b>	<b>\$ 19.96</b>	<b>\$ 16.74</b>	<b>\$ 14.44</b>

- (1) All properties are 100% owned except 7 properties totaling 1.8 million square feet owned by our unconsolidated Funds and a 78,000 square foot property owned by a consolidated joint venture in which we own a 66.7% interest.
- (2) Excludes a 46,000 square foot fitness center lease at Honolulu Club. The 240-month new lease was executed in April 2008 as part of the sale of the fitness center by us to a third-party fitness center operator. This lease replaced a lease entered into between two of our subsidiaries in February 2008.
- (3) Includes retained tenants that have relocated or expanded into new space within our portfolio.
- (4) Assumes all tenant improvement and leasing commissions are paid in the calendar year in which the lease is executed, which may be different than the year in which they were actually paid.
- (5) Tenant improvement costs are based on negotiated tenant improvement allowances set forth in leases, or, for any lease in which a tenant improvement allowance was not specified, the aggregate cost originally budgeted, at the time the lease commenced.
- (6) Excludes retained tenants that have relocated or expanded into new space within our portfolio.

### Historical Capital Expenditures

The following table sets forth certain information regarding historical recurring capital expenditures at the properties in our total office portfolio through December 31, 2010:

Office	Year Ended December 31,		
	2010	2009	2008
Recurring capital expenditures	\$ 2,854,605	\$ 2,709,654	\$ 5,457,340
Total square feet <sup>(1)</sup>	11,891,541	11,810,724	11,810,609
Recurring capital expenditures per square foot	\$ 0.24	\$ 0.23	\$ 0.46

(1) Excludes square footage attributable to acquired properties with only non-recurring capital expenditures in the respective period.

The following table sets forth certain information regarding historical recurring capital expenditures at the properties in our multifamily portfolio through December 31, 2010:

Multifamily	Year Ended December 31,		
	2010	2009	2008
Recurring capital expenditures	\$ 1,124,886	\$ 1,118,460	\$ 1,570,154
Total units	2,868	2,868	2,868
Recurring capital expenditures per unit	\$ 392	\$ 390	\$ 547

Our multifamily portfolio contains a large number of units that, due to Santa Monica rent control laws, have had only insignificant rent increases since 1979. Historically, when a tenant has vacated one of these units, we have spent between \$15,000 and \$40,000 per unit, depending on apartment size, to bring the unit up to our standards. We have characterized these expenditures as non-recurring capital expenditures. Our make-ready costs associated with the turnover of our other units are included in recurring capital expenditures.

### Item 3. Legal Proceedings

From time to time, we are party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of our business. Excluding ordinary, routine litigation incidental to our business, we are not currently a party to any legal proceedings that we believe would reasonably be expected to have a material adverse effect on our business, financial condition or results of operations.

### Item 4. Reserved

**PART II.**

**Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities**

**Market for Common Stock; Dividends**

Our common stock is traded on the New York Stock Exchange under the symbol “DEI”. On February 15, 2011, the reported closing sale price per share of our common stock on the New York Stock Exchange was \$18.89. The following table shows our dividends, and the high and low sales prices for our common stock as reported by the New York Stock Exchange, for the periods indicated:

	<u>First Quarter</u>	<u>Second Quarter</u>	<u>Third Quarter</u>	<u>Fourth Quarter</u>
<b>2010</b>				
Dividend	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10
Common Stock Price				
High	\$ 16.07	\$ 17.75	\$ 17.69	\$ 18.56
Low	\$ 13.00	\$ 14.22	\$ 13.27	\$ 15.87
<b>2009</b>				
Dividend	\$ 0.10	\$ 0.10	\$ 0.10	\$ 0.10
Common Stock Price				
High	\$ 13.97	\$ 10.42	\$ 13.87	\$ 14.85
Low	\$ 6.36	\$ 7.45	\$ 7.93	\$ 11.64

**Holders of Record**

We had 18 holders of record of our common stock on February 15, 2011. Certain of our shares are held in “street” name and accordingly, the number of beneficial owners of such shares is not known or included in the foregoing number.

**Dividend Policy**

We typically pay dividends to common stockholders quarterly at the discretion of the Board of Directors. Dividend amounts depend on our available cash flows, financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code and such other factors as the Board of Directors deems relevant.

**Sales of Unregistered Securities**

None.

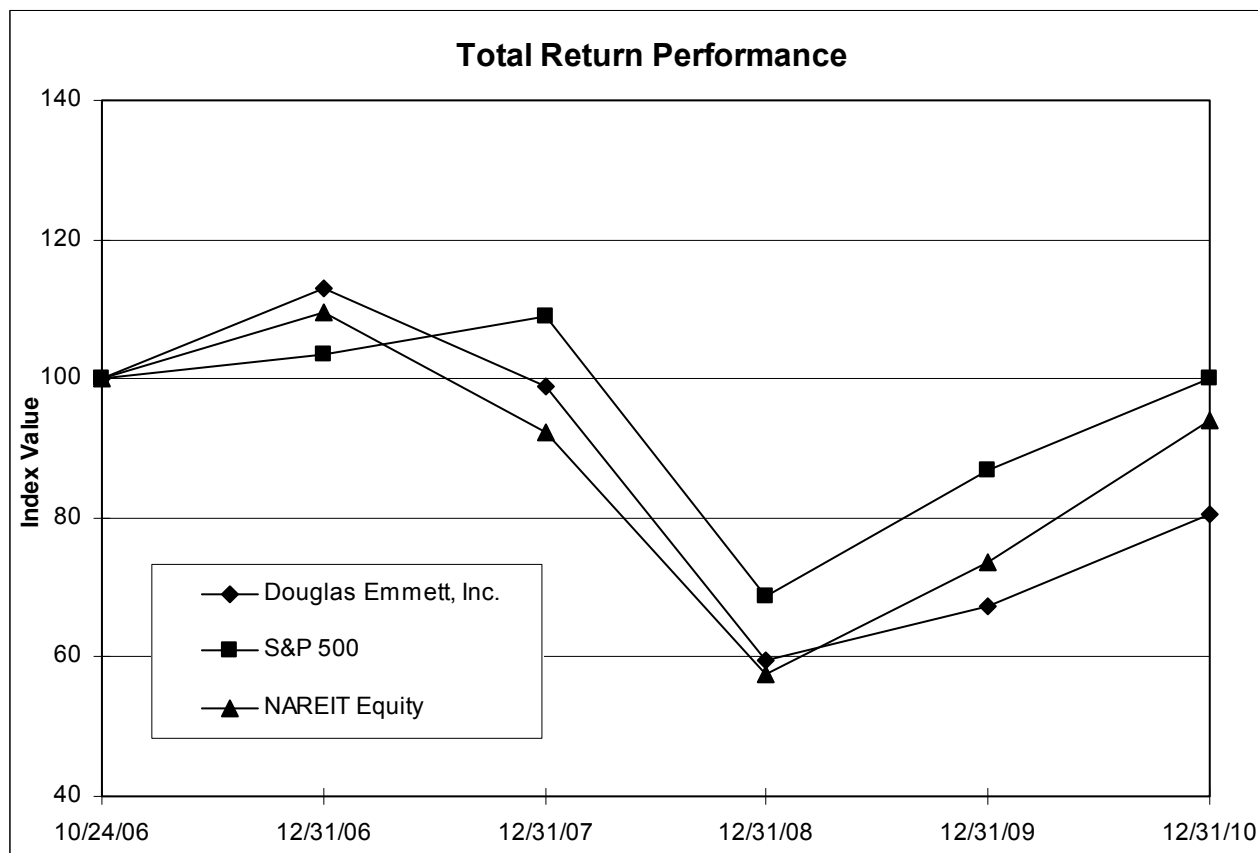
**Repurchases of Equity Securities**

None.

## Performance Graph

The information below shall not be deemed to be “soliciting material” or to be “filed” with the U.S. Securities and Exchange Commission or subject to Regulation 14A or 14C, other than as provided in Item 201 of Regulation S-K, or to the liabilities of Section 18 of the Exchange Act, except to the extent we specifically request that such information be treated as soliciting material or specifically incorporate it by reference into a filing under the Securities Act or the Exchange Act.

The following graph compares the cumulative total stockholder return on the common stock of Douglas Emmett, Inc. from October 24, 2006 (the date of our initial public offering) to December 31, 2010 with the cumulative total return of the Standard & Poor’s 500 Index and an appropriate “peer group” index (assuming the investment of \$100 in our common stock and in each of the indexes on October 30, 2006 and that all dividends were reinvested into additional shares of common stock at the frequency with which dividends are paid on the common stock during the applicable fiscal year). The total return performance shown in this graph is not necessarily indicative of and is not intended to suggest future total return performance.



Index	Period Ending					
	10/24/06	12/31/06	12/31/07	12/31/08	12/31/09	12/31/10
Douglas Emmett, Inc.	100.00	112.95	98.85	59.45	67.44	80.53
S&P 500	100.00	103.39	109.07	68.72	86.91	100.00
NAREIT Equity	100.00	109.47	92.29	57.47	73.56	94.13

Source: SNL Financial LC

## Item 6. Selected Financial Data

The following table sets forth summary financial and operating data on a historical basis for our “predecessor” prior to our initial public offering (IPO) and Douglas Emmett, Inc. subsequent to our IPO. Our “predecessor” owned 42 office properties, the fee interest in two parcels of land leased to third parties under long-term ground leases and six multifamily properties prior to the IPO and related formation transactions. We have not presented historical financial information for Douglas Emmett, Inc. for periods prior to October 31, 2006 because we believe that a discussion of those results of Douglas Emmett, Inc. would not be meaningful since it was not involved in any significant activity prior to that date.

You should read the following summary financial and operating data in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations”, and the other financial statements included elsewhere in this Report.

The summary historical consolidated financial and operating data as of, and for the years ended, December 31, 2010, 2009, 2008, 2007 and 2006 have been derived from our audited historical consolidated financial statements subsequent to our IPO and those of our predecessor prior to our IPO.

	Douglas Emmett, Inc.					Our Predecessor
	Year Ending 12/31/10	Year Ending 12/31/09	Year Ending 12/31/08	Year Ending 12/31/07	10/31/06 to 12/31/06	01/01/06 to 10/30/06
<b>Statement of Operations</b>						
<b>Data (in thousands):</b>						
Total office revenues	\$ 502,700	\$ 502,767	\$ 537,377	\$ 468,569	\$ 77,566	\$ 300,939
Total multifamily revenues	68,144	68,293	70,717	71,059	11,374	45,729
Total revenues	570,844	571,060	608,094	539,628	88,940	346,668
Operating income (loss)	140,027	148,358	154,234	141,232	(3,417)	113,784
Loss attributable to common stockholders	(26,423)	(27,064)	(27,993)	(13,008)	(20,591)	(16,362)
<b>Per Share Data:</b>						
Loss per share - basic and diluted	\$ (0.22)	\$ (0.22)	\$ (0.23)	\$ (0.12)	\$ (0.18)	\$ (251,723)
Weighted average common shares outstanding - basic and diluted	122,714,520	121,552,731	120,725,928	112,645,587	115,005,860	65
Dividends declared per common share	\$ 0.40	\$ 0.40	\$ 0.75	\$ 0.70	\$ 0.12	-
<b>Balance Sheet Data (in thousands, as of December 31)</b>						
Total assets	\$ 6,279,289		\$ 6,059,932		\$ 6,200,118	
Secured notes payable	3,668,133		3,273,459		2,789,702	
<b>Other Data:</b>						
Number of consolidated properties (as of December 31)	59 <sup>(1)</sup>		58 <sup>(1)</sup>		64 <sup>(2)</sup>	
	57		55			

(1) All properties are 100% owned by our operating partnership except the Honolulu Club (78,000 square feet) in which we held a 66.7% interest.

(2) Includes (i) 57 properties that are 100% owned by our operating partnership, (ii) one property owned by a consolidated joint venture in which we held a 66.7% interest, and (iii) six properties owned by one of our Funds, in which we held a controlling financial interest at December 31, 2008.

## **Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations Forward Looking Statements.**

*This Management’s Discussion and Analysis of Financial Condition and Results of Operations includes many forward-looking statements. For cautions about relying on such forward-looking statements, please refer to the section entitled “Forward Looking Statements” at the beginning of this Report immediately prior to “Item 1”.*

### **Executive Summary**

Through our interest in Douglas Emmett Properties, LP (our operating partnership) and its subsidiaries, including our investments in unconsolidated institutional real estate funds (Funds) we partially own and manage, we own or partially own, manage, lease, acquire and develop real estate, consisting primarily of office and multifamily properties. As of December 31, 2010, we owned a consolidated portfolio of 50 Class A office properties (including ancillary retail space) with approximately 12.8 million rentable square feet and nine multifamily properties with a total of 2,868 units, as well as the fee interests in two parcels of land subject to ground leases. Our total office portfolio, which includes our consolidated office properties and the seven Class A office properties owned by the Funds we manage and in which we invested an average of 35% of the total capital, consisted of 57 office properties with approximately 14.6 million rentable square feet. As of December 31, 2010, our consolidated office portfolio was 89.6% leased, our total office portfolio (including properties owned by our Funds and our operating partnership) was 88.6% leased and our multifamily properties were 99.2% leased. Our consolidated office portfolio contributed approximately 86.8% of our annualized rent during 2010, while our multifamily portfolio contributed the remaining 13.2%. During 2010, our Los Angeles County office and multifamily consolidated portfolio contributed approximately 85.8% of our annualized rent, and our Honolulu, Hawaii office and multifamily consolidated portfolio contributed the remaining 14.2%. Our properties are concentrated in nine premier Los Angeles County submarkets—Brentwood, Olympic Corridor, Century City, Santa Monica, Beverly Hills, Westwood, Sherman Oaks/Encino, Warner Center/Woodland Hills and Burbank—as well as in Honolulu, Hawaii.

### **Current Year Acquisitions, Dispositions, Repositionings and Financings.**

*Acquisitions.* In June 2010, we acquired Bishop Square, an office project containing approximately 960,000 square feet located in Honolulu, Hawaii, for a contract price of \$232 million. Bishop Square is the largest office project in the state of Hawaii and consists of two Class A office towers, an above-ground parking structure and a one-acre park. In October 2010, one of our unconsolidated Funds acquired Wilshire Bundy Plaza. This property contains approximately 310,000 square feet, is located in our Brentwood submarket along the Wilshire Corridor, and was acquired for a contract price of \$111 million.

*Dispositions.* During 2010, we had no property dispositions.

*Repositionings.* We generally select a property for repositioning at the time we purchase it. We often strategically purchase properties with large vacancies or expected near-term lease roll-over and use our knowledge of the property and submarket to determine the optimal use and tenant mix. A repositioning can consist of a range of improvements to a property. A repositioning may involve a complete structural renovation of a building to significantly upgrade the character of the property, or it may involve targeted remodeling of common areas and tenant spaces to make the property more attractive to certain identified tenants. Because each repositioning effort is unique and determined based on the property, tenants and overall trends in the general market and specific submarket, the results are varying degrees of depressed rental revenue and occupancy levels for the affected property, which impacts our results and, accordingly, comparisons of our performance from period to period. The repositioning process generally occurs over the course of months or even years. Although usually associated with newly-acquired properties, repositioning efforts can also occur at properties we already own, therefore repositioning properties discussed in the context of this paragraph exclude acquisition properties where the plan for improvement is implemented as part of the acquisition. During 2010, we had no properties that qualify as repositioning properties.

#### *Financings.*

- In September 2010, we obtained a secured non-recourse \$400 million term loan. This loan bears interest at a floating rate equal to one-month LIBOR plus 200 basis points; however we entered into interest rate swap contracts that effectively fix the interest rate at 4.45% (based on an actual/360-day basis) until July 1, 2015. This loan facility matures on October 2, 2017. The loan proceeds fully repaid all outstanding borrowings under our prior revolving credit facility, which was then terminated.
- In November 2010, we obtained four cross-collateralized, ten-year term loans totaling \$388.08 million. The loans bear interest at a floating rate equal to one-month LIBOR plus 165 basis points; however, we entered into interest rate swap contracts that effectively fix the interest rate at approximately 3.65% for seven years expiring on November 1, 2017. The loans mature on November 2, 2020. The loan proceeds fully repaid four loans totaling \$388.08 million that were scheduled to mature on June 1, 2012. We also terminated the existing interest rate swap contracts related to the repaid loans that were scheduled to mature on August 1, 2011.

- Subsequent to the current reporting period, in January 2011, we modified and extended the maturity of our \$18 million loan which was scheduled to mature on March 1, 2011. The modified loan has an outstanding balance of \$16.14 million, and bears interest at a floating rate equal to one-month LIBOR plus 185 basis points. The modified loan matures on March 3, 2014.
- Subsequent to the current reporting period, in February 2011, we obtained a secured, non-recourse \$350 million term loan. This loan has a maturity date of March 1, 2020, including two one-year extension options. The loan bears interest at a fixed interest rate of 4.46% until March 1, 2018 and a floating interest rate thereafter. Monthly loan payments are interest-only for the first three years with principal amortization thereafter based upon a 30-year amortization schedule. The loan proceeds were used to fully repay a \$319.6 million term loan, which is one of the seven term loans aggregating \$2.30 billion that mature on August 31, 2012. The balance of the loan proceeds will be retained for other corporate opportunities.

### **Results of Operations and Basis of Presentation**

The accompanying consolidated financial statements as of December 31, 2010 and 2009 and for the three years ended December 31, 2010, 2009 and 2008 are the consolidated financial statements of Douglas Emmett, Inc. and our subsidiaries including our operating partnership. All significant intercompany balances and transactions have been eliminated in our consolidated financial statements. The comparability of our results of operations between 2010, 2009 and 2008 is affected by acquisitions in all years presented. This includes the acquisition of seven office properties during 2008 and one additional office property we acquired during the second quarter of 2010. Six of the seven properties acquired in 2008 were contributed subsequently to a Fund and were removed from our consolidated results at the end of February 2009 when the Fund was deconsolidated, as described in Note 3 to the consolidated financial statements in Item 8 of this Report. Beginning in February 2009, we have accounted for our interest in our Funds under the equity method. The majority of the fluctuation in our results when comparing 2008 to 2009 is explained by the inclusion of these six properties in our 2008 consolidated results for the nine months subsequent to their acquisition in comparison to only two months of 2009, before they were removed from our consolidated results. Similarly, the majority of the fluctuation in our results when comparing 2009 to 2010 is explained by results of operations of the new office property we acquired in the second quarter of 2010 and the inclusion of the six properties in our 2009 consolidated results for the two months of 2009, before they were removed from our consolidated results.

### **Comparison of year ended December 31, 2010 to year ended December 31, 2009**

#### *Revenues*

*Rental Revenue.* Rental revenue includes rental revenues from our office properties, percentage rent on the retail space contained within office properties, and lease termination income. Total office rental revenue decreased by \$6.9 million, or 1.7%, to \$399.2 million for 2010 compared to \$406.1 million for 2009. The decrease is primarily due to \$7.6 million of rent reflected in our 2009 consolidated results from the six properties we contributed to the Fund that was deconsolidated at the end of February 2009, as well as a decrease of \$7.3 million for the remainder of our portfolio, partially offset by \$8.0 million of incremental rent from the property we acquired during the second quarter of 2010. The \$7.3 million decrease for the remainder of our portfolio is primarily due to lower accretion of net below-market rents and decreases in occupancy and rental rates.

*Tenant Recoveries.* Total office tenant recoveries increased by \$6.0 million, or 19.1%, to \$37.4 million for 2010 compared to \$31.4 million for 2009. The increase is primarily due to incremental revenue of \$6.2 million from the property we acquired during 2010 and \$0.5 million from the remainder of our portfolio, partially offset by \$0.7 million of recoveries reflected in our 2009 consolidated results from the six properties we contributed to the Fund that was deconsolidated at the end of February 2009. The increase for the remainder of our portfolio is primarily due to the completion of 2009 common area management (CAM) reconciliations during 2010 and the corresponding recognition of incremental amounts due.

*Parking and Other Income.* Total office parking and other income increased by \$0.9 million, or 1.3%, to \$66.1 million for 2010 compared to \$65.2 million for 2009. The increase is primarily due to \$3.2 million of incremental revenue from the property we acquired during 2010, partially offset by \$1.2 million of parking income reflected in our 2009 consolidated results from the six properties we contributed to the Fund that was deconsolidated at the end of February 2009, as well as decreases in parking and other income of \$1.1 million for the remainder of our portfolio as a result of lower occupancy and usage.

#### *Operating Expenses*

*Office Rental Expenses.* Total office rental expense increased by \$4.9 million, or 3.2%, to \$159.2 million for 2010, compared to \$154.3 million for 2009. The increase is primarily due to \$7.3 million of incremental expense from the property we acquired during 2010, partially offset by \$2.7 million in office rental expenses reflected in our 2009 consolidated results from the six properties we contributed to the Fund that was deconsolidated at the end of February 2009. Office rental expense was essentially flat for the remainder of our portfolio.

*General and Administrative Expenses.* General and administrative expenses increased \$4.4 million, or 18.5%, to \$28.3 million for 2010, compared to \$23.9 million for 2009. The increase is primarily due to the cost of our multi-year equity grants that were announced during the fourth quarter of 2010.

*Depreciation and Amortization.* Depreciation and amortization expense decreased \$1.6 million, or 0.7%, to \$225.0 million for 2010, compared to \$226.6 million for 2009. The decrease is primarily due to \$4.9 million in depreciation and amortization reflected in our 2009 consolidated results from the six properties in the Fund that was deconsolidated at the end of February 2009 and \$1.4 million for the remainder of our portfolio due to certain assets being fully depreciated, partially offset by \$4.7 million of incremental depreciation from the property we acquired during 2010.

#### *Non-Operating Income and Expenses*

*Gain on Disposition of Interest in Unconsolidated Real Estate Fund.* In February 2009, we recorded a gain of \$5.6 million related to the six properties previously contributed to one of our Funds that was deconsolidated in February 2009, as described in Note 3 to our consolidated financial statements in Item 8 of this Report.

*Other Income (Loss).* Other income (loss) in 2010 reflects a net income of \$1.2 million, which includes \$0.7 million of net profit generated by our management of the properties owned by our unconsolidated Funds as well as \$0.5 million of interest income. Other income (loss) reflects a net loss in 2009 which represents the allocation to outside ownership interest of profit generated by the six properties we contributed to the Fund that was deconsolidated at the end of February 2009, net of the profit generated by our management of those properties during the ten months of 2009 following deconsolidation.

*Loss, including Depreciation, from Unconsolidated Real Estate Funds.* The loss, including depreciation, from unconsolidated real estate funds totaled a net loss of \$7.0 million for 2010. This amount represents our equity interest in the operating results from our Funds, including the operating income net of historical cost-basis depreciation, for the full year. For 2009, the loss, including depreciation, from unconsolidated real estate funds totaled a net loss of \$3.3 million.

*Interest Expense.* Interest expense decreased \$17.9 million, or 9.7%, to \$166.9 million for 2010, compared to \$184.8 million for 2009. This decrease is primarily due to the expiration of various interest rate swaps during the third and fourth quarters of 2010, which caused \$1.66 billion of our variable-rate debt to no longer have corresponding swap payments at a higher fixed rate in exchange for lower variable interest. Additionally, as a result of the natural expiration and early termination of approximately \$1.40 billion of our pre-IPO swaps, there was lower non-cash interest expense from the amortization of these interest rate swaps. The decrease is partially offset by the amortization of other comprehensive income resulting from the early termination of our cash flow swaps.

### **Comparison of year ended December 31, 2009 to year ended December 31, 2008**

#### *Revenue*

##### *Office Revenue*

*Rental Revenue.* Total office rental revenue decreased by \$27.4 million, or 6.3%, to \$406.1 million for 2009 compared to \$433.5 million for 2008. The decrease is primarily due to a decrease of \$29.5 million in rent in 2009 compared to 2008 resulting from the deconsolidation at the end of February 2009 of the six properties we contributed to a Fund, partially offset by increases totaling \$2.1 million for the remainder of our portfolio. The increase of \$2.1 million was a result of rate increases for new and renewal tenants, partially offset by lower occupancy.

*Tenant Recoveries.* Total office tenant recoveries decreased by \$1.0 million, or 3.0%, to \$31.4 million for 2009 compared to \$32.4 million for 2008. The decrease is primarily due to a decrease of \$2.4 million in recoveries in 2009 compared to 2008 resulting from the deconsolidation at the end of February 2009 of the six properties we contributed to a Fund, partially offset by an increase in recoverable tenant direct expenses.

*Parking and Other Income.* Total office parking and other income decreased by \$6.3 million, or 8.7%, to \$65.2 million for 2009 compared to \$71.5 million for 2008. The decrease is primarily due to a decrease of \$4.4 million in parking income in 2009 compared to 2008 resulting from the deconsolidation at the end of February 2009 of the six properties we contributed to a Fund, as well as a decrease of \$1.9 million for the remainder of our portfolio as a result of lower occupancy and usage.

*Total Multifamily Revenue.* Total multifamily revenue decreased by \$2.4 million, or 3.4%, to \$68.3 million for 2009, compared to \$70.7 million for 2008. The decrease is primarily due to lower recognition of rental income during 2009 from the amortization of below-market leases for certain multifamily units initially recorded at the time of our IPO, thus causing a decline when comparing the 2009 and 2008 periods, as well as a decline in rental rates for the comparable periods.



### *Operating Expenses*

*Office Rental Expenses.* Total office rental expense decreased by \$11.9 million, or 7.1%, to \$154.3 million for 2009, compared to \$166.1 million for 2008. The decrease is primarily due to a decrease of \$13.0 million in office rental expenses in 2009 compared to 2008 resulting from the six properties we contributed to the Fund that was deconsolidated at the end of February 2009, partially offset by an increase in office rental expenses in the remainder of our portfolio. Other office expenses increased by \$1.1 million primarily as a result of lower comparable property tax accruals in the prior year, partially offset by lower janitorial costs and ground rent payments in the current year.

*General and Administrative Expenses.* General and administrative expenses increased \$1.2 million, or 5.5%, to \$23.9 million for 2009, compared to \$22.6 million for 2008. The increase is primarily due to the timing of accruals related to compensation, including equity awards that are expensed over the multi-year vesting period.

*Depreciation and Amortization.* Depreciation and amortization expense decreased \$21.4 million, or 8.6%, to \$226.6 million for 2009, compared to \$248.0 million for 2008. The decrease is primarily due to a decrease of \$18.5 million in depreciation and amortization reflected in 2009 compared to 2008 resulting from the deconsolidation at the end of February 2009 of the six properties we contributed to a Fund.

### *Non-Operating Income and Expenses*

*Gain on Disposition of Interest in Unconsolidated Real Estate Fund.* In February 2009, we recorded a gain of \$5.6 million related to six properties that were previously contributed to one of our Funds that was deconsolidated in February 2009, as described in Note 3 to our consolidated financial statements in Item 8 of this Report.

*Other Income (Loss).* Other income (loss) reflects a net loss in 2009 which represents the allocation to outside ownership interest of profit generated by the six properties during the two months of 2009 prior to their deconsolidation, net of the profit generated by our management of the properties during the ten months of 2009 following its deconsolidation. In contrast, the other income (loss) in 2008 reflects a net gain of \$3.6 million, which includes \$3.1 million of profit-sharing resulting from our initial contribution of the six properties to that Fund in October 2008, as well as \$0.5 million of operating profit related to the temporary operation of the Honolulu Athletic Club during 2008.

*Loss, including Depreciation, from Unconsolidated Real Estate Funds.* The loss, including depreciation, from unconsolidated real estate funds totaled \$3.3 million for 2009. The loss represents our equity interest in the operating results from our Fund following its deconsolidation at the end of February 2009, including the operating income net of historical cost-basis depreciation. During 2008, there was no comparable amount recorded because the operating results for the six properties were included in our consolidated results.

*Interest Expense.* Interest expense decreased \$8.9 million, or 4.6%, to \$184.8 million for 2009, compared to \$193.7 million for 2008. The decrease over comparable periods is primarily due to lower levels of outstanding debt during 2009 as a result of the deconsolidation of debt associated with the six properties we contributed to the Fund that was deconsolidated at the end of February 2009, and a decrease in the utilization of our revolving credit facility which had no outstanding borrowings for the majority of 2009. The decrease is partially offset by additional interest expense as a result of higher non-cash interest expense from the amortization of pre-IPO interest rate swap contracts.

## **Liquidity and Capital Resources**

### *Available Borrowings, Cash Balances and Capital Resources*

We had total indebtedness of \$3.66 billion at December 31, 2010, excluding a loan premium representing the mark-to-market adjustment on variable rate debt assumed from our IPO. This amount includes a new seven-year \$400 million term loan agreement entered into during the third quarter of 2010, secured by seven properties, including the one property acquired in the second quarter of 2010. See Note 8 to our consolidated financial statements in Item 8 of this Report.

We have typically financed our capital needs through short-term lines of credit and long-term secured mortgages at floating rates. To mitigate the impact of fluctuations in short-term interest rates on our cash flows from operations, we generally enter into interest rate swap or interest rate cap agreements with respect to our long-term secured mortgages. During the third quarter and fourth quarter of 2010, certain of our fixed-rate swaps matured, and no longer hedge the floating-rate interest payments on a notional \$1.66 billion of our debt. At December 31, 2010, \$1.99 billion or 54% of our debt was effectively fixed at an overall rate of 4.65% (on an actual / 360-day basis) by virtue of interest rate swap and interest rate cap agreements in place at the end of the reporting period. See Item 7A of this Report for a description of the impact of variable rates on our interest expense. See also Note 8 and Note 10 to our consolidated financial statements in Item 8 of this Report.

As of December 31, 2010, only one loan was scheduled to mature in 12 months or less. This \$18 million secured loan was scheduled to mature on March 1, 2011. Subsequent to December 31, 2010, the maturity of this loan was extended to March 3, 2014. Of the remaining \$3.64 billion of debt, \$2.30 billion in term loans mature on August 31, 2012. We are seeking to refinance our loans that have 2012 maturities during the first half of 2011. Our goal is to ladder our loan maturities so that they range between five and ten years by accessing life companies, domestic and foreign banks, and the residential agency market.

At December 31, 2010, our \$3.66 billion of borrowings under secured loans represented 58.5% of our total market capitalization of \$6.25 billion. Total market capitalization includes our consolidated debt and the value of common stock and operating partnership units, each based on our common stock closing price at December 31, 2010 on the New York Stock Exchange of \$16.60 per share.

We expect to meet our operating liquidity requirements generally through cash on hand and cash provided by operations. Excluding any acquisitions and debt refinancings, we anticipate that cash on hand and provided by operations will be sufficient to meet our liquidity requirements for at least the next 12 months.

Our long-term liquidity needs consist primarily of funds necessary to pay for acquisitions, redevelopment and repositioning of properties, non-recurring capital expenditures, and repayment of indebtedness at maturity. We do not expect that we will have sufficient funds on hand to cover all of these long-term cash requirements. The nature of our business, and the requirements imposed by REIT rules that we distribute a substantial majority of our income on an annual basis, may cause us to have substantial liquidity needs over the long term. In 2010, we declared an annual dividend of \$0.40 per share, paid quarterly following the end of each quarter. We will seek to satisfy our long-term liquidity needs through cash flows from operations, long-term secured and unsecured indebtedness, the issuance of debt and equity securities, including units in our operating partnership, property dispositions and joint venture transactions. We have historically financed our operations, acquisitions and development, through long-term secured floating rate mortgage debt. To mitigate the impact of fluctuations in short-term interest rates on our cash flows from operations, we generally enter into interest rate swap or interest rate cap agreements at the time we enter into term borrowings.

#### Commitments

The following table sets forth our principal obligations and commitments, excluding periodic interest payments, as of December 31, 2010:

	Payment due by period (in thousands)				
	Total	Less than 1 year	1-3 years	4-5 years	Thereafter
<b>Contractual Obligations</b>					
Long-term debt obligations <sup>(1)</sup>	\$ 3,658,000	\$ 18,000	\$ 2,300,000	\$ 451,920	\$ 888,080
Minimum lease payments	55,707	733	1,466	1,466	52,042
Remaining capital commitment to unconsolidated real estate funds <sup>(2)</sup>	47,185	47,185	-	-	-
Purchase commitments related to capital expenditures associated with tenant improvements and repositioning and other purchase obligations	4,003	4,003	-	-	-
<b>Total</b>	<b>\$ 3,764,895</b>	<b>\$ 69,921</b>	<b>\$ 2,301,466</b>	<b>\$ 453,386</b>	<b>\$ 940,122</b>

(1) Includes \$18 million of debt carried by the Honolulu Club joint venture in which we held a 66.7% interest.

(2) Because there is not an explicit date for when our remaining capital commitment will be called, we reflect the entire commitment in the earliest category.

#### Off-Balance Sheet Arrangements

We have established and manage unconsolidated real estate Funds through which institutional investors provide capital commitments for acquisition of properties. The capital we invest in our Funds is invested on a pari passu basis with the other investors. In addition, we also receive certain additional distributions based on committed capital and on any profits that exceed certain specified cash returns to the investors. We do not expect to receive additional significant liquidity from our investments in our Funds until the disposition of the properties held by the relevant Fund, which may not be for many years. Certain of our wholly-owned affiliates provide property management and other services with respect to the real estate owned by our Funds for which we are paid fees and/or reimbursed our costs.

At December 31, 2010, our Funds had obtained capital commitments of \$554.6 million, of which \$214.2 million remained undrawn. This amount included commitments from us of \$196.3 million, of which \$47.2 million remained undrawn.

We do not have any debt outstanding in connection with our interest in our Funds. Each of our Funds may have its own debt, secured by the properties it owns. The following table summarizes the debt of our institutional funds at December 31, 2010:

Type of Debt	Principal Balance (in millions)	Maturity Date	Variable Rate	Fixed Rate	Swap Maturity Date
Variable rate term loan (swapped to fixed rate) <sup>(1)(2)</sup>	\$365.0	08/19/13	LIBOR + 1.65%	5.52% <sup>(3)</sup>	09/04/12
Fixed rate term loan <sup>(4)</sup>	\$56.2	04/01/16	N/A	5.67%	N/A

- (1) The loan is secured by six properties in a collateralized pool. Requires monthly payments of interest only, with outstanding principal due upon maturity.
- (2) We transferred this loan to one of our Funds during the fourth quarter of 2008 when we contributed the properties securing it to that Fund. We remain responsible under certain environmental and other limited indemnities and guarantees covering customary non-recourse carve outs under this loan, which we entered into prior to our contribution of this debt and the related properties, although we have an indemnity from that Fund for any amounts we would be required to pay under these agreements. If that Fund fails to perform any obligations under a swap agreement related to this loan, we remain liable to the swap counterparties. The maximum future payments under the swap agreements were approximately \$24.0 million as of December 31, 2010. To date, all obligations under the swap agreements have been performed by that Fund in accordance with the terms of the agreements.
- (3) Effective annual rate including the effect of interest rate contracts. Based on actual/360-day basis and excludes amortization of loan fees.
- (4) Assumed by one of our Funds. Requires monthly payments of principal and interest.

#### Cash Flows

Our cash and cash equivalents were \$272.4 million and \$72.7 million at December 31, 2010 and 2009, respectively.

Our cash flows from operating activities is primarily dependent upon the occupancy level of our portfolio, the rental rates achieved on our leases, the collectability of rent and recoveries from our tenants and the level of operating expenses and other general and administrative costs. Net cash provided by operating activities increased by \$8.5 million to \$188.9 million for 2010 compared to \$180.3 million for 2009. The increase is primarily due to incremental cash flows from the property we acquired during the second quarter of 2010 as well as lower cash interest paid due to the expiration during 2010 of swaps totaling \$1.66 billion, which caused a portion of our variable-rate debt to no longer require corresponding swap payments at a higher fixed rate. The increase is partially offset by lower cash flows from our same property portfolio and the deconsolidation at the end of February 2009 of the cash flows from the six properties contributed to a Fund we manage. See Note 3 and Note 10 to our consolidated financial statements in Item 8 of this Report.

Our net cash used in investing activities is generally used to fund property acquisitions, development and redevelopment projects recurring and non-recurring capital expenditures. Net cash used in investing activities increased \$255.8 million to \$304.6 million for 2010 compared to \$48.8 million for 2009. The increase was attributable to the acquisition of a property during 2010. See Note 3 to our consolidated financial statements in Item 8 of this Report.

Our net cash related to financing activities is generally impacted by our borrowings, capital activities net of dividends and distributions paid to common stockholders and noncontrolling interests. Net cash flows from financing activities amounted to a net provision of cash for 2010 totaling \$315.4 million compared to a net use of cash for 2009 totaling \$67.5 million. The comparative difference was primarily due to a \$400 million term loan borrowing during 2010, as described in Note 8 to our consolidated financial statements in Item 8 of this Report, in contrast to the repayment of outstanding revolver borrowings in 2009.

## Critical Accounting Policies

Our discussion and analysis of the historical financial condition and results of operations of Douglas Emmett, Inc. and our predecessor are based upon their respective consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles (GAAP). The preparation of these financial statements in conformity with GAAP requires us to make estimates of certain items and judgments as to certain future events, for example with respect to the allocation of the purchase price of acquired property among land, buildings, improvements, equipment, and any related intangible assets and liabilities. These determinations, even though inherently subjective and subject 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. For a discussion of recently issued accounting literature, see Note 2 to our consolidated financial statements in Item 8 of this Report

*Investment in Real Estate.* Acquisitions of properties and other business combinations are accounted for utilizing the purchase method and, accordingly, the results of operations of acquired properties are included in our results of operations from the respective dates of acquisition. Beginning January 1, 2009, transaction costs related to acquisitions are expensed, rather than included with the consideration paid. Estimates of future cash flows and other valuation techniques are used to allocate the purchase price of acquired property between land, buildings and improvements, equipment and identifiable intangible assets and liabilities such as amounts related to in-place at-market leases, acquired above- and below-market leases and tenant relationships. Initial valuations are subject to change until such information is finalized no later than 12 months from the acquisition date. Each of these estimates requires a great deal of judgment, and some of the estimates involve complex calculations. These allocation assessments have a direct impact on our results of operations because if we were to allocate more value to land there would be no depreciation with respect to such amount. If we were to allocate more value to the buildings as opposed to allocating to the value of tenant leases, this amount would be recognized as an expense over a much longer period of time, since the amounts allocated to buildings are depreciated over the estimated lives of the buildings whereas amounts allocated to tenant leases are amortized over the remaining terms of the leases.

The fair values of tangible assets are determined on an “as-if-vacant” basis. The “as-if-vacant” fair value is allocated to land, where applicable, buildings, tenant improvements and equipment based on comparable sales and other relevant information obtained in connection with the acquisition of the property.

The estimated fair value of acquired in-place at-market leases are the costs we would have incurred to lease the property to the occupancy level of the property at the date of acquisition. Such estimates include the fair value of leasing commissions and legal costs that would be incurred to lease the property to this occupancy level. Additionally, we evaluate the time period over which such occupancy level would be achieved and we include an estimate of the net operating costs (primarily real estate taxes, insurance and utilities) incurred during the lease-up period, which is generally six months.

Above-market and below-market in-place lease values are recorded as an asset or liability based on the present value (using an interest rate which reflects the risks associated with the leases acquired) of the difference between the contractual amounts to be received or paid pursuant to the in-place tenant or ground leases, respectively, and our estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining noncancelable term of the lease.

Expenditures for repairs and maintenance are expensed to operations as incurred. Significant improvements are capitalized. Interest, insurance and property tax costs incurred during the period of construction of real estate facilities are capitalized. When assets are sold or retired, their costs and related accumulated depreciation are removed from the accounts with the resulting gains or losses reflected in net income or loss for the period.

The values allocated to land, buildings, site improvements, in-place leases and tenant improvements are depreciated on a straight-line basis using an estimated life of 40 years for buildings, 15 years for site improvements, the average term of existing leases in the building acquired for in-place lease values and the respective remaining lease terms for tenant improvements and leasing costs. The values of above- and below-market tenant leases are amortized over the remaining life of the related lease and recorded as either an increase (for below-market tenant leases) or a decrease (for above-market tenant leases) to rental income. The value of above- and below-market ground leases are amortized over the remaining life of the related lease and recorded as either an increase (for below-market ground leases) or a decrease (for above-market ground leases) to office rental operating expense. The amortization of acquired in-place leases is recorded as an adjustment to depreciation and amortization in the consolidated statements of operations. If a lease is terminated prior to its stated expiration, all unamortized amounts relating to that lease are written off.

*Impairment of Long-Lived Assets.* We assess whether there has been impairment in the value of our long-lived assets whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount to the undiscounted future cash flows expected to be generated by the asset. We consider factors such as future operating income, trends and prospects, as well as the effects of leasing demand, competition and other factors. If our evaluation indicates that we may be unable to recover the carrying value of an investment in real estate or an investment in an unconsolidated real estate fund, an impairment loss is recorded to the extent that the carrying value exceeds the estimated fair value of the property or equity investment. These losses have a direct impact on our net income because recording an impairment loss results in an immediate negative adjustment to net income. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. The evaluation of anticipated cash flows is highly subjective and is based in part on assumptions regarding future occupancy, rental rates and capital requirements that could differ materially from actual results in future periods. If our strategy changes or market conditions otherwise dictate an earlier sale date, an impairment loss may be recognized and such loss could be material.

*Income Taxes.* As a REIT, we are permitted to deduct distributions paid to our stockholders, eliminating the federal taxation of income represented by such distributions at the corporate level. REITs are subject to a number of organizational and operational requirements. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate tax rates.

*Revenue Recognition.* Four basic criteria must be met before revenue can be recognized: persuasive evidence of an arrangement exists; the delivery has occurred or services rendered; the fee is fixed and determinable; and collectibility is reasonably assured. All leases are classified as operating leases. For all lease terms exceeding one year, rental income is recognized on a straight-line basis over the terms of the leases. Deferred rent receivables represent rental revenue recognized on a straight-line basis in excess of billed rents. Lease termination fees, which are included in rental income in the accompanying consolidated statements of operations, are recognized when the related leases are canceled and we have no continuing obligation to provide services to such former tenants.

Estimated recoveries from tenants for real estate taxes, common area maintenance and other recoverable operating expenses are recognized as revenues in the period that the expenses are incurred. Subsequent to year-end, we perform final reconciliations on a lease-by-lease basis and bill or credit each tenant for any cumulative annual adjustments. In addition, we record a capital asset for leasehold improvements constructed by us that are reimbursed by tenants, with the offsetting side of this accounting entry recorded to deferred revenue which is included in accounts payable and accrued expenses. The deferred revenue is amortized as additional rental revenue over the life of the related lease. Rental revenue from month-to-month leases or leases with no scheduled rent increases or other adjustments is recognized on a monthly basis when earned.

The recognition of gains on sales of real estate requires that we measure the timing of a sale against various criteria related to the terms of the transaction, as well as any continuing involvement in the form of management or financial assistance associated with the property. If the sales criteria are not met, we defer gain recognition and account for the continued operations of the property by applying the finance, profit-sharing or leasing method. If the sales criteria have been met, we further analyze whether profit recognition is appropriate using the full accrual method. If the criteria to recognize profit using the full accrual method have not been met, we defer the gain and recognize it when the criteria are met or use the installment or cost recovery method as appropriate under the circumstances.

*Monitoring of Rents and Other Receivables.* We maintain an allowance for estimated losses that may result from the inability of tenants to make required payments. If a tenant fails to make contractual payments beyond any allowance, we may recognize bad debt expense in future periods equal to the amount of unpaid rent and deferred rent. We generally do not require collateral or other security from our tenants, other than security deposits or letters of credit. If our estimates of collectibility differ from the cash received, the timing and amount of our reported revenue could be impacted.

*Stock-Based Compensation.* We have awarded stock-based compensation to certain key employees and members of our Board of Directors in the form of stock options and long-term incentive plan units (LTIP units). We estimate the fair value of the awards and recognize this value over the requisite vesting period. We utilize a Black-Scholes model to calculate the fair value of options, which uses assumptions related to the stock, including volatility and dividend yield, as well as assumptions related to the stock award itself, such as the expected term and estimated forfeiture rate. Option valuation models require the input of somewhat subjective assumptions for which we have relied on observations of both historical trends and implied estimates as determined by independent third parties. For LTIP units, the fair value is based on the market value of our common stock on the date of grant and a discount for post-vesting restrictions estimated by a third-party consultant.

*Financial Instruments.* The estimated fair values of financial instruments are determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop estimated fair values. The use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts. Accordingly, estimated fair values are not necessarily indicative of the amounts that could be realized in current market exchanges.

*Interest Rate Agreements.* We manage our interest rate risk associated with borrowings by obtaining interest rate swap and interest rate cap contracts. No other derivative instruments are used. We recognize all derivatives on the balance sheet at fair value. Derivatives that are not hedges must be adjusted to fair value and the changes in fair value must be reflected as income or expense. If the derivative is a hedge, depending on the nature of the hedge, changes in the fair value of derivatives 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, which is a component of our stockholders' equity accounts. The ineffective portion of a derivative's change in fair value is immediately recognized in earnings.

#### **Item 7A. Quantitative and Qualitative Disclosures about Market 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. We use derivative financial instruments to manage, or hedge, interest rate risks related to our borrowings. In conjunction with our IPO, we entered into two series of interest rate swap and interest rate cap contracts. The first series effectively offset all future changes in fair value from our existing interest rate swap and interest rate cap contracts, and the second series effectively replaced the existing interest rate contracts and qualified for cash flow hedge accounting. We only enter into contracts with major financial institutions based on their credit rating and other factors. For a description of our interest rate contracts, please see Note 10 to our consolidated financial statements contained in Item 8 of this Report.

At December 31, 2010, approximately \$1.99 billion, or 54%, of our debt was hedged with derivative instruments. Based on the level of variable rate debt outstanding at December 31, 2010, by virtue of the mitigating effect of our interest rate contracts, a 50 basis point change in LIBOR would result in an annual impact to our earnings of approximately \$8.5 million.

We calculate interest sensitivity by computing the amount of floating rate debt not mitigated by interest rate contracts by the respective change in rate. The sensitivity analysis does not take into consideration possible changes in the balances or fair value of our floating rate debt.

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

#### **Item 8. Financial Statements and Supplementary Data**

All information required by this item is listed in the Index to Financial Statements in Part IV, Item 15(a)(1).

#### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

#### **Item 9A. Controls and Procedures**

As of December 31, 2010, the end of the period covered by this Report, we carried out an evaluation, under the supervision and with the participation of management, including our Chief Executive Officer and Chief Financial Officer, regarding the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) at the end of the period covered by this Report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded, as of that time, that our disclosure controls and procedures were effective in ensuring that information required to be disclosed by us in reports filed or submitted under the Exchange Act (i) is processed, recorded, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and (ii) is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate to allow for timely decisions regarding required disclosure.

There have not been any changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Management's Report on Internal Control Over Financial Reporting and the Report of Independent Registered Public Accounting Firm thereon appear at pages F-1 and F-3, respectively, and are incorporated herein by reference.

#### **Item 9B. Other Information**

None

### PART III

#### Item 10. Directors, Executive Officers and Corporate Governance

Information required by this item is incorporated by reference to the information set forth under the captions “*Election of Directors (Proposal 1) – Information Concerning Nominees*,” “*Executive Officers*,” “*Section 16(a) Beneficial Ownership Reporting Compliance*,” “*Corporate Governance*” and “*Board Meetings and Committees*” in our Proxy Statement for the 2011 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of 2010.

#### Item 11. Executive Compensation

Information required by this item is incorporated by reference to the information set forth under the captions “*Executive Compensation*,” “*Director Compensation*,” “*Compensation Committee Interlocks and Insider Participation*” and “*Compensation Committee Report*” in our Proxy Statement for the 2011 Annual Meeting of Stockholders to be filed with the SEC within 120 days after the end of 2010.

#### Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

##### Securities Authorized for Issuance Under Equity Compensation Plan

The following table provides information as of December 31, 2010 with respect to shares of our common stock that may be issued under our existing stock incentive plan (in thousands, except exercise price):

<u>Plan Category</u>	<u>Number of shares of common stock to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of shares of common stock remaining available for future issuance under equity compensation plans (excluding shares reflected in column (a))</u>
	(a)	(b)	(c)
Equity compensation plans approved by stockholders	12,540	\$18.10	23,974

For a description of our 2006 Omnibus Stock Incentive Plan, please see Note 13 to our consolidated financial statements included in this Report. We did not have any other equity compensation plans as of December 31, 2010.

The remaining information required by this item is incorporated by reference to the information set forth under the caption “*Voting Securities and Principal Stockholders—Security Ownership of Certain Beneficial Owners and Management*” in our Proxy Statement for the 2011 Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of 2010.

#### Item 13. Certain Relationships and Related Transactions, and Director Independence

Information required by this item is incorporated by reference to the information set forth under the captions “*Transactions With Related Persons*,” “*Election of Directors (Proposal 1) – Information Concerning Nominees*” and “*Corporate Governance*” in our Proxy Statement for the 2011 Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of 2010.

#### Item 14. Principal Accounting Fees and Services

Information required by this item is incorporated by reference to the information set forth under the caption “*Independent Registered Public Accounting Firm*” in our Proxy Statement for the 2011 Annual Meeting of Stockholders to be filed with the Commission within 120 days after the end of 2010.

**PART IV.**

**Item 15. Exhibits and Financial Statement Schedules**

**(a) and (c) Financial Statements and Financial Statement Schedule**

**Page No.**

**Index to Financial Statements.**

The following financial statements and the Reports of Ernst & Young, LLP, Independent Registered Public Accounting Firm, are included in Part IV of this Report on the pages indicated:

1. Consolidated Financial Statements of Douglas Emmett, Inc.	
Report of Management on Internal Control Over Financial Reporting	F-1
Report of Independent Registered Public Accounting Firm	F-2
Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting	F-3
Consolidated Balance Sheets as of December 31, 2010 and 2009	F-4
Consolidated Statements of Operations for the years ended December 31, 2010, 2009 and 2008.	F-5
Consolidated Statements of Equity (Deficit) for the years ended December 31, 2010, 2009 and 2008.	F-6
Consolidated Statements of Cash Flows for the years ended December 31, 2010, 2009 and 2008.	F-7
Notes to Consolidated Financial Statements	F-8
Schedule III-Real Estate and Accumulated Depreciation as of December 31, 2010	F-31
2. Consolidated Financial Statements of Douglas Emmett Fund X, LLC	
Report of Independent Registered Public Accounting Firm	F-33
Consolidated Balance Sheets as of December 31, 2010 and 2009 (unaudited)	F-34
Consolidated Statements of Operations for the years ended December 31, 2010 and 2009 (unaudited) and the period from October 7, 2008 (inception) through December 31, 2008 (unaudited).	F-35
Consolidated Statements of Members' Equity for the years ended December 31, 2010 and 2009 (unaudited) and the period from October 7, 2008 (inception) through December 31, 2008 (unaudited).	F-36
Consolidated Statements of Cash Flows for the years ended December 31, 2010 and 2009 (unaudited) and the period from October 7, 2008 (inception) through December 31, 2008 (unaudited).	F-37
Notes to Consolidated Financial Statements	F-38

All other schedules have been omitted since the required information is not present or not present in amounts sufficient to require submission of the schedule, or because the information required is included in the consolidated financial statements or notes thereto.

**(b) Exhibits.**

- 3.1 Articles of Amendment and Restatement of Douglas Emmett, Inc. <sup>(4)</sup>
- 3.2 Bylaws of Douglas Emmett, Inc. <sup>(4)</sup>
- 3.3 Certificate of Correction to Articles of Amendment and Restatement of Douglas Emmett, Inc. <sup>(5)</sup>
- 4.1 Form of Certificate of Common Stock of Douglas Emmett, Inc. <sup>(3)</sup>
- 10.1 Form of Agreement of Limited Partnership of Douglas Emmett Properties, LP. <sup>(3)</sup>
- 10.2 Registration Rights Agreement among Douglas Emmett, Inc. and the Initial Holders named therein. <sup>(1)</sup> +
- 10.3 Form of Indemnification Agreement between Douglas Emmett, Inc. and its directors and officers. <sup>(2)</sup> +
- 10.4 Employment agreement dated December 6, 2010 between Douglas Emmett, Inc., Douglas Emmett Properties, LP and Jordan L. Kaplan. +
- 10.5 Employment agreement dated December 6, 2010 between Douglas Emmett, Inc., Douglas Emmett Properties, LP and Kenneth Panzer. +
- 10.6 Employment agreement dated December 6, 2010 between Douglas Emmett, Inc., Douglas Emmett Properties, LP and William Kamer. +
- 10.7 Douglas Emmett, Inc. 2006 Omnibus Stock Incentive Plan. <sup>(7)</sup> +



- 10.8 Form of Douglas Emmett, Inc. 2006 Omnibus Stock Incentive Plan Non-Qualified Stock Option Agreement.<sup>(2)</sup> +
- 10.9 Form of Douglas Emmett, Inc. 2006 Omnibus Stock Incentive Plan LTIP Unit Award Agreement.<sup>(3)</sup> +
- 10.10 Form of Douglas Emmett Properties, LP Partnership Unit Designation – LTIP Units.<sup>(3)</sup> +
- 10.11 Douglas Emmett, Inc. 2006 Omnibus Stock Incentive Plan Amendment No. 1.<sup>(10)</sup> +
- 10.12 Form of Douglas Emmett, Inc. 2006 Omnibus Stock Incentive Plan LTIP Unit Award Agreement (for independent directors) .<sup>(11)</sup> +
- 10.13 \$153,630,000 Loan Agreement dated as of November 1, 2010 between CW Capital, LLC and Barrington Pacific, LLC.
- 10.14 \$46,400,000 Loan Agreement dated as of November 1, 2010 between CW Capital, LLC and Barrington Pacific, LLC.
- 10.15 \$43,440,000 Loan Agreement dated as of November 1, 2010 between CW Capital, LLC and Shores Barrington LLC.
- 10.16 \$144,610,000 Loan Agreement dated as of November 1, 2010 between CW Capital, LLC and Shores Barrington LLC.
- 10.17 \$111,920,000 Discount MBS Multifamily Note between Fannie Mae and DEG Residential, LLC, dated June 1, 2007.<sup>(6)</sup>
- 10.18 \$170,000,000 Loan Agreement dated as of August 25, 2005 among Douglas Emmett 1993, LLC, the Lenders party thereto, Eurohypo AG, New York Branch, and Barclays Capital Real Estate Inc.<sup>(2)</sup>
- 10.19 \$260,000,000 Loan Agreement dated as of August 25, 2005 among Douglas Emmett 1995, LLC, the Lenders party thereto, Eurohypo AG, New York Branch, and Barclays Capital Real Estate Inc.<sup>(2)</sup>
- 10.20 \$215,000,000 Loan Agreement dated as of August 25, 2005 among Douglas Emmett 1996, LLC, the Lenders party thereto, Eurohypo AG, New York Branch, and Barclays Capital Real Estate Inc.<sup>(2)</sup>
- 10.21 \$425,000,000 Loan Agreement dated as of August 25, 2005 among Douglas Emmett 1997, LLC, Westwood Place Investors, LLC, the Lenders party thereto, Eurohypo AG, New York Branch, and Barclays Capital Real Estate Inc.<sup>(2)</sup>
- 10.22 \$150,000,000 Loan Agreement dated as of August 25, 2005 among Douglas Emmett 1998, LLC, the Lenders party thereto, Eurohypo AG, New York Branch, and Barclays Capital Real Estate Inc.<sup>(2)</sup>
- 10.23 \$425,000,000 Loan Agreement dated as of August 25, 2005 among Douglas Emmett 2000, LLC, the Lenders party thereto, Eurohypo AG, New York Branch, and Barclays Capital Real Estate Inc.<sup>(2)</sup>
- 10.24 \$110,000,000 Loan Agreement dated as of August 25, 2005 among Douglas Emmett 2002, LLC, DEG, LLC, the Lenders party thereto, Eurohypo AG, New York Branch, and Barclays Capital Real Estate Inc.<sup>(2)</sup>
- 10.25 Adjustable Rate Multifamily Note for \$7,750,000 between Fannie Mae and Douglas Emmett Residential 2006, LLC, dated June 1, 2007.<sup>(6)</sup>
- 10.26 Adjustable Rate Multifamily Note for \$7,150,000 between Fannie Mae and Douglas Emmett Residential 2006, LLC, dated June 1, 2007.<sup>(6)</sup>
- 10.27 Adjustable Rate Multifamily Note for \$3,100,000 between Fannie Mae and Douglas Emmett Residential 2006, LLC, dated June 1, 2007.<sup>(6)</sup>

- 10.28 \$18,000,000 Loan Agreement dated as of February 12, 2008 among DEG III, LLC and Wells Fargo Bank, National Association. <sup>(8)</sup>
- 10.29 \$340,000,000 Loan Agreement dated as of March 18, 2008 among Douglas Emmett 2007, LLC; Douglas Emmett Realty Fund 2002; Douglas Emmett 1995, LLC; the Lenders party thereto, Eurohypo AG and ING Real Estate (USA), LLC. <sup>(8)</sup>
- 10.30 \$365,000,000 Loan Agreement dated as of August 18, 2008 among Douglas Emmett 2008, LLC, the lenders party thereto and Eurohypo AG. <sup>(9)</sup>
- 10.31 \$400,000,000 Loan Agreement dated as of September 30, 2010 among Douglas Emmett 2010, LLC, and the lenders party thereto, Eurohypo AG, New York Branch. <sup>(12)</sup>
- 10.32 Joinder and Supplement Agreement dated as of August 25, 2005 among Douglas Emmett 2002, LLC, and DEG, LLC, made with reference to the Loan Agreement dated as of August 25, 2005 by and among Douglas Emmett 2002, LLC, the Lenders party thereto and Eurohypo AG, New York Branch. <sup>(2)</sup>
- 10.33 Modification Agreement among Douglas Emmett 1993, LLC, Brentwood Plaza, the Lenders party thereto and Eurohypo AG, New York Branch. <sup>(3)</sup>
- 10.34 Modification Agreement among Douglas Emmett 1995, LLC, the Lenders party thereto and Eurohypo AG, New York Branch. <sup>(3)</sup>
- 10.35 Modification Agreement among Douglas Emmett 1996, LLC, the Lenders party thereto and Eurohypo AG, New York Branch. <sup>(3)</sup>
- 10.36 Modification Agreement among Douglas Emmett 1997, LLC, Westwood Place Investors, LLC, the Lenders party thereto and Eurohypo AG, New York Branch. <sup>(3)</sup>
- 10.37 Modification Agreement among Douglas Emmett 1998, LLC, Brentwood Court, Brentwood-San Vicente Medical, Ltd., the Lenders party thereto and Eurohypo AG, New York Branch. <sup>(3)</sup>
- 10.38 Modification Agreement among Douglas Emmett 2000, LLC, the Lenders party thereto and Eurohypo AG, New York Branch. <sup>(3)</sup>
- 10.39 Modification Agreement among Douglas Emmett 2002, LLC, DEG, LLC, San Vicente Plaza, Owensmouth/Warner, LLC, the Lenders party thereto and Eurohypo AG, New York Branch. <sup>(3)</sup>
- 10.40 Joinder and Supplement Agreement among Douglas Emmett 1993, LLC and Brentwood Plaza made with reference to the Modification Agreement among Douglas Emmett 1993, LLC, the Lenders party thereto and Eurohypo AG, New York Branch. <sup>(3)</sup>
- 10.41 Joinder and Supplement Agreement among Douglas Emmett 1998, LLC, Brentwood Court and Brentwood-San Vicente Medical, Ltd. made with reference to the Modification Agreement among Douglas Emmett 1998, LLC, the Lenders party thereto and Eurohypo AG, New York Branch. <sup>(3)</sup>
- 10.42 Joinder and Supplement Agreement among Douglas Emmett 2002, LLC, DEG, LLC, San Vicente Plaza and Owensmouth/Warner, LLC made with reference to the Modification Agreement among Douglas Emmett 2002, LLC, DEG, LLC, the Lenders party thereto and Eurohypo AG, New York Branch. <sup>(3)</sup>
- 21.1 List of Subsidiaries of the Registrant.
- 23.1 Consent of Independent Registered Public Accounting Firm.
- 31.1 Certificate of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certificate of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certificate of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.<sup>(13)</sup>

32.2 Certificate of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.<sup>(13)</sup>

101 The following financial information from Douglas Emmett Inc.'s Annual Report on Form 10-K for the year ended December 31, 2010, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Equity (Deficit), (iv) Consolidated Statements of Cash Flows and (v) Notes to Consolidated Financial Statements, tagged as blocks of text.

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Footnotes to Exhibits

+ Denotes management contract or compensatory plan, contract or arrangement

- (1) Filed with Registrant's Registration Statement on Form S-11 (Registration No. 333-135082) filed June 16, 2006 and incorporated herein by this reference.
- (2) Filed with Registrant's Amendment No. 2 to Form S-11 filed September 20, 2006 and incorporated herein by this reference.
- (3) Filed with Registrant's Amendment No. 3 to Form S-11 filed October 3, 2006 and incorporated herein by this reference.
- (4) Filed with Registrant's Amendment No. 6 to Form S-11 filed October 19, 2006 and incorporated herein by this reference.
- (5) Filed with Registrant's Current Report on Form 8-K filed October 30, 2006 and incorporated herein by this reference.
- (6) Filed August 10, 2007 with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007 and incorporated herein by this reference.
- (7) Filed with Registrant's Registration Statement on Form S-8 (File No. 333-148268) filed December 21, 2007 and incorporated herein by this reference.
- (8) Filed May 8, 2008 with Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 and incorporated herein by this reference.
- (9) Filed November 6, 2008 with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 and incorporated herein by this reference.
- (10) Filed August 6, 2009 with Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 and incorporated herein by this reference.
- (11) Filed February 26, 2010 with Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and incorporated herein by this reference.
- (12) Filed November 4, 2010 with Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2010 and incorporated herein by this reference.
- (13) In accordance with SEC Release No. 33-8212, this exhibit is being furnished, and is not being filed as part of this Report or as a separate disclosure document, and is not being incorporated by reference into any Securities Act of 1933 registration statement.

### Signatures

Pursuant to the requirements of Section 13 or 15(d) 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.

DOUGLAS EMMETT, INC.

Dated: February 25, 2011

By: /s/ JORDAN L. KAPLAN

Jordan L. Kaplan  
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

<b>Signature</b>	<b>Title</b>
<u>/s/ JORDAN L. KAPLAN</u> Jordan L. Kaplan	President, Chief Executive Officer and Director (Principal Executive Officer)
<u>/s/ WILLIAM KAMER</u> William Kamer	Chief Financial Officer (Principal Financial Officer)
<u>/s/ GREGORY R. HAMBL Y</u> Gregory R. Hambly	Chief Accounting Officer (Principal Accounting Officer)
<u>/s/ DAN A. EMMETT</u> Dan A. Emmett	Chairman of the Board
<u>/s/ KENNETH M. PANZER</u> Kenneth M. Panzer	Chief Operating Officer and Director
<u>/s/ LESLIE E. BIDER</u> Leslie E. Bider	Director
<u>/s/ GHEBRE SELASSIE MEHRETEAB</u> Ghebre Selassie Mehreteab	Director
<u>/s/ THOMAS E. O'HERN</u> Thomas E. O'Hern	Director
<u>/s/ DR. ANDREA L. RICH</u> Dr. Andrea L. Rich	Director
<u>/s/ WILLIAM WILSON III</u> William Wilson III	Director

Each of the above signatures is affixed as of February 25, 2011.

## **Report of Management on Internal Control over Financial Reporting**

The management of Douglas Emmett, Inc. is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934.

Our system of internal control is designed to provide reasonable assurance regarding the reliability of financial reporting and preparation of our financial statements for external reporting purposes in accordance with United States generally accepted accounting principles. Our management, including the undersigned Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of our internal control over financial reporting as of December 31, 2010. In conducting its assessment, management used the criteria issued by the Committee of Sponsoring Organizations of the Treadway Commission on Internal Control—Integrated Framework. Based on this assessment, management concluded that, as of December 31, 2010, our internal control over financial reporting was effective based on those criteria.

Management, including our Chief Executive Officer and Chief Financial Officer, does not expect that our disclosure controls and procedures, or our internal controls will prevent all error and fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints and the benefit of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, have been detected.

The effectiveness of our internal control over financial reporting as of December 31, 2010, has been audited by Ernst & Young LLP, the independent registered public accounting firm that audited the consolidated financial statements included in this annual report, as stated in their report appearing on page F-3, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of December 31, 2010.

/s/ JORDAN L. KAPLAN

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**Jordan L. Kaplan**  
**Chief Executive Officer**

/s/ WILLIAM KAMER

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**William Kamer**  
**Chief Financial Officer**

February 25, 2011

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of  
Douglas Emmett, Inc.

We have audited the accompanying consolidated balance sheets of Douglas Emmett, Inc. (the “Company”) as of December 31, 2010 and 2009, and the related consolidated statements of operations, equity (deficit), and cash flows for each of the three years in the period ended December 31, 2010. Our audits also included the financial statement schedule listed in the Index at Item 15(a). These financial statements and schedule are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Douglas Emmett, Inc. at December 31, 2010 and 2009, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2010, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Douglas Emmett, Inc.’s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 25, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California  
February 25, 2011

## Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders of  
Douglas Emmett, Inc.

We have audited Douglas Emmett, Inc.'s internal control over financial reporting as of December 31, 2010, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Douglas Emmett, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Douglas Emmett, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Douglas Emmett, Inc. as of December 31, 2010 and 2009, and the related consolidated statements of operations, equity (deficit), and cash flows for each of the three years in the period ended December 31, 2010, and our report dated February 25, 2011 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Los Angeles, California  
February 25, 2011

**Douglas Emmett, Inc.**  
**Consolidated Balance Sheets**  
(in thousands, except share data)

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
<b>Assets</b>		
Investment in real estate:		
Land	\$ 851,679	\$ 835,407
Buildings and improvements	5,226,269	5,017,569
Tenant improvements and lease intangibles	592,735	534,084
Investment in real estate, gross	6,670,683	6,387,060
Less: accumulated depreciation	(913,923)	(688,893)
Investment in real estate, net	5,756,760	5,698,167
Cash and cash equivalents	272,419	72,740
Tenant receivables, net	1,591	2,357
Deferred rent receivables, net	48,933	40,395
Interest rate contracts	52,528	108,027
Acquired lease intangible assets, net	9,356	11,691
Investment in unconsolidated real estate funds	110,920	97,127
Other assets	26,782	29,428
<b>Total assets</b>	<b>\$ 6,279,289</b>	<b>\$ 6,059,932</b>
 <b>Liabilities</b>		
Secured notes payable, including loan premium	\$ 3,668,133	\$ 3,273,459
Accounts payable and accrued expenses	57,793	72,893
Security deposits	31,850	32,501
Acquired lease intangible liabilities, net	110,244	139,340
Interest rate contracts	99,687	237,194
Dividends payable	12,413	12,160
<b>Total liabilities</b>	3,980,120	3,767,547
 <b>Equity</b>		
Douglas Emmett, Inc. stockholders' equity:		
Common Stock, \$0.01 par value 750,000,000 authorized, 124,131,557 and 121,596,427 outstanding at December 31, 2010 and December 31, 2009, respectively	1,241	1,216
Additional paid-in capital	2,332,307	2,290,419
Accumulated other comprehensive income (loss)	(58,765)	(126,202)
Accumulated deficit	(447,722)	(372,070)
<b>Total Douglas Emmett, Inc. stockholders' equity</b>	1,827,061	1,793,363
Noncontrolling interests	472,108	499,022
<b>Total equity</b>	2,299,169	2,292,385
<b>Total liabilities and equity</b>	<b>\$ 6,279,289</b>	<b>\$ 6,059,932</b>

*See notes to consolidated financial statements.*



**Douglas Emmett, Inc.**  
**Consolidated Statements of Operations**  
(in thousands, except shares and per share data)

	Year Ended December 31,		
	2010	2009	2008
<b>Revenues:</b>			
Office rental			
Rental revenues	\$ 399,184	\$ 406,117	\$ 433,487
Tenant recoveries	37,406	31,407	32,392
Parking and other income	66,110	65,243	71,498
Total office revenues	<u>502,700</u>	<u>502,767</u>	<u>537,377</u>
Multifamily rental			
Rental revenues	63,564	64,127	66,510
Parking and other income	4,580	4,166	4,207
Total multifamily revenues	<u>68,144</u>	<u>68,293</u>	<u>70,717</u>
Total revenues	<u>570,844</u>	<u>571,060</u>	<u>608,094</u>
<b>Operating Expenses</b>			
Office expense	159,155	154,270	166,124
Multifamily expense	18,327	17,925	17,079
General and administrative	28,305	23,887	22,646
Depreciation and amortization	225,030	226,620	248,011
Total operating expenses	<u>430,817</u>	<u>422,702</u>	<u>453,860</u>
Operating income	140,027	148,358	154,234
Gain on disposition of interest in unconsolidated real estate fund	-	5,573	-
Other income (loss)	1,191	(12)	3,580
Loss, including depreciation, from unconsolidated real estate funds	(6,971)	(3,279)	-
Interest expense	(166,907)	(184,797)	(193,727)
Acquisition-related expenses	(296)	-	-
Net loss	<u>(32,956)</u>	<u>(34,157)</u>	<u>(35,913)</u>
Less: net loss attributable to noncontrolling interests	6,533	7,093	7,920
Net loss attributable to common stockholders	<u>\$ (26,423)</u>	<u>\$ (27,064)</u>	<u>\$ (27,993)</u>
Net loss attributable to common stockholders per share – basic	<u>\$ (0.22)</u>	<u>\$ (0.22)</u>	<u>\$ (0.23)</u>
Net loss attributable to common stockholders per share – diluted	<u>\$ (0.22)</u>	<u>\$ (0.22)</u>	<u>\$ (0.23)</u>
Dividends declared per common share	<u>\$ 0.40</u>	<u>\$ 0.40</u>	<u>\$ 0.75</u>
Weighted average shares of common stock outstanding – basic	<u>122,714,520</u>	<u>121,552,731</u>	<u>120,725,928</u>
Weighted average shares of common stock outstanding – diluted	<u>122,714,520</u>	<u>121,552,731</u>	<u>120,725,928</u>

*See notes to consolidated financial statements*

**Douglas Emmett, Inc.**  
**Consolidated Statements of Equity (Deficit)**  
(in thousands, except share amounts)

	Year Ended December 31,		
	2010	2009	2008
<b>Shares of Common Stock</b>			
Balance at beginning of period	121,596,427	121,897,388	109,833,903
Repurchase of equity units	-	(819,500)	-
Conversion of operating partnership units	2,535,130	518,539	12,032,532
Issuance of common stock	-	-	30,953
<b>Balance at end of period</b>	<b>124,131,557</b>	<b>121,596,427</b>	<b>121,897,388</b>
<b>Common Stock</b>			
Balance at beginning of period	\$ 1,216	\$ 1,219	\$ 1,098
Repurchase of equity units	-	(8)	-
Conversion of operating partnership units	25	5	120
Issuance of common stock	-	-	1
<b>Balance at end of period</b>	<b>\$ 1,241</b>	<b>\$ 1,216</b>	<b>\$ 1,219</b>
<b>Additional Paid-in Capital</b>			
Balance at beginning of period	\$ 2,290,419	\$ 2,284,429	\$ 2,019,716
Repurchase of equity units	-	(4,606)	-
Conversion of operating partnership units	37,119	7,665	261,572
Issuance of common stock	-	-	667
Stock compensation	4,769	2,931	2,474
<b>Balance at end of period</b>	<b>\$ 2,332,307</b>	<b>\$ 2,290,419</b>	<b>\$ 2,284,429</b>
<b>Accumulated Other Comprehensive Income (Loss)</b>			
Balance at beginning of period	\$ (126,202)	\$ (214,058)	\$ (70,675)
Cash flow hedge adjustment	67,437	87,856	(143,383)
<b>Balance at end of period</b>	<b>\$ (58,765)</b>	<b>\$ (126,202)</b>	<b>\$ (214,058)</b>
<b>Accumulated Deficit</b>			
Balance at beginning of period	\$ (372,070)	\$ (296,401)	\$ (120,300)
Net loss	(26,423)	(27,064)	(27,993)
Noncontrolling interests redemption adjustment	-	-	(56,942)
Dividends	(49,229)	(48,605)	(91,166)
<b>Balance at end of period</b>	<b>\$ (447,722)</b>	<b>\$ (372,070)</b>	<b>\$ (296,401)</b>
<b>Douglas Emmett, Inc. Stockholders' Equity</b>			
Balance at beginning of period	\$ 1,793,363	\$ 1,775,189	\$ 1,829,839
Net loss	(26,423)	(27,064)	(27,993)
Cash flow hedge adjustment	67,437	87,856	(143,383)
Comprehensive income	41,014	60,792	(171,376)
Issuance of common stock	-	-	668
Repurchase of equity units	-	(4,614)	-
Dividends	(49,229)	(48,605)	(91,166)
Conversion of operating partnership units	37,144	7,670	261,692
Noncontrolling interests redemption adjustment	-	-	(56,942)
Stock compensation	4,769	2,931	2,474
<b>Balance at end of period</b>	<b>\$ 1,827,061</b>	<b>\$ 1,793,363</b>	<b>\$ 1,775,189</b>
<b>Noncontrolling Interests</b>			
Balance at beginning of period	\$ 499,022	\$ 505,025	\$ 793,764
Net loss	(6,533)	(7,093)	(7,920)
Cash flow hedge adjustment	20,548	24,361	(29,565)
Comprehensive income	14,015	17,268	(37,485)
Repurchase of equity units	-	(3,603)	(23,759)
Deconsolidation of Douglas Emmett Fund X, LLC	-	10	-
Contributions	167	450	319
Distributions	(13,595)	(16,571)	(27,672)
Conversion of operating partnership units	(37,144)	(7,670)	(261,692)
Noncontrolling interests redemption adjustment	-	-	56,942
Stock compensation	9,643	4,113	4,608
<b>Balance at end of period</b>	<b>\$ 472,108</b>	<b>\$ 499,022</b>	<b>\$ 505,025</b>
<b>Total Equity</b>			
Balance at beginning of period	\$ 2,292,385	\$ 2,280,214	\$ 2,623,603
Net loss	(32,956)	(34,157)	(35,913)
Cash flow hedge adjustment	87,985	112,217	(172,948)
Comprehensive income	55,029	78,060	(208,861)
Issuance of common stock	-	-	668
Repurchase of equity units	-	(8,217)	(23,759)
Dividends	(49,229)	(48,605)	(91,166)
Deconsolidation of Douglas Emmett Fund X, LLC	-	10	-
Contributions	167	450	319
Distributions	(13,595)	(16,571)	(27,672)
Stock compensation	14,412	7,044	7,082
<b>Balance at end of period</b>	<b>\$ 2,299,169</b>	<b>\$ 2,292,385</b>	<b>\$ 2,280,214</b>

*See notes to consolidated financial statements.*

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

	Year Ended December 31,		
	2010	2009	2008
<b>Operating Activities</b>			
Consolidated net loss	\$ (32,956)	\$ (34,157)	\$ (35,913)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Loss, including depreciation, from unconsolidated real estate funds	6,971	3,279	-
Depreciation and amortization	225,030	226,620	248,011
Net accretion of acquired lease intangibles	(26,260)	(32,468)	(42,905)
Gain on disposition of interest in unconsolidated real estate fund	-	(5,573)	-
Amortization of deferred loan costs	2,424	2,018	2,083
Amortization of loan premium	(5,326)	(5,026)	(4,742)
Non-cash market value adjustments on interest rate contracts	17,610	20,062	13,805
Non-cash amortization of stock-based compensation	10,127	5,101	4,400
Non-cash profit sharing allocation to consolidated real estate fund	-	660	(431)
Change in working capital components:			
Tenant receivables	766	(132)	(467)
Deferred rent receivables	(8,538)	(8,961)	(12,234)
Accounts payable and accrued expenses	(11,276)	9,739	3,403
Security deposits	(935)	(75)	1,274
Other assets	11,238	(744)	6,547
Net cash provided by operating activities	<u>188,875</u>	<u>180,343</u>	<u>182,831</u>
<b>Investing Activities</b>			
Capital expenditures and property acquisitions	(283,398)	(42,151)	(684,623)
Deconsolidation of Douglas Emmett Fund X, LLC	-	(6,625)	-
Contributions to unconsolidated real estate funds	(26,923)	-	-
Distributions from unconsolidated real estate funds	5,710	-	-
Net cash used in investing activities	<u>(304,611)</u>	<u>(48,776)</u>	<u>(684,623)</u>
<b>Financing Activities</b>			
Proceeds from long-term borrowings	788,080	82,640	1,563,275
Deferred loan costs	(10,168)	(446)	(6,810)
Repayment of borrowings	(388,080)	(106,665)	(946,400)
Net change in short-term borrowings	-	(25,275)	(25,025)
Contributions by Douglas Emmett Fund X, LLC investors	-	66,074	57,746
Contributions by noncontrolling interests	167	450	319
Distributions to noncontrolling interests	(13,400)	(16,742)	(27,880)
Distributions of capital to noncontrolling interests	(400)	-	-
Redemption of noncontrolling interests	-	(2,880)	(23,758)
Issuance of common stock, net	-	-	668
Repurchase of common stock	-	(5,337)	-
Cash dividends	(48,976)	(59,301)	(87,531)
Termination of interest rate contracts	(11,808)	-	-
Net cash provided by (used in) financing activities	<u>315,415</u>	<u>(67,482)</u>	<u>504,604</u>
Increase in Cash and Cash Equivalents	199,679	64,085	2,812
Cash and Cash Equivalents at Beginning of Year	72,740	8,655	5,843
<b>Cash and Cash Equivalents at End of Year</b>	<u>\$ 272,419</u>	<u>\$ 72,740</u>	<u>\$ 8,655</u>
<b>Noncash transactions:</b>			
Investing activity related to contribution of properties to unconsolidated real estate fund	\$ -	\$ 476,852	\$ -
Financing activity related to contribution of debt and noncontrolling interest to unconsolidated real estate fund	\$ -	\$ (483,477)	\$ -
<b>Supplemental disclosure of cash flow information</b>			
Cash paid during the year for interest	\$ 158,641	\$ 163,244	\$ 172,686

*See notes to consolidated financial statements for additional non-cash items.*

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

## **1. Organization and Description of Business**

Douglas Emmett, Inc. is a fully integrated, self-administered and self-managed Real Estate Investment Trust (REIT). The terms “us,” “we” and “our” as used in these financial statements refer to Douglas Emmett, Inc. and its subsidiaries. Through our interest in Douglas Emmett Properties, LP (our operating partnership) and its subsidiaries, including our investments in our unconsolidated institutional real estate funds, we own or partially own, manage, lease, acquire and develop real estate, consisting primarily of office and multifamily properties. As of December 31, 2010, we owned a consolidated portfolio of 50 office properties (including ancillary retail space) and nine multifamily properties, as well as the fee interests in two parcels of land subject to ground leases. We also managed seven office properties owned by our unconsolidated institutional real estate funds as part of our total portfolio, which includes a combined 57 office properties. All of these properties are located in Los Angeles County, California or Honolulu, Hawaii.

We are a Maryland corporation formed on June 28, 2005 that did not have any meaningful operating activity until the consummation of our initial public offering (IPO) and the related acquisition of our predecessor and certain other entities in October 2006.

## **2. Summary of Significant Accounting Policies**

### **Basis of Presentation**

The financial statements presented are the consolidated financial statements of Douglas Emmett, Inc. and its subsidiaries, including our operating partnership. Substantially all of our business is conducted through our consolidated operating partnership, in which other investors own a noncontrolling interest. See Note 11. Our business also includes a consolidated joint venture in which our operating partnership owns a two-thirds interest. The balances and results of the property owned by this consolidated joint venture are included in our financial statements.

The accompanying financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (SEC) in conformity with Generally Accepted Accounting Principles of the United States (GAAP) as established by the Financial Accounting Standards Board (FASB) in the Accounting Standards Codification (ASC) including modifications issued under Accounting Standards Updates (ASUs). The accompanying financial statements include, in our opinion, all adjustments, consisting of normal recurring adjustments, necessary to present fairly the financial information set forth therein. Any reference to the number of properties and square footage are unaudited and outside the scope of our independent registered public accounting firm’s audit of our financial statements in accordance with the standards of the United States Public Company Accounting Oversight Board.

Certain prior period amounts have been reclassified to conform with current period presentation, including a reclassification of accumulated other comprehensive income, attributable to noncontrolling interests in our consolidated net assets, to reflect the presentation requirements of ASC 810: Consolidation. In particular, approximately \$30.5 million (at January 1, 2008) and \$29.6 million (at December 31, 2008) were reclassified on our consolidated balance sheets and statements of equity from accumulated deficit to accumulated other comprehensive income. This reclassification had no impact on the previously reported total comprehensive income or on the total equity attributable to Douglas Emmett, Inc. stockholders relative to the equity attributable to noncontrolling interests.

### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

### **Segment Information**

Segment information is prepared on the same basis that our management reviews information for operational decision-making purposes. We operate two business segments: the acquisition, redevelopment, ownership and management of office real estate and the acquisition, redevelopment, ownership and management of multifamily real estate.

The products for our office segment include primarily rental of office space and other tenant services including parking and storage space rental. The products for our multifamily segment include rental of apartments and other tenant services including parking and storage space rental.

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

**Investments in Real Estate**

Acquisitions of properties are accounted for utilizing the purchase method and accordingly, the results of operations of acquired properties are included in our results of operations from the respective dates of acquisition. Beginning January 1, 2009, transaction costs related to acquisitions are expensed, rather than included with the consideration paid. Estimates of future cash flows and other valuation techniques are used to allocate the purchase price of acquired property between land, buildings and improvements, equipment and identifiable intangible assets and liabilities such as amounts related to in-place at-market leases, acquired above- and below-market ground leases, acquired above- and below-market tenant leases and tenant relationships. Initial valuations are subject to change until such information is finalized, but no later than 12 months from the acquisition date.

The fair values of tangible assets are determined on an “as-if-vacant” basis. The “as-if-vacant” fair value is allocated to land, where applicable, buildings, tenant improvements and equipment based on comparable sales and other relevant information obtained in connection with the acquisition of the property.

The estimated fair value of acquired in-place at-market tenant leases are the costs we would have incurred to lease the property to the occupancy level of the property at the date of acquisition. Such estimates include the fair value of leasing commissions and legal costs that would be incurred to lease the property to this occupancy level. Additionally, we evaluate the time period over which such occupancy level would be achieved and include an estimate of the net operating costs (primarily real estate taxes, insurance and utilities) incurred during the lease-up period, which is generally six months.

Above-market and below-market in-place lease intangibles are recorded as an asset or liability based on the present value (using a discount rate which reflects the risks associated with the leases acquired) of the difference between the contractual amounts to be received or paid pursuant to the in-place tenant or ground leases, respectively, and our estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining non-cancelable term of the lease.

Expenditures for repairs and maintenance are charged to operations as incurred. Significant improvements and costs incurred in the execution of leases are capitalized. When assets are sold or retired, their costs and related accumulated depreciation are removed from the accounts with the resulting gains or losses reflected in operations for the period.

The values allocated to land, buildings, site improvements, in-place leases, tenant improvements and leasing costs are depreciated on a straight-line basis using an estimated life of 40 years for buildings; 15 years for site improvements; the average term of existing leases in the building acquired for in-place lease values; and the respective lease term for tenant improvements and leasing costs. The values of above- and below-market tenant leases are amortized over the life of the related lease and recorded as either an increase (for below-market leases) or a decrease (for above-market leases) to rental income. The values of acquired above- and below-market ground leases are amortized over the life of the lease and recorded either as an increase (for below-market leases) or a decrease (for above-market leases) to office rental operating expense. The amortization of acquired in-place leases is recorded as an adjustment to depreciation and amortization in the consolidated statements of operations. Any unamortized amounts relating to a lease that is terminated prior to its stated expiration are written off in the period of termination.

**Investment in Unconsolidated Real Estate Funds**

At December 31, 2010, we managed and held equity interests in two unconsolidated Funds: Douglas Emmett Fund X, LLC and Douglas Emmett Partnership X, LP. We held a 48.82% interest in Douglas Emmett Fund X, LLC and an aggregate 21.52% interest in the property held by Douglas Emmett Partnership X, LP and its subsidiaries. Our investment balance represents our share of the net assets of the combined Funds, plus additional basis of approximately \$4.1 million, primarily due to the inclusion of the cost of raising capital that is accounted for as part of our investment basis.

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

**Impairment of Long-Lived Assets**

We assess whether there has been impairment in the value of our long-lived assets whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount to the undiscounted future cash flows expected to be generated by the asset. If the current carrying value exceeds the estimated undiscounted cash flows, an impairment loss is recorded equal to the difference between the asset's current carrying value and its value based on the discounted estimated future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. Based upon such periodic assessments, no impairments occurred for 2010, 2009 or 2008.

We assess whether there has been impairment in the value of our investments in unconsolidated real estate funds periodically. An impairment charge is recorded when events or change in circumstances indicate that a decline in the fair value below the carrying value has occurred and such decline is other-than-temporary. The ultimate realization of the investments in unconsolidated real estate funds is dependent on a number of factors, including the performance of the investment and market conditions. We will record an impairment charge if we determine that a decline in the value of an investment in an unconsolidated real estate fund is other-than-temporary. Based upon such periodic assessments, no impairment occurred during 2010 or 2009.

An asset is classified as an asset held for disposition when it meets certain requirements, including the approval of the sale of the asset, the marketing of the asset for sale and our expectation that the sale will likely occur within the next 12 months. Upon classification of an asset as held for disposition, the net book value of the asset, excluding long-term debt, is included on the balance sheet as properties held for disposition, depreciation of the asset is ceased and the operating results of the asset are included in discontinued operations for all periods presented.

**Cash and Cash Equivalents**

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

**Revenue and Gain Recognition**

Four basic criteria must be met before revenue can be recognized: persuasive evidence of an arrangement exists; the delivery has occurred or services rendered; the fee is fixed and determinable; and collectibility is reasonably assured. All leases are classified as operating leases. For all lease terms exceeding one year, rental income is recognized on a straight-line basis over the terms of the leases. Deferred rent receivables represent rental revenue recognized on a straight-line basis in excess of billed rents. Lease termination fees, which are included in rental revenues in the accompanying consolidated statements of operations, are recognized when the related leases are canceled and we have no continuing obligation to provide services to such former tenants. We recorded total lease termination revenue of \$844 for 2010, \$1,008 for 2009 and \$423 for 2008.

Estimated recoveries from tenants for real estate taxes, common area maintenance and other recoverable operating expenses are recognized as revenues in the period that the expenses are incurred. Subsequent to year-end, we perform final reconciliations on a lease-by-lease basis and bill or credit each tenant for any cumulative annual adjustments. In addition, we record a capital asset for leasehold improvements constructed by us that are reimbursed by tenants, with the offsetting side of this accounting entry recorded to deferred revenue which is included in accounts payable and accrued expenses. The deferred revenue is amortized as additional rental revenue over the life of the related lease. Rental revenue from month-to-month leases or leases with no scheduled rent increases or other adjustments is recognized on a monthly basis when earned.

The recognition of gains on sales of real estate requires that we measure the timing of a sale against various criteria related to the terms of the transaction, as well as any continuing involvement in the form of management or financial assistance associated with the property. If the sales criteria are not met, we defer gain recognition and account for the continued operations of the property by applying the finance, profit-sharing or leasing method. If the sales criteria have been met, we further analyze whether profit recognition is appropriate using the full accrual method. If the criteria to recognize profit using the full accrual method have not been met, we defer the gain and recognize it when the criteria are met or use the installment or cost recovery method as appropriate under the circumstances.

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

**Monitoring of Rents and Other Receivables**

We maintain an allowance for estimated losses that may result from the inability of tenants to make required payments. If a tenant fails to make contractual payments beyond any allowance, we may recognize bad debt expense in future periods equal to the amount of unpaid rent and deferred rent. We take into consideration many factors to evaluate the level of reserves necessary, including historical termination/default activity and current economic conditions. As of December 31, 2010 and 2009, we had an allowance for doubtful accounts of \$17,091 and \$15,934, respectively.

We generally do not require collateral or other security from our tenants other than security deposits or letters of credit. As of December 31, 2010 and 2009, we had a total of approximately \$17,233 and \$19,995, respectively, of lease security available on existing letters of credit, as well as \$31,850 and \$32,501, respectively, of lease security available in security deposits.

**Deferred Loan Costs**

Costs incurred in issuing secured notes payable are capitalized. Deferred loan costs are included in other assets in the consolidated balance sheets at December 31, 2010 and 2009. The deferred loan costs are amortized to interest expense over the life of the respective loans. Any unamortized amounts upon early repayment of secured notes payable are written-off in the period of repayment.

**Interest Rate Agreements**

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

We record all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative and the resulting designation. Derivatives used to hedge the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, are considered fair value hedges. Derivatives used to hedge the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges.

Our objective in using derivatives is to add stability to interest expense and to manage our exposure to interest rate movements and other identified risks. To accomplish this objective, we primarily use interest rate swaps as part of our cash flow hedging strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable-rate amounts in exchange for fixed-rate payments over the life of the agreements without exchange of the underlying principal amount. For derivatives designated as cash flow hedges, the effective portion of changes in the fair value of the derivative is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings. The ineffective portion of changes in the fair value of the derivative is recognized directly in earnings. We assess the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. For derivatives not designated as hedges, changes in fair value are recognized in earnings. The fair value of these hedges is obtained through independent third-party valuation sources that use conventional valuation algorithms. See Note 10.

**Stock-Based Compensation**

We account for stock-based compensation, including stock options and long-term incentive plan units, using the fair value method of accounting. The estimated fair value of the stock options and the long-term incentive units is amortized over their respective vesting periods.

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

**Income Taxes**

As a REIT, we are permitted to deduct distributions paid to our stockholders, eliminating the federal taxation of income represented by such distributions at the corporate level. REITs are subject to a number of organizational and operational requirements. We believe we met these tests during 2010. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income tax (including any applicable alternative minimum tax) on our taxable income at regular corporate tax rates.

We have elected to treat several of our subsidiaries as taxable REIT subsidiaries (TRS). A TRS generally may engage in any business, including the provision of customary or non-customary services for our tenants. A TRS is treated as a regular corporation and is subject to federal income tax and applicable state income and franchise taxes at regular corporate rates. Our TRS subsidiaries did not have significant tax provisions or deferred income tax items for 2010, 2009 or 2008.

**Earnings (Loss) Per Share**

Basic earnings (loss) per share is calculated by dividing the net income (loss) applicable to common stockholders for the period by the weighted average of common shares outstanding during the period. Diluted earnings (loss) per share is calculated by dividing the net income applicable to common stockholders for the period by the weighted average number of common and dilutive instruments outstanding during the period using the treasury stock method. See Note 12.

**Recently Issued Accounting Literature**

Changes to GAAP are established by the FASB in the form of ASUs. We consider the applicability and impact of all ASUs. Recently issued ASUs not listed below are expected to not have any material impact on our consolidated financial position and results of operations, because either the ASU is not applicable or the impact is expected to be immaterial.

In January 2010, we adopted FASB guidance contained in ASU No. 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*. This standard requires an enterprise to perform an analysis to determine whether an enterprise's variable interest or interests give it a controlling financial interest in a variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity's economic performance. The adoption of ASU 2009-17 did not have a material effect on our consolidated financial position or results of operations.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This guidance provides for new disclosures requiring us to (i) disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers and (ii) present separately information about purchases, sales, issuances and settlements in the reconciliation of Level 3 fair value measurements. This guidance also provides clarification of existing disclosures requiring us to (i) determine each class of assets and liabilities based on the nature and risks of the investments rather than by major security type and (ii) for each class of assets and liabilities, disclose the valuation techniques and inputs used to measure fair value for both Level 2 and Level 3 fair value measurements. This ASU is effective for annual and interim reporting periods beginning after December 15, 2009 for most of the new disclosures and for periods beginning after December 15, 2010 for the new Level 3 disclosures. The adoption of this ASU did not have a material effect on our consolidated financial position and results of operations as it only addresses disclosure.

In February 2010, the FASB issued ASU No. 2010-09, *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*. This standard amends the previously issued authoritative guidance for subsequent events and, among other things, exempts SEC registrants from the requirement to disclose the date through which it has evaluated subsequent events for either original or restated financial statements. This standard does not apply to subsequent events or transactions that are within the scope of other applicable GAAP rules that provide different guidance on the accounting treatment for subsequent events or transactions. The adoption of this ASU did not have a material effect on our consolidated financial position and results of operations as it only addresses disclosures.

In February 2010, the FASB issued ASU No. 2010-10, *Consolidation—Amendments for Certain Investment Funds*. This standard indefinitely defers the effective date of the updated variable-interest entity accounting guidance contained in ASU No. 2009-17 for certain investment funds. To qualify for the deferral, the investment fund needs to meet certain attributes of an investment company, does not have explicit or implicit obligations to fund losses of the entity and is not a securitization entity, an asset-backed financing entity, or an entity formerly considered a qualifying special-purpose entity. The adoption of this ASU did not have a material effect on our consolidated financial position or results of operations.



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

**3. Investment in Real Estate**

The results of operations for 2010, 2009 and 2008 were affected by the acquisition of new properties, as well as the contribution of certain properties to one of our unconsolidated Funds. The operating results of acquired properties are included in our consolidated statements of operations only from the date each property was acquired, and in the case of the properties contributed to that Fund, only until the end of February 2009, when that Fund was deconsolidated from our financial statements. The following table summarizes the allocations of estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

	<u>2010 Acquisitions</u>	<u>2008 Acquisitions</u>
Investment in real estate:		
Land	\$ 16,273	\$ 74,685
Buildings and improvements	200,781	528,179
Tenant improvements and other in-place lease assets	13,012	50,978
Tenant receivables and other assets	19	2,486
Accounts payable, accrued expenses and tenant security deposits	(1,015)	(6,193)
Acquired lease intangibles	501	(25,720)
Net acquisition costs	<u>\$ 229,571</u>	<u>\$ 624,415</u>

In February 2008, we acquired a two-thirds interest in a 78,298 square-foot office building located in Honolulu, Hawaii. The aggregate contract price was approximately \$18 million and the purchase was made through a consolidated joint venture with our local partner. The joint venture financed the acquisition with an \$18 million loan. See Note 8.

In March 2008, we acquired a 1.4 million square foot office portfolio consisting of six Class A buildings all located in our core Los Angeles submarkets – Santa Monica, Beverly Hills, Sherman Oaks/Encino and Warner Center/Woodland Hills – for a contract price of approximately \$610 million. Subsequently, we contributed to one of our Funds these six office properties and the related \$365 million term loan. See Note 15. In exchange, we received an interest in the common equity of that Fund, representing an ownership of approximately 49%. We recognized a gain of \$5.6 million on the disposition of the interest in that Fund we did not retain. Beginning in February 2009, we have accounted for our interest in that Fund under the equity method.

In December 2008, we acquired the five-sixths that we did not already own of the fee title to the land underlying one of our existing office properties in the Westwood submarket, for a fixed contract price of \$7.8 million.

We did not make any acquisitions during 2009.

In June 2010, we acquired Bishop Square, an office project containing approximately 960,000 square feet located in Honolulu, Hawaii for a contract price of \$232 million. Bishop Square is the largest office project in the state of Hawaii, and consists of two Class A office towers, an above-ground parking structure and a one-acre park.

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

**4. Acquired Lease Intangibles**

The following summarizes our acquired lease intangibles related to above/below-market leases as of December 31:

	<u>2010</u>	<u>2009</u>
Above-market tenant leases	\$ 34,968	\$ 32,770
Accumulated amortization	(28,489)	(24,033)
Below-market ground leases	3,198	3,198
Accumulated amortization	(321)	(244)
Acquired lease intangible assets, net	<u>\$ 9,356</u>	<u>\$ 11,691</u>
Below-market tenant leases	\$ 263,220	\$ 261,523
Accumulated accretion	(166,127)	(135,534)
Above-market ground leases	16,200	16,200
Accumulated accretion	(3,049)	(2,849)
Acquired lease intangible liabilities, net	<u>\$ 110,244</u>	<u>\$ 139,340</u>

Net accretion of above- and below-market in-place tenant lease value was recorded as an increase to rental income totaling \$26,137 for 2010, \$32,346 for 2009 and \$42,308 for 2008. The net accretion of above- and below-market ground lease value has been recorded as a decrease of office rental operating expense totaling \$123 for 2010, \$122 for 2009 and \$597 for 2008.

Following is the estimated net accretion at December 31, 2010 for the next five years:

<u>Year</u>	
2011	\$ 20,380
2012	17,667
2013	15,267
2014	12,587
2015	10,297
Thereafter	24,690
Total	<u>\$ 100,888</u>

**5. Other Assets**

Other assets consist of the following at December 31:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
Deferred loan costs, net of accumulated amortization of \$4,770 and \$4,989 at December 31, 2010 and December 31, 2009, respectively	\$ 12,561	\$ 4,817
Restricted cash	2,675	2,897
Prepaid expenses	3,710	3,662
Interest receivable	3,560	10,376
Other indefinite-lived intangible	1,988	1,988
Other	2,288	5,688
Total other assets	<u>\$ 26,782</u>	<u>\$ 29,428</u>

We incurred deferred loan cost amortization expense of \$2,424 for 2010, \$2,018 for 2009 and \$2,083 for 2008. Deferred loan cost amortization is included as a component of interest expense in the consolidated statements of operations.

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

**6. Future Minimum Lease Receipts**

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

We lease space to certain tenants under noncancelable leases that provide for percentage rents based upon tenant revenues. Percentage rental income totaled \$603 for 2010, \$654 for 2009 and \$871 for 2008.

Future minimum base rentals on our non-cancelable office and ground operating leases at December 31, 2010 were as follows:

Twelve months ending December 31:	
2011	\$ 361,848
2012	324,074
2013	271,123
2014	213,755
2015	168,196
Thereafter	420,609
Total future minimum base rentals	<u>\$ 1,759,605</u>

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

**7. Future Minimum Lease Payments**

As of December 31, 2010, we leased portions of the land underlying two of our office properties. We have an ordinary purchase option on one of these two leases, which we may exercise at any time prior to May 31, 2014 for a purchase price of \$27.5 million. We have the ability and intent to exercise this option, therefore the future minimum rent payments are excluded from the table below. Prior to the end of the fourth quarter of 2008, we had a third ground lease, for which we owned a one-sixth interest in the fee title to the land. In December 2008, we acquired the remaining five-sixths interest in the fee title to the land, and now own 100% of the fee interest and 100% of the leasehold interest. We expensed ground lease payments totaling \$2,175 for 2010, \$2,149 for 2009, and \$3,206 for 2008.

The following is a schedule of our minimum ground lease payments as of December 31, 2010:

Twelve months ending December 31:	
2011	\$ 733
2012	733
2013	733
2014	733
2015	733
Thereafter	52,042
Total future minimum lease payments	<u>\$ 55,707</u>

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

**8. Secured Notes Payable**

A summary of our secured notes payable is as follows:

<u>Description</u>	<u>Maturity Date</u> <sup>(1)</sup>	<u>December 31, 2010</u>	<u>December 31, 2009</u>	<u>Variable Rate</u>	<u>Effective Annual Interest Rate</u> <sup>(2)</sup>	<u>Swap Maturity Date</u> <sup>(1)</sup>
Wells Fargo Loan <sup>(3)</sup>	3/1/2011	\$ 18,000	\$ 18,000	LIBOR + 1.25%	--	--
Modified Term Loans <sup>(4)</sup>	8/31/2012	1,655,000	1,655,000	LIBOR + 0.85%	--	--
Modified Term Loans <sup>(5)</sup>	8/31/2012	322,500	322,500	LIBOR + 0.85%	4.98%	08/01/11
Modified Term Loans <sup>(5)</sup>	8/31/2012	322,500	322,500	LIBOR + 0.85%	5.02%	08/01/12
Fannie Mae Loans <sup>(6)</sup>	2/1/2015	36,920	36,920	DMBS + 0.60%	5.78%	08/01/11
Fannie Mae Loans <sup>(6)</sup>	2/1/2015	75,000	75,000	DMBS + 0.76%	4.86%	08/01/11
Term Loan <sup>(7)</sup>	4/1/2015	340,000	340,000	LIBOR + 1.50%	4.77%	01/02/13
Fannie Mae Loans <sup>(8)</sup>	2/1/2016	82,000	82,000	LIBOR + 0.62%	5.62%	03/01/12
Fannie Mae Loans <sup>(9)</sup>	6/1/2017	18,000	18,000	LIBOR + 0.62%	5.82%	06/01/12
Term Loan <sup>(10)</sup>	10/2/2017	400,000	-	LIBOR + 2.00%	4.45%	07/01/15
Fannie Mae Loans <sup>(11)</sup>	11/2/2020	388,080	-	LIBOR + 1.65%	3.65%	11/01/17
Fannie Mae Loans <sup>(12)</sup>	6/1/2012	-	293,000	DMBS + 0.60%	--	--
Fannie Mae Loans <sup>(12)</sup>	6/1/2012	-	95,080	DMBS + 0.60%	--	--
<b>Aggregate loan principal</b>		<b>3,658,000</b>	<b>3,258,000</b>			
Unamortized Loan Premium <sup>(13)</sup>		10,133	15,459			
<b>Total</b>		<b>\$ 3,668,133</b>	<b>\$ 3,273,459</b>			
Aggregate amount of effective fixed rate loans		\$ 1,985,000	\$ 3,240,000		4.65%	
Aggregate amount of variable rate loans		1,673,000	18,000		--	
<b>Aggregate loan principal</b>		<b>3,658,000</b>	<b>3,258,000</b>			
Unamortized Loan Premium <sup>(13)</sup>		10,133	15,459			
<b>Total</b>		<b>\$ 3,668,133</b>	<b>\$ 3,273,459</b>			

- (1) As of December 31, 2010, the weighted average remaining life of our total outstanding debt was 3.5 years, and the weighted average remaining life of our interest rate swaps was 1.8 years.
- (2) Includes the effect of interest rate swaps in place as of December 31, 2010. Based on actual/360 day basis and excludes amortization of loan fees. The total effective rate on an actual/365-day basis was 4.71% at December 31, 2010.
- (3) This loan was held by a consolidated entity in which our operating partnership held a two-thirds interest. Subsequent to December 31, 2010, we refinanced this debt at a reduced principal balance of \$16.14 million, a rate of LIBOR + 1.85% and a maturity date of March 3, 2014.
- (4) Seven separate loans; each loan is secured by a collateralized pool of properties. Requires monthly payments of interest only, with outstanding principal due upon maturity. At December 31, 2009, the interest payments were hedged by interest rate swaps that matured August 1, 2010 and December 1, 2010. As of December 31, 2010, the interest payments were based on a floating rate.
- (5) Seven separate loans; each loan is secured by a collateralized pool of properties. Requires monthly payments of interest only, with outstanding principal due upon maturity.
- (6) Secured by one property. Fannie Mae Discount Mortgage-Backed Security (DMBS) generally tracks 90-day LIBOR, although volatility may exist between the two rates, resulting in an immaterial amount of swap ineffectiveness.
- (7) Secured by four properties in a collateralized pool. Requires monthly payments of interest only, with outstanding principal due upon maturity.
- (8) Secured by one property. Requires monthly payments of interest only, with outstanding principal due upon maturity.
- (9) Secured by three properties in a collateralized pool. Requires monthly payments of interest only, with outstanding principal due upon maturity.
- (10) Secured by seven properties in a collateralized pool. Requires monthly payments of interest only, with outstanding principal due upon maturity. New borrowing during 2010.
- (11) Secured by four properties in a collateralized pool. Requires monthly payments of interest only, with outstanding principal due upon maturity. New borrowing during 2010.
- (12) Secured by four properties in a collateralized pool. Fannie Mae DMBS generally tracks 90-day LIBOR, although volatility may exist between the two rates, resulting in an immaterial amount of swap ineffectiveness. Borrowings repaid during 2010.
- (13) Represents non-cash mark-to-market adjustment on variable rate debt associated with office properties.

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

The minimum future principal payments due on our secured notes payable at December 31, 2010, excluding the non-cash loan premium amortization, were as follows:

Year ending December 31:

2011 (see footnote 3 to the table on the preceding page)	\$ 18,000
2012	2,300,000
2013	-
2014	-
2015	451,920
Thereafter	888,080
Total future principal payments	<u>\$ 3,658,000</u>

During 2010, we terminated a \$350 million secured revolving credit facility, which had a zero balance at December 31, 2009.

**9. Accounts Payable and Accrued Expenses**

Accounts payable and accrued expenses consist of the following as of December 31:

	<b>December 31, 2010</b>	<b>December 31, 2009</b>
Accounts payable	\$ 29,713	\$ 31,940
Accrued interest payable	12,789	26,263
Deferred revenue	15,291	14,690
Total accounts payable and accrued expenses	<u>\$ 57,793</u>	<u>\$ 72,893</u>

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**  
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**10. Interest Rate Contracts**

***Cash Flow Hedges of Interest Rate Risk***

We manage our interest rate risk associated with borrowings by obtaining interest rate swap and interest rate cap contracts. Our objective in using derivatives is to add stability to interest expense and to manage our exposure to interest rate movements or other identified risks. To accomplish this objective, we primarily use interest rate swaps as part of our cash flow hedging strategy to convert our floating-rate debt to a fixed-rate basis, thus reducing the impact of interest-rate changes on future interest expense and cash flows. These agreements involve the receipt of floating-rate amounts in exchange for fixed-rate interest payments over the life of the agreements without an exchange of the underlying principal amount. We may enter into derivative contracts that are intended to hedge certain economic risks, even though hedge accounting does not apply, or for which we elect to not apply hedge accounting. We do not use any other derivative instruments.

As of December 31, 2010, approximately 54% of our outstanding debt had interest payments designated as hedged transactions to receive-floating/pay-fixed interest rate swap agreements, which qualify as highly effective cash flow hedges. In June 2010, we entered into a new interest rate swap with a notional value of \$400 million, an effective date of September 1, 2010 and a maturity date of July 1, 2015, that effectively fixes at 4.45% per annum the floating rate of the \$400 million term borrowing we completed in the third quarter of 2010. In November 2010, we entered into several new interest rate swaps for a combined notional value of \$388.08 million, with an effective date of November 1, 2010 and a maturity date of November 1, 2017, that fixes one-month floating rate LIBOR at 3.65% per annum. Concurrently, we terminated the existing cash flow hedges associated with the notional of \$388.08 million by paying a swap termination fee of approximately \$12 million, which represented cash flow hedges with a fair value of approximately \$14 million partially offset by non-designated swaps with a net fair value of approximately \$2 million. On August 1, 2010, \$1.11 billion of our cash flow hedges matured. On December 1, 2010, an additional \$545 million of our cash flow hedges matured.

As of December 31, 2010, the totals of our existing swaps were as follows:

<u>Interest Rate Derivative</u>	<u>Number of Instruments</u>	<u>Notional</u>
Interest Rate Swaps	18	\$1,985,000

***Non-designated Swaps***

Derivatives not designated as hedges are not speculative. Prior to our IPO, we entered into \$2.21 billion notional of pay-fixed swaps at swap rates ranging between 4.04% and 5.00%, as well as \$600 million of purchased caps to manage our exposure to interest rate movements and other identified risks. At the time of our IPO, we entered into offsetting \$2.21 billion notional of receive-fixed swaps at swap rates ranging between 4.96% and 5.00%, as well as \$600 million of sold caps, which were intended to largely offset the future cash flows and future change in fair value of our pre-IPO pay-fixed swaps and purchased caps to reduce the effect on our reported earnings. On August 1, 2010, \$1.11 billion of the pay-fixed swaps and \$1.11 billion of the offsetting receive-fixed swaps matured. On November 1, 2010, we refinanced certain debt and terminated the existing swaps with a notional totaling \$293 million. Accordingly, as of December 31, 2010, we had the following outstanding interest rate derivatives that were not designated for accounting purposes as hedging instruments, but were used to hedge our economic exposure to interest rate risk:

<u>Interest Rate Derivative</u>	<u>Number of Instruments</u>	<u>Notional</u>
Pay-Fixed Swaps	9	\$802,000
Receive-Fixed Swaps	9	\$802,000
Purchased Caps	19	\$600,000
Sold Caps	15	\$600,000

Subsequent to December 31, 2010, an additional \$388.08 million of these interest rate caps and \$388.08 million of offsetting sold caps were also terminated.

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**  
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***Credit-risk-related Contingent Features***

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

As of December 31, 2010 and 2009, the fair value of derivatives, aggregated by counterparty, in a net liability position was \$59.7 million and \$144.0 million, respectively, which includes accrued interest but excludes any adjustment for nonperformance risk related to these agreements.

***Accounting for Interest Rate Contracts***

Hedge accounting generally provides for the timing of gain or loss recognition on the hedging instrument to match the earnings effect of the hedged forecasted transactions in a cash flow hedge. All other changes in fair value, with the exception of hedge ineffectiveness, are recorded in accumulated other comprehensive income (loss), which is a component of equity outside of earnings. Amounts reported in accumulated other comprehensive income (loss) related to derivatives designated as accounting hedges will be reclassified to interest expense as interest payments are made on our hedged variable-rate debt. The ineffective portion of changes in the fair value of the derivative is recognized directly in earnings as interest expense. We assess the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction. For derivatives not designated as hedges, changes in fair value are recognized directly in earnings as interest expense.

The change in net unrealized gains and losses on cash flow hedges reflects a reclassification from accumulated other comprehensive income (loss) to interest expense, which increased interest expense by \$128.5 million for 2010, \$144.7 million for 2009 and \$62.2 million for 2008. For these derivatives, we estimate an additional \$67.0 million will be reclassified within 12 months after December 31, 2010 from accumulated other comprehensive income (loss) to interest expense as an increase to interest expense. The cash flow swaps that we terminated in November 2010 had an accumulated other comprehensive income balance of \$13.9 million at the time they were terminated. \$3.5 million of amortization relating to this balance was included in the \$128.5 million of interest expense in 2010, and the remaining \$10.4 million will be reclassified from accumulated other comprehensive loss to interest expense as part of the \$67.0 million estimate for 12 months after December 31, 2010.

We recorded a gain of \$221 for 2010, a loss of \$518 for 2009 and a gain of \$346 for 2008 relating to the ineffectiveness attributable to mismatches between certain interest rate contracts and the corresponding items against which they were designated to hedge.

For derivatives not designated as hedges, the changes in fair value of these interest rate swaps have been recognized in earnings for all periods. The aggregate net asset fair value of these swaps decreased \$14.3 million for 2010, \$19.5 million for 2009 and \$14.2 million for 2008. The decrease in net asset fair value was recorded as additional interest expense. Included in the net \$14.2 million decrease is a \$1.2 million increase related to the credit value adjustment resulting from our initial application of a new accounting pronouncement related to fair value measurements in the first quarter of 2008.

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**  
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The following table represents the effect of derivative instruments on our consolidated statements of operations:

	<b>For the Year Ended December 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Derivatives in Designated Cash Flow Hedging Relationships:</b>		
Amount of gain (loss) recognized in OCI on derivatives (effective portion)	\$ (40,545)	\$ (44,365)
Amount of gain (loss) reclassified from accumulated OCI into earnings under "interest expense" (effective portion)	\$ (128,530)	\$ (144,693)
Amount of gain (loss) on derivatives recognized in earnings under "interest expense" (ineffective portion and amount excluded from effectiveness testing)	\$ 221	\$ (518)
<b>Derivatives Not Designated as Cash Flow Hedges:</b>		
Amount of realized and unrealized gain (loss) on derivatives recognized in earnings under "interest expense"	\$ 47	\$ (401)



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

We record all derivatives on the balance sheet at fair value, using the framework for measuring fair value established by the FASB. The FASB has established a framework for measuring fair value which uses a market-based measurement, not an entity-specific measurement. The framework includes a hierarchy that distinguishes between assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity's own assumptions about market-based inputs. Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs that are observable either directly or indirectly for similar assets and liabilities in active markets. Level 3 inputs are unobservable assumptions generated by the reporting entity.

The fair value of our interest rate swaps and caps is obtained through independent third-party valuation sources that use conventional valuation algorithms. The valuation of these instruments is determined using widely accepted valuation techniques, including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The valuation incorporates credit adjustments to reflect both our own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements. In adjusting the fair value of our derivative contracts for the effect of nonperformance risk, we considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees.

The following table represents the fair values of derivative instruments as of:

	<u>December 31, 2010</u>	<u>December 31, 2009</u>
<b>Derivative assets, disclosed as "Interest Rate Contracts":</b>		
Derivatives designated as accounting hedges	\$ 14,204	\$ -
Derivatives not designated as accounting hedges	38,324	108,027
<b>Total derivative assets</b>	<u>\$ 52,528</u>	<u>\$ 108,027</u>
<b>Derivative liabilities, disclosed as "Interest Rate Contracts":</b>		
Derivatives designated as accounting hedges	\$ 67,990	\$ 152,498
Derivatives not designated as accounting hedges	31,697	84,696
<b>Total derivative liabilities</b>	<u>\$ 99,687</u>	<u>\$ 237,194</u>

The table below presents the derivative assets and liabilities, presented in our financial statements on a gross basis without reflecting any net settlement positions with the same counterparty. The derivatives shown below were measured at fair value as of December 31, 2010 and aggregated by the level in the fair value hierarchy within which those measurements fell:

	<u>Quoted Prices in Active Markets for Identical Assets and Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>	<u>Balance at December 31, 2010</u>
<b>Assets</b>				
Interest Rate Contracts	\$ -	\$ 52,528	\$ -	\$ 52,528
<b>Liabilities</b>				
Interest Rate Contracts	\$ -	\$ 99,687	\$ -	\$ 99,687

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

**11. Equity**

We had 124,131,557 shares of common stock and 31,987,867 operating partnership units and fully-vested LTIP units outstanding as of December 31, 2010. Noncontrolling interests in our operating partnership relate to interests in our operating partnership that are not owned by us. Noncontrolling interests represented approximately 20% of our operating partnership as of December 31, 2010. A unit in our operating partnership and a share of our common stock have essentially the same economic characteristics as they share equally in the total net income or loss distributions of our operating partnership. Investors who own units in our operating partnership have the right to cause our operating partnership to redeem any or all of their units in our operating partnership for cash equal to the then-current market value of one share of common stock, or, at our election, shares of our common stock on a one-for-one basis.

Noncontrolling interests also includes the interest of a minority partner in a joint venture formed to purchase an office building in Honolulu, Hawaii. The joint venture is two-thirds owned by our operating partnership and was consolidated in our financial statements as of December 31, 2010.

Prior to January 1, 2009 (the effective date for a new accounting pronouncement on consolidation), we calculated the book value of net assets allocable to noncontrolling interests (formerly referred to as minority interests), and adjusted the balance to reflect the calculated amount with a reclass to or from the retained earnings (accumulated deficit) balance. Subsequent to the adoption of the new accounting guidance, any adjustment to the book value of net assets allocable between noncontrolling interests and common stockholders is recorded with an adjustment to additional paid-in-capital.

During 2010, approximately 2,535,000 operating partnership units were exchanged for shares of common stock. We did not make any repurchases of share equivalents during 2010. During 2009, we repurchased 819,500 share equivalents in open market transactions and 250,000 share equivalents in a private transaction for a total combined consideration of approximately \$8.2 million. During 2008, we repurchased approximately 1.1 million share equivalents in private transactions for a total consideration of approximately \$23.8 million. We may make additional purchases of our share equivalents from time to time in private transactions or in the public markets, but have no commitments to do so.

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

	<b>For the Year Ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Net loss attributable to common stockholders	\$ (26,423)	\$ (27,064)	\$ (27,993)
Transfers from the noncontrolling interests:			
Increase in common stockholders paid-in capital for repurchase of operating partnership units	-	723	-
Increase in common stockholders paid-in capital for exchange of operating partnership units	37,119	7,665	261,572
Net transfers from noncontrolling interests	<u>37,119</u>	<u>8,388</u>	<u>261,572</u>
Change from net income attributable to common stockholders and transfers from noncontrolling interests	<u>\$ 10,696</u>	<u>\$ (18,676)</u>	<u>\$ 233,579</u>

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**  
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During each of 2010 and 2009, we declared four quarterly dividends of \$0.10 per share, which equaled an annual rate of \$0.40 per share in both periods.

Earnings and profits, which determine the taxability of distributions to stockholders, may differ from income reported for financial reporting purposes due to the differences for federal income tax purposes in the treatment of loss on extinguishment of debt, revenue recognition, compensation expense and in the basis of depreciable assets and estimated useful lives used to compute depreciation. Our common stock dividends are classified for United States federal income tax purposes as follows (unaudited):

<b>Record Date</b>	<b>Paid Date</b>	<b>Dividend Per Share</b>	<b>Dividend Allocable to 2010</b>	<b>2010 Dividend Ordinary Income %</b>	<b>2010 Dividend Capital Gain %</b>	<b>2010 Return of Capital %</b>
12/31/09	1/15/10	\$ 0.1000	\$ 0.1000	0.0%	0.0%	100.0%
3/31/10	4/15/10	\$ 0.1000	\$ 0.1000	0.0%	0.0%	100.0%
6/30/10	7/15/10	\$ 0.1000	\$ 0.1000	0.0%	0.0%	100.0%
9/30/10	10/15/10	\$ 0.1000	\$ 0.1000	0.0%	0.0%	100.0%
12/31/10	1/14/11	\$ 0.1000	\$ -	0.0%	0.0%	0.0%
<b>Total:</b>			<b>\$ 0.4000</b>	<b>0.0%</b>	<b>0.0%</b>	<b>100.0%</b>

The common stock dividend of \$0.10 paid on January 14, 2011 was allocated to 2011.

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

**12. Earnings (Loss) Per Share**

The following is a summary of the elements used in calculating basic and diluted earning (loss) per share:

	<b>Year ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Net loss attributable to common shares (in thousands)	\$ (26,423)	\$ (27,064)	\$ (27,993)
Weighted average common shares outstanding - basic	122,714,520	121,552,731	120,725,928
Potentially dilutive common shares: stock options <sup>(1)</sup>	-	-	-
Adjusted weighted average common shares outstanding - diluted	122,714,520	121,552,731	120,725,928
Net loss per share - basic and diluted	\$ (0.22)	\$ (0.22)	\$ (0.23)

(1) For all years presented, the potentially dilutive shares were not included in the earnings (loss) per share calculation as their effect was anti-dilutive.

**13. Stock-Based Compensation**

***2006 Omnibus Stock Incentive Plan***

The Douglas Emmett, Inc. 2006 Omnibus Stock Incentive Plan, our stock incentive plan, permits us to make grants of incentive stock options, non-qualified stock options, stock appreciation rights, deferred stock awards, restricted stock awards, dividend equivalent rights and other stock-based awards. We had an aggregate of 27.6 million shares available for grants as of April 2009, although “full value” awards (such as Deferred Stock Awards, Restricted Stock Awards and LTIP Unit awards) are counted against our stock incentive plan overall limits as two shares (rather than one), while options and Stock Appreciation Rights are counted as one share (0.9 shares for options or Stock Appreciation Rights with terms of five years or less). The number of shares reserved under our stock incentive plan is also subject to adjustment in the event of a stock split, stock dividend or other change in our capitalization. Generally, shares that are forfeited or canceled from awards under our stock incentive plan also will be available for future awards.

Our stock incentive plan is administered by the compensation committee of our board of directors. The compensation committee may interpret our stock incentive plan and may make all determinations necessary or desirable for the administration of our plan. They have full power and authority to select the participants to whom awards will be granted, to make any combination of awards to participants, to accelerate the exercisability or vesting of any award and to determine the specific terms and conditions of each award, subject to the provisions of our stock incentive plan. All full-time and part-time officers, employees, directors and other key persons (including consultants and prospective employees) are eligible to participate in our stock incentive plan.

Other stock-based awards under our stock incentive plan include awards that are valued in whole or in part by reference to shares of our common stock, including convertible preferred stock, convertible debentures and other convertible or exchangeable securities, partnership interests in a subsidiary or our operating partnership, awards valued by reference to book value, fair value or performance of a subsidiary and any class of profits interest or limited liability company membership interest. We have made certain awards in the form of a separate series of units of limited partnership interests in our operating partnership called long-term incentive plan (LTIP) units. LTIP units, which can be granted either as free-standing awards or in tandem with other awards under our stock incentive plan, were valued by reference to the value of our common stock at the time of grant, and are subject to such conditions and restrictions as the compensation committee may determine, including continued employment or service, computation of financial metrics and/or achievement of pre-established performance goals and objectives.

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**  
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During 2010, 2009 and 2008, we granted LTIP units and options to purchase shares of our common stock to key employees. Our grants of LTIP units totaled approximately 1,119,000 in 2010, 302,000 in 2009 and 234,000 in 2008, and our grants of options totaled approximately 1,247,000 in 2010, 3,236,000 in 2009 and 2,483,000 in 2008. A portion of each award was fully vested upon grant and the remainder vests in three equal tranches on the first, second and third December 31 following the grant. During each year, we accrue for certain immediately vested equity grants which we expect to grant shortly after the end of that year as part of the annual bonuses. Compensation expense for other LTIP units which were not immediately vested was recognized using the accelerated recognition method. Compensation expense for other options which were not immediately vested was recognized on a straight-line basis over the requisite service period which was equal to the vesting period. Certain amounts of equity compensation expense are capitalized for employees who provide leasing and construction services.

In 2010, each of our non-employee directors received a grant of 9,967 LTIP units that vest ratably over a three-year period as part of a periodic multiyear grant. We also granted LTIP units totaling approximately 20,000 in 2010, 30,000 in 2009 and 21,000 in 2008 in lieu of cash compensation for the non-employee directors' services that vest ratably over the year of grant.

Total net equity compensation expense during 2010, 2009 and 2008 for equity grants was \$10.1 million, \$5.1 million and \$4.4 million, respectively. These amounts do not include (i) capitalized equity compensation totaling \$0.7 million, \$0.4 million and \$0.4 million during 2010, 2009 and 2008, respectively and (ii) immediately vested equity grants issued during 2010, 2009 and 2008, totaling \$3.6 million, \$1.4 million and \$2.2 million, respectively, to satisfy a portion of the annual bonuses that were accrued during the prior year.

We calculated the fair value of the stock options granted in 2010 and 2009 using the Black-Scholes option-pricing model using the following assumptions:

	2010	2009
Dividend yield	5.7%	7.7%
Expected volatility	38.0%	24.5%
Expected life	60 months	60 months
Risk-free interest rate	2.5%	1.5%
Fair value of option on grant date	\$3.17	\$0.92

We calculated the fair value of the LTIP units granted using the market value of our common stock on the date of grant and a discount for post-vesting restrictions estimated by a third-party consultant. The total grant date fair value of LTIP units vested in 2010, 2009 and 2008 was \$10,272, \$4,110 and \$3,658, respectively. Total unrecognized compensation cost related to nonvested option and LTIP awards was \$8,286 at December 31, 2010. This expense will be recognized over a weighted-average term of 16 months.

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**  
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The following is a summary of certain information with respect to outstanding stock options and LTIP units granted under our stock incentive plan:

<b>Stock Options:</b>	<b>Number of Stock Options (thousands)</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contract Life (months)</b>	<b>Total Intrinsic Value</b>
Outstanding at December 31, 2007	5,698	\$ 21.00	106	\$ 9,173
Granted	2,483	21.87		
Exercised	(31)	21.56		
Forfeited	(93)	21.56		
Outstanding at December 31, 2008	<u>8,057</u>	21.26	<u>98</u>	<u>\$ -</u>
Granted	3,236	11.42		
Outstanding at December 31, 2009	<u>11,293</u>	18.44	<u>93</u>	<u>\$ 9,159</u>
Granted	1,247	15.05		
Outstanding at December 31, 2010	<u>12,540</u>	18.10	<u>84</u>	<u>\$ 18,698</u>
Exercisable at December 31, 2010	<u>11,305</u>	18.70	<u>82</u>	<u>\$ 8,713</u>
<b>Unvested LTIP Units:</b>	<b>Number of Units (thousands)</b>	<b>Weighted Average Grant Date Fair Value</b>		
Outstanding at December 31, 2007	149	\$ 21.00		
Granted	254	20.36		
Vested	(186)	19.60		
Forfeited	(17)	21.02		
Outstanding at December 31, 2008	<u>200</u>	21.49		
Granted	331	10.64		
Vested	(288)	14.27		
Outstanding at December 31, 2009	<u>243</u>	15.26		
Granted	1,189	11.83		
Vested	(805)	12.75		
Outstanding at December 31, 2010	<u>627</u>	11.99		

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

Our estimates of the fair value of financial instruments at December 31, 2010 and 2009 were determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts.

The carrying amounts for cash and cash equivalents, restricted cash, rents and other receivables, due from affiliates, accounts payable and other liabilities approximate fair value because of the short-term nature of these instruments. We calculate the fair value of our secured notes payable based on a currently available market rate, assuming the loans are outstanding through maturity and considering the collateral. At December 31, 2010, the aggregate fair value of our secured notes payable was estimated to be approximately \$3.58 billion, based on a credit-adjusted present value of the principal and interest payments that are at floating rates, in comparison to the carrying value of \$3.66 billion at December 31, 2010. As of December 31, 2009, the estimated fair value of our secured loans was approximately \$3.19 billion, in comparison to the carrying value of \$3.26 billion at December 31, 2009.

Currently, we use interest rate swaps and caps to manage interest rate risk resulting from variable interest payments on our floating rate debt. These financial instruments are carried on our balance sheet at fair value based on the assumptions that market participants would use in pricing the asset or liability. See Note 10.

**Douglas Emmett, Inc.**  
**Notes to Consolidated Financial Statements (continued)**  
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**15. Commitments and Contingencies**

From time to time, we are party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of our business. Excluding ordinary, routine litigation incidental to our business, we are not currently a party to any legal proceedings that we believe would reasonably be expected to have a material adverse effect on our business, financial condition or results of operations.

***Concentration of Credit Risk***

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

***Asset Retirement Obligations***

Conditional asset retirement obligation represents a legal obligation to perform an asset retirement activity in which the timing and/or method of settlement is conditional on a future event that may or may not be within our control. A liability for a conditional asset retirement obligation must be recorded if the fair value of the obligation can be reasonably estimated. Environmental site assessments and investigations have identified 20 properties in our consolidated portfolio containing asbestos, which would have to be removed in compliance with applicable environmental regulations if these properties undergo major renovations or are demolished. As of December 31, 2010, the obligations to remove the asbestos from these properties have indeterminable settlement dates, and therefore, we are unable to reasonably estimate the fair value of the associated conditional asset retirement obligation.

***Investment in Unconsolidated Real Estate Fund***

At December 31, 2010, we had commitments for future capital contributions related to our investments in our Funds totaling \$47.2 million.

***Guarantees***

In 2008, we acquired six properties, and subsequently contributed these six properties, a related \$365 million term loan and the benefits and burdens of related interest rate swap agreements to a Fund. See Note 3 for further information. If that Fund fails to perform any obligations under the swap agreement, we remain liable to the swap counterparties. The maximum future payments under the swap agreement were approximately \$24.0 million as of December 31, 2010. As of December 31, 2010, all obligations under the swap agreement have been performed by that Fund in accordance with the terms of the agreement.

***Tenant Concentrations***

For 2010, 2009 and 2008, no tenant exceeded 10% of our total rental revenue and tenant reimbursements.



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

**16. Segment Reporting**

Segment information is prepared on the same basis that our management reviews information for operational decision-making purposes. We operate in two business segments: (i) the acquisition, redevelopment, ownership and management of office real estate and (ii) the acquisition, redevelopment, ownership and management of multifamily real estate. The products for our office segment primarily include rental of office space and other tenant services, including parking and storage space rental. The products for our multifamily segment include rental of apartments and other tenant services, including parking and storage space rental.

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

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

The following table represents operating activity within our reportable segments:

	<b>Year Ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
<b><u>Office Segment</u></b>			
Rental revenue	\$ 502,700	\$ 502,767	\$ 537,377
Rental expense	(159,155)	(154,270)	(166,124)
Segment profit	<u>343,545</u>	<u>348,497</u>	<u>371,253</u>
<b><u>Multifamily Segment</u></b>			
Rental revenue	68,144	68,293	70,717
Rental expense	(18,327)	(17,925)	(17,079)
Segment profit	<u>49,817</u>	<u>50,368</u>	<u>53,638</u>
Total segments' profit	<u>\$ 393,362</u>	<u>\$ 398,865</u>	<u>\$ 424,891</u>

The following table is a reconciliation of segment profit to net loss attributable to common stockholders:

	<b>Year Ended December 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>2008</b>
Total segments' profit	\$ 393,362	\$ 398,865	\$ 424,891
General and administrative expenses	(28,305)	(23,887)	(22,646)
Depreciation and amortization	(225,030)	(226,620)	(248,011)
Gain on disposition of interest in unconsolidated real estate fund	-	5,573	-
Other income (loss)	1,191	(12)	3,580
Loss, including depreciation, from unconsolidated real estate fund	(6,971)	(3,279)	-
Interest expense	(166,907)	(184,797)	(193,727)
Acquisition-related expenses	(296)	-	-
Net loss	<u>(32,956)</u>	<u>(34,157)</u>	<u>(35,913)</u>
Less: Net loss attributable to noncontrolling interests	6,533	7,093	7,920
Net loss attributable to common stockholders	<u>\$ (26,423)</u>	<u>\$ (27,064)</u>	<u>\$ (27,993)</u>

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

**17. Quarterly Financial Information (unaudited)**

The tables below reflect selected quarterly information for 2010 and 2009:

	<b>Three Months Ended</b>			
	<b>December 31, 2010</b>	<b>September 30, 2010</b>	<b>June 30, 2010</b>	<b>March 31, 2010</b>
Total revenue	\$ 145,778	\$ 148,070	\$ 139,209	\$ 137,787
Net loss before noncontrolling interests	(6,439)	(4,743)	(11,305)	(10,469)
Net loss attributable to common stockholders	(5,249)	(3,896)	(8,991)	(8,287)
Net loss per common share - basic and diluted	<u>\$ (0.04)</u>	<u>\$ (0.03)</u>	<u>\$ (0.07)</u>	<u>\$ (0.07)</u>
Weighted average shares of common stock outstanding - basic and diluted	<u>123,778,478</u>	<u>123,076,660</u>	<u>122,331,803</u>	<u>121,643,700</u>

	<b>Three Months Ended</b>			
	<b>December 31, 2009</b>	<b>September 30, 2009</b>	<b>June 30, 2009</b>	<b>March 31, 2009</b>
Total revenue	\$ 139,421	\$ 140,427	\$ 139,795	\$ 151,417
Net loss before noncontrolling interests	(11,277)	(11,112)	(9,518)	(2,250)
Net loss attributable to common stockholders	(8,909)	(8,806)	(7,482)	(1,867)
Net loss per common share - basic and diluted	<u>\$ (0.07)</u>	<u>\$ (0.07)</u>	<u>\$ (0.06)</u>	<u>\$ (0.02)</u>
Weighted average shares of common stock outstanding - basic and diluted	<u>121,568,046</u>	<u>121,485,711</u>	<u>121,319,121</u>	<u>121,841,789</u>

**18. Subsequent Events**

In January 2011, we modified and extended the maturity of our \$18 million loan which was scheduled to mature on March 1, 2011. The modified loan has an outstanding balance of \$16.14 million, and bears interest at a floating rate equal to one-month LIBOR plus 185 basis points. The loan matures on March 3, 2014.

In February 2011, we obtained a secured, non-recourse \$350 million term loan. This loan has a maturity date of March 1, 2020, including two one-year extension options. The loan bears interest at a fixed interest rate of 4.46% until March 1, 2018 and a floating interest rate thereafter. Monthly loan payments are interest-only for the first three years with principal amortization thereafter based upon a 30-year amortization schedule. The loan proceeds were used to fully repay a \$319.6 million term loan, which is one of the seven term loans aggregating \$2.30 billion that mature on August 31, 2012. The balance of the loan proceeds will be retained for other corporate opportunities.

**Douglas Emmett, Inc.**  
**Schedule III**  
**Consolidated Real Estate and Accumulated Depreciation**  
(dollars in thousands)

Property Name	Encumbrances at December 31, 2010	Initial Cost		Improvements Capitalized Subsequent to Acquisition	Gross Carrying Amount at December 31, 2010			Accumulated Depreciation at December 31, 2010	Year Built / Renovated	Year Acquired
		Land	Building & Improvements		Land	Building & Improvements	Total			
<i>Office Properties</i>										
Village on Canon	\$ 33,583	\$ 5,933	\$ 11,389	\$ 48,575	\$ 13,303	\$ 52,594	\$ 65,897	\$ 8,121	1989/1995	1994
Gateway Los Angeles	34,434	2,376	15,302	46,724	5,119	59,283	64,402	9,524	1987	1994
Bundy/Olympic	24,979	4,201	11,860	29,155	6,030	39,186	45,216	7,108	1991/1998	1994
Brentwood Executive Plaza	25,235	3,255	9,654	33,678	5,921	40,666	46,587	7,580	1983/1996	1995
Studio Plaza	124,895	9,347	73,358	128,949	15,015	196,639	211,654	31,896	1988/2004	1995
Executive Tower	77,100	6,660	32,045	60,682	9,471	89,916	99,387	17,687	1989	1995
Camden Medical Arts	28,606	3,102	12,221	27,841	5,298	37,866	43,164	5,891	1972/1992	1995
Palisades Promenade	36,970	5,253	15,547	50,564	9,664	61,700	71,364	9,047	1990	1995
12400 Wilshire	61,702	5,013	34,283	73,902	8,828	104,370	113,198	16,486	1985	1996
401 Wilshire	79,741	9,989	29,187	114,113	21,787	131,502	153,289	19,565	1981/2000	1996
Landmark II	115,372	19,156	109,259	74,757	26,139	177,033	203,172	28,532	1989	1997
Verona	-	2,574	7,111	13,965	5,111	18,539	23,650	3,429	1991	1997
Second Street Plaza	26,720	4,377	15,277	35,077	7,421	47,310	54,731	8,726	1991	1997
Saltair/San Vicente	15,472	5,075	6,946	16,564	7,557	21,028	28,585	3,808	1964/1992	1997
Tower at Sherman Oaks	-	4,712	15,747	36,155	8,685	47,929	56,614	8,997	1967/1991	1997
Sherman Oaks Galleria	244,080	33,213	17,820	406,282	48,328	408,987	457,315	69,695	1981/2002	1997
Olympic Center	27,926	5,473	22,850	31,113	8,247	51,189	59,436	8,870	1985/1996	1997
Westside Towers	74,383	8,506	79,532	74,980	14,568	148,450	163,018	24,887	1985	1998
Valley Executive Tower	91,892	8,446	67,672	98,212	11,737	162,593	174,330	26,001	1984	1998
Valley Office Plaza	40,642	5,731	24,329	46,111	8,957	67,214	76,171	11,410	1966/2002	1998
MB Plaza	31,185	4,533	22,024	30,348	7,503	49,402	56,905	9,273	1971/1996	1998
Coral Plaza	20,066	4,028	15,019	18,570	5,366	32,251	37,617	5,540	1981	1998
11777 San Vicente	25,815	5,032	15,768	28,345	6,714	42,431	49,145	6,684	1974/1998	1999
Encino Terrace	76,683	12,535	59,554	92,081	15,533	148,637	164,170	25,624	1986	1999
Century Park Plaza	93,107	10,275	70,761	103,718	16,153	168,601	184,754	27,498	1972/1987	1999
One Westwood	45,577	10,350	29,784	58,989	9,194	89,929	99,123	14,033	1987/2004	1999
100 Wilshire	136,713	12,769	78,447	138,205	27,108	202,313	229,421	31,185	1968/2002	1999
Westwood Place	54,190	8,542	44,419	51,298	11,448	92,811	104,259	15,068	1987	1999
Lincoln/Wilshire	21,727	3,833	12,484	21,990	7,475	30,832	38,307	4,296	1996	2000
Encino Gateway	54,889	8,475	48,525	52,013	15,653	93,360	109,013	16,325	1974/1998	2000
Encino Plaza	33,621	5,293	23,125	45,615	6,165	67,868	74,033	11,636	1971/1992	2000
Brentwood/Saltair	-	4,468	11,615	10,993	4,775	22,301	27,076	4,326	1986	2000
Santa Monica Square	25,487	5,366	18,025	19,602	6,863	36,130	42,993	5,716	1983/2004	2001
Columbus Center	11,404	2,096	10,396	9,095	2,333	19,254	21,587	3,627	1987	2001
1901 Avenue of the Stars	148,766	18,514	131,752	107,921	26,163	232,024	258,187	35,761	1968/2001	2001
9601 Wilshire	112,144	16,597	54,774	101,789	17,658	155,502	173,160	24,669	1962/2004	2001
Warner Center Towers	374,330	43,110	292,147	386,471	59,418	662,310	721,728	110,927	1982-1993/2004	2002
Beverly Hills Medical Center	28,361	4,955	27,766	27,458	6,435	53,744	60,179	8,538	1964/2004	2004
Harbor Court	23,475	51	41,001	21,914	-	62,966	62,966	12,953	1994	2004
Bishop Place	86,922	8,317	105,651	57,171	8,833	162,306	171,139	27,856	1992	2004
The Trillium	184,500	20,688	143,263	81,644	21,989	223,606	245,595	38,582	1988	2005
Brentwood Court	6,686	2,564	8,872	503	2,563	9,376	11,939	1,728	1984	2006
Brentwood Medical Plaza	23,957	5,934	27,836	1,557	5,933	29,394	35,327	5,508	1975	2006
Brentwood San Vicente Medical	13,690	5,557	16,457	656	5,557	17,113	22,670	2,806	1957/1985	2006
San Vicente Plaza	10,722	7,055	12,035	295	7,055	12,330	19,385	2,521	1985	2006
Century Park West	22,600	3,717	29,099	444	3,667	29,593	33,260	3,655	1971	2007
Cornerstone Plaza	55,800	8,245	80,633	4,541	8,263	85,156	93,419	9,995	1986	2007
Honolulu Club	18,000	1,863	16,766	3,558	1,863	20,324	22,187	2,071	1980	2008
Bishop Square	139,131	16,273	213,793	1,287	16,273	215,080	231,353	4,665	1972/1983	2010
<i>Multifamily Properties</i>										
Barrington Plaza	153,630	28,568	81,485	143,947	58,208	195,792	254,000	29,282	1963/1998	1998
555 Barrington	43,440	6,461	27,639	40,243	14,903	59,440	74,343	8,761	1989	1999
Pacific Plaza	46,400	10,091	16,159	73,212	27,816	71,646	99,462	9,753	1963/1998	1999
The Shores	144,610	20,809	74,191	196,802	60,555	231,247	291,802	30,896	1965-67/2002	1999
Moanalua Hillside	111,920	24,720	85,895	37,938	35,294	113,259	148,553	15,835	1968/2004	2005
Villas at Royal Kunia	82,000	42,887	71,376	14,734	35,165	93,832	128,997	15,530	1990/1995	2006
Barrington/Kiowa	7,750	5,720	10,052	566	5,720	10,618	16,338	1,538	1974	2006
Barry	7,150	6,426	8,179	486	6,426	8,665	15,091	1,426	1973	2006
Kiowa	3,100	2,605	3,263	304	2,605	3,567	6,172	576	1972	2006
<i>Ground Lease</i>										
Owensmouth/Warner	14,720	23,848	-	-	23,848	-	23,848	-	N/A	2006
<b>TOTAL</b>	<b>\$ 3,658,000</b>	<b>\$ 585,562</b>	<b>\$ 2,651,419</b>	<b>\$ 3,433,702</b>	<b>\$ 851,679</b>	<b>\$ 5,819,004</b>	<b>\$ 6,670,683</b>	<b>\$ 913,923</b>		

**Douglas Emmett, Inc.**  
**Schedule III (continued)**  
**Consolidated Real Estate and Accumulated Depreciation**  
**(dollars in thousands)**

	Year ended December 31,		
	2010	2009	2008
<b>Real Estate Assets</b>			
Balance, beginning of period	\$ 6,387,060	\$ 6,981,316	\$ 6,264,170
Additions - property acquisitions	230,066	-	653,842
- improvements	53,557	44,952	63,304
Deductions - deconsolidation	-	(639,208)	-
Balance, end of period	<u>\$ 6,670,683</u>	<u>\$ 6,387,060</u>	<u>\$ 6,981,316</u>
<b>Accumulated Depreciation</b>			
Balance, beginning of period	\$ (688,893)	\$ (490,125)	\$ (242,114)
Additions - depreciation	(225,030)	(226,620)	(248,011)
Deductions - deconsolidation	-	27,852	-
Balance, end of period	<u>\$ (913,923)</u>	<u>\$ (688,893)</u>	<u>\$ (490,125)</u>

## Report of Independent Registered Public Accounting Firm

The Members of  
Douglas Emmett Fund X, LLC

We have audited the accompanying consolidated balance sheet of Douglas Emmett Fund X, LLC (the "Fund") as of December 31, 2010, and the related consolidated statements of operations, equity, and cash flows for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Fund's internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Fund's internal control over financial reporting. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Douglas Emmett Fund X, LLC at December 31, 2010, and the consolidated results of its operations and its cash flows for the year ended December 31, 2010, in conformity with U.S. generally accepted accounting principles.

/s/ Ernst & Young LLP

Los Angeles, California  
February 25, 2011

**Douglas Emmett Fund X, LLC**  
**Consolidated Balance Sheets**  
(in thousands)

	December 31, 2010	(Unaudited) December 31, 2009
<b>Assets</b>		
Investment in real estate:		
Land	\$ 64,847	\$ 64,847
Buildings and improvements	529,301	528,849
Tenant improvements and lease intangibles	64,164	57,333
Investment in real estate, gross	658,312	651,029
Less: accumulated depreciation	(62,169)	(34,850)
Investment in real estate, net	596,143	616,179
Cash and cash equivalents	7,028	1,886
Tenant receivables, net	132	253
Deferred rent receivables, net	3,812	2,405
Acquired lease intangible assets, net of accumulated amortization of \$866 and \$559 as of 2010 and 2009, respectively	590	897
Investment in unconsolidated real estate fund	5,513	-
Other assets	301	326
<b>Total assets</b>	<b>\$ 613,519</b>	<b>\$ 621,946</b>
 <b>Liabilities</b>		
Secured note payable	\$ 365,000	\$ 365,000
Accounts payable and accrued expenses	2,862	6,527
Interest payable	1,736	1,736
Security deposits	3,220	3,315
Acquired lease intangible liabilities, net of accumulated amortization of \$19,344 and \$15,076 as of 2010 and 2009, respectively	7,569	11,837
Interest rate contracts	19,948	20,307
Total liabilities	400,335	408,722
 <b>Equity</b>		
Sub-REIT investors	121	121
Members' equity, including \$19,948 and \$20,307 accumulated other comprehensive loss as of 2010 and 2009, respectively	213,063	213,103
Total equity	213,184	213,224
<b>Total liabilities and equity</b>	<b>\$ 613,519</b>	<b>\$ 621,946</b>

*See notes to consolidated financial statements.*

**Douglas Emmett Fund X, LLC**  
**Consolidated Statements of Operations**  
(in thousands)

	Year Ended December 31, 2010	(Unaudited) Year Ended December 31, 2009	(Unaudited) For the Period from October 7, 2008 (Inception) through December 31, 2008
<b>Revenues</b>			
Rental revenues	\$ 38,485	\$ 43,765	\$ 8,416
Tenant recoveries	1,731	3,405	741
Parking and other income	5,943	6,643	1,314
Total revenues	<u>46,159</u>	<u>53,813</u>	<u>10,471</u>
<b>Operating Expenses</b>			
Office expense	19,593	20,316	4,028
General and administrative	209	248	199
Depreciation and amortization	27,319	29,285	5,566
Total operating expenses	<u>47,121</u>	<u>49,849</u>	<u>9,793</u>
Operating (loss) income	(962)	3,964	678
Other income (loss)	334	(343)	(969)
Loss, including depreciation, from unconsolidated real estate fund	(199)	-	-
Interest expense	(20,445)	(20,526)	(3,712)
Net loss	<u>(21,272)</u>	<u>(16,905)</u>	<u>(4,003)</u>
Less: net income attributable to Sub-REIT investors	(15)	(15)	-
Net loss attributable to Members	<u>\$ (21,287)</u>	<u>\$ (16,920)</u>	<u>\$ (4,003)</u>

*See notes to consolidated financial statements*

**Douglas Emmett Fund X, LLC**  
**Consolidated Statements of Equity**  
(in thousands)

	Sub-REIT Investors	DEIX, LLC	Other Members	Accumulated Other Comprehensive Income	Total
Balance - October 7, 2008 (inception) (unaudited)	\$ -	\$ -	\$ -	\$ -	\$ -
Contributions	119	62,500	62,500	-	125,119
Preferred equity	-	125,000	-	-	125,000
Offering costs	-	(1,108)	(1,108)	-	(2,216)
Net loss	-	(2,001)	(2,002)	-	(4,003)
Other comprehensive income (loss)	-	-	-	(28,010)	(28,010)
Comprehensive income (loss)	<u>-</u>	<u>(2,001)</u>	<u>(2,002)</u>	<u>(28,010)</u>	<u>(32,013)</u>
Balance - December 31, 2008 (unaudited)	119	184,391	59,390	(28,010)	215,890
Contributions	2	63,502	69,593	-	133,097
Distributions	(15)	-	-	-	(15)
Preferred equity redemption	-	(125,000)	-	-	(125,000)
Preferred equity yield	-	(701)	(736)	-	(1,437)
Offering costs	-	(27)	(82)	-	(109)
Net income (loss)	15	(8,213)	(8,707)	-	(16,905)
Other comprehensive income (loss)	-	-	-	7,703	7,703
Comprehensive income (loss)	<u>15</u>	<u>(8,213)</u>	<u>(8,707)</u>	<u>7,703</u>	<u>(9,202)</u>
Balance - December 31, 2009 (unaudited)	121	113,952	119,458	(20,307)	213,224
Contributions	-	12,664	13,277	-	25,941
Distributions	(15)	-	-	-	(15)
Priority distributions	-	(5,053)	-	-	(5,053)
Priority distribution allocation	-	2,586	(2,586)	-	-
Net income (loss)	15	(10,392)	(10,895)	-	(21,272)
Other comprehensive income (loss)	-	-	-	359	359
Comprehensive income (loss)	<u>15</u>	<u>(10,392)</u>	<u>(10,895)</u>	<u>359</u>	<u>(20,913)</u>
Balance - December 31, 2010	<u>\$ 121</u>	<u>\$ 113,757</u>	<u>\$ 119,254</u>	<u>\$ (19,948)</u>	<u>\$ 213,184</u>

*See notes to consolidated financial statements.*



**Douglas Emmett Fund X, LLC**  
**Consolidated Statements of Cash Flows**  
(in thousands)

	<u>Year ended</u> <u>December 31, 2010</u>	(Unaudited) <u>Year ended</u> <u>December 31, 2009</u>	(Unaudited) <u>For the Period from</u> <u>October 7, 2008 (Inception)</u> <u>through December 31, 2008</u>
<b>Operating Activities:</b>			
Net loss	\$ (21,272)	\$ (16,905)	\$ (4,003)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:			
Loss, including depreciation, from unconsolidated real estate fund	199	-	-
Depreciation and amortization	27,319	29,285	5,566
Net accretion of acquired lease intangibles	(3,961)	(7,026)	(1,931)
Change in working capital components:			
Tenant receivables	121	361	(614)
Deferred rent receivable	(1,407)	(1,112)	(1,294)
Accounts payable and accrued expenses	(3,665)	1,328	6,684
Security deposits	(95)	(92)	3,407
Other assets	25	934	(1,009)
Net cash (used in) provided by operating activities	<u>(2,736)</u>	<u>6,773</u>	<u>6,806</u>
<b>Investing Activities:</b>			
Capital expenditures and property acquisitions	(7,283)	(13,308)	(374,125)
Contributions to unconsolidated real estate fund	(5,712)	-	-
Net cash used in investing activities	<u>(12,995)</u>	<u>(13,308)</u>	<u>(374,125)</u>
<b>Financing Activities</b>			
Proceeds from long-term borrowing	-	-	365,000
Member contributions	25,941	133,095	62,500
Distribution to Manager	-	(126,437)	(56,199)
Contributions (distributions) from (to) Sub-REIT investors, net	(15)	(13)	119
Priority distribution paid to Manager	(5,053)	-	-
Offering costs	-	(109)	(2,216)
Net cash provided by financing activities	<u>20,873</u>	<u>6,536</u>	<u>369,204</u>
Increase in Cash and Equivalents	5,142	1	1,885
Cash and Cash Equivalents Beginning of Period	1,886	1,885	-
<b>Cash and Cash Equivalents at End of Period</b>	<u>\$ 7,028</u>	<u>\$ 1,886</u>	<u>\$ 1,885</u>
<b>Supplemental disclosure of non-cash investing and financing activities</b>			
Contribution of investment by DEIX, LLC, as preferred equity holder and member	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 243,699</u>
<b>Supplemental disclosure of cash flow information</b>			
Cash paid during the period for interest	<u>\$ 20,445</u>	<u>\$ 20,445</u>	<u>\$ 1,807</u>

*See notes to consolidated financial statements*

**Douglas Emmett Fund X, LLC**  
**Notes to Consolidated Financial Statements**  
**(in thousands)**

## **1. Organization and Description of Business**

Douglas Emmett Fund X, LLC (the “Fund”) was organized on October 7, 2008 as a Delaware limited liability company. The Fund was formed for the purpose of investing in real estate, and at December 31, 2010 had a 100% interest in six office properties (the “Fund Properties”) and a 9.4% interest in one unconsolidated office property which is accounted for under the equity method.

Douglas Emmett Fund X REIT, Inc (the “Company”), a Maryland corporation, is the Fund’s wholly owned subsidiary. The Company issued 121 shares of Non-Voting Preferred Stock (the “Sub-REIT Investors”) to qualify as a real estate investment trust for federal income tax purposes.

DEIX, LLC, a Delaware limited liability company, is the manager of the Fund (the “Manager”) and is also a member of the Fund. As of December 31, 2010, the Fund had total capital commitments of \$307,250 from DEIX, LLC and the other members (collectively, the “Members”) of which \$23,288 was unfunded at December 31, 2010.

The Operating Agreement of the Fund (the “Operating Agreement”) provides that the Fund may continue in existence until ten years after the completion of the Investment Period, as defined in the Operating Agreement, which may be extended under certain conditions.

Equity distributions by the Fund are allocated between the Members in accordance with the Operating Agreement. Increases or decreases in net income or net loss, respectively, are allocated between the capital accounts of the Members in accordance with the Operating Agreement in a manner consistent with cash distributions. Losses are generally allocated to the Members based on their respective ownership percentage interests.

## **2. Summary of Significant Accounting Policies**

### **Basis of Presentation**

The consolidated financial statements include the accounts of the Fund and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Fund operates in one segment comprised of real estate office properties.

### **Use of Estimates**

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

### **Investment in Real Estate**

Acquisitions of properties are accounted for utilizing the purchase method and accordingly, the results of operations of acquired properties are included in the Fund’s results of operations from the respective dates of acquisition. Beginning January 1, 2009, transaction costs related to acquisitions are expensed, rather than included with the consideration paid. Estimates of future cash flows and other valuation techniques are used to allocate the purchase price of acquired property between land, buildings and improvements, equipment and identifiable intangible assets and liabilities such as amounts related to in-place at-market leases, acquired above- and below-market ground leases, acquired above- and below-market tenant leases and tenant relationships. Initial valuations are subject to change until such information is finalized, but no later than 12 months from the acquisition date.

The fair values of tangible assets are determined on an “as-if-vacant” basis. The “as-if-vacant” fair value is allocated to land, where applicable, buildings, tenant improvements and equipment based on comparable sales and other relevant information obtained in connection with the acquisition of the property.

The estimated fair value of acquired in-place at-market tenant leases are the costs the Fund would have incurred to lease the property to the occupancy level of the property at the date of acquisition. Such estimates include the fair value of leasing commissions and legal costs that would be incurred to lease the property to this occupancy level. Additionally, the Fund evaluates the time period over which such occupancy level would be achieved and include an estimate of the net operating costs (primarily real estate taxes, insurance and utilities) incurred during the lease-up period, which is generally six months.

**Douglas Emmett Fund X, LLC**  
**Notes to Consolidated Financial Statements**  
**(in thousands)**

Above-market and below-market in-place lease intangibles are recorded as an asset or liability based on the present value (using a discount rate which reflects the risks associated with the leases acquired) of the difference between the contractual amounts to be received or paid pursuant to the in-place tenant or ground leases, respectively, and the Fund's estimate of fair market lease rates for the corresponding in-place leases, measured over a period equal to the remaining noncancelable term of the lease.

Expenditures for repairs and maintenance are charged to operations as incurred. Significant improvements and costs incurred in the execution of leases are capitalized. When assets are sold or retired, their costs and related accumulated depreciation are removed from the accounts with the resulting gains or losses reflected in operations for the period.

The values allocated to land, buildings, site improvements, in-place leases, tenant improvements and leasing costs are depreciated on a straight-line basis using an estimated life of 40 years for buildings; 15 years for site improvements; an average term of existing leases in the building involved for in-place lease values; and the respective lease term for tenant improvements and leasing costs. The values of above- and below-market tenant leases are amortized over the life of the related lease and recorded as either an increase (for below-market leases) or a decrease (for above-market leases) to rental income. The values of acquired above- and below-market ground leases are amortized over the life of the lease and recorded either as an increase (for below-market leases) or a decrease (for above-market leases) to office rental operating expense. The amortization of acquired in-place leases is recorded as an adjustment to depreciation and amortization in the consolidated statements of operations. Any unamortized amounts relating to a lease that is terminated prior to its stated expiration are written off in the period of termination.

The table below presents the expected amortization related to the acquired above and below market leases at December 31, 2010:

<u>Year</u>		
2011	\$	2,763
2012		1,513
2013		972
2014		878
2015		655
Thereafter		198
Total	\$	<u><u>6,979</u></u>

**Impairment of Long-Lived Assets**

The Fund assesses whether there has been impairment in the value of its long-lived assets whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount to the undiscounted future cash flows expected to be generated by the asset. If the current carrying value exceeds the estimated undiscounted cash flows, an impairment loss is recorded equal to the difference between the asset's current carrying value and its value based on the discounted estimated future cash flows. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell. Based upon such periodic assessments, no impairment occurred during 2010.

The Fund assesses whether there has been impairment in the value of its investment in unconsolidated real estate fund periodically. An impairment charge is recorded when events or change in circumstances indicate that a decline in the fair value below the carrying value has occurred and such decline is other-than-temporary. The ultimate realization of the investment in unconsolidated real estate fund is dependent on a number of factors, including the performance of the investment and market conditions. The Fund will record an impairment charge if it determines that a decline in the value of an investment in an unconsolidated real estate fund is other-than-temporary. Based upon such periodic assessments, no impairment occurred during 2010.

An asset is classified as an asset held for disposition when it meets certain requirements, including the approval of the sale of the asset, the marketing of the asset for sale and the Fund's expectation that the sale will likely occur within the next 12 months. Upon classification of an asset as held for disposition, the net book value of the asset, excluding long-term debt, is included on the balance sheet as properties held for disposition, depreciation of the asset is ceased and the operating results of the asset are included in discontinued operations for all periods presented.

**Douglas Emmett Fund X, LLC**  
**Notes to Consolidated Financial Statements**  
**(in thousands)**

**Cash and Cash Equivalents**

Cash and cash equivalents consist of unrestricted deposits with a bank. Account balances often exceed FDIC insurance coverage, and, as a result, there is a concentration of credit risk related to amounts on deposit in excess of FDIC insurance coverage.

**Revenue and Gain Recognition**

Four basic criteria must be met before revenue can be recognized: persuasive evidence of an arrangement exists; the delivery has occurred or services rendered; the fee is fixed and determinable; and collectability is reasonably assured. All leases are classified as operating leases. For all lease terms exceeding one year, rental income is recognized on a straight-line basis over the terms of the leases. Deferred rent receivables represent rental revenue recognized on a straight-line basis in excess of billed rents. Lease termination fees, which are included in rental revenues in the accompanying consolidated statements of operations, are recognized when the related leases are canceled and the Fund has no continuing obligation to provide services to such former tenants.

Estimated recoveries from tenants for real estate taxes, common area maintenance and other recoverable operating expenses are recognized as revenues in the period that the expenses are incurred. Subsequent to year-end, the Fund performs final reconciliations on a lease-by-lease basis and bill or credit each tenant for any cumulative annual adjustments. In addition, the Fund records a capital asset for leasehold improvements constructed by it that are reimbursed by tenants, with the offsetting side of this accounting entry recorded to deferred revenue which is included in accounts payable and accrued expenses. The deferred revenue is amortized as additional rental revenue over the life of the related lease. Rental revenue from month-to-month leases or leases with no scheduled rent increases or other adjustments is recognized on a monthly basis when earned.

The recognition of gains on sales of real estate requires that the Fund measure the timing of a sale against various criteria related to the terms of the transaction, as well as any continuing involvement in the form of management or financial assistance associated with the property. If the sales criteria are not met, the Fund defers gain recognition and accounts for the continued operations of the property by applying the finance, profit-sharing or leasing method. If the sales criteria have been met, the Fund further analyzes whether profit recognition is appropriate using the full accrual method. If the criteria to recognize profit using the full accrual method have not been met, the Fund defers the gain and recognize it when the criteria are met or use the installment or cost recovery method as appropriate under the circumstances.

**Monitoring of Rents and Other Receivables**

The Fund maintains an allowance for estimated losses that may result from the inability of tenants to make required payments. If a tenant fails to make contractual payments beyond any allowance, the Fund may recognize bad debt expense in future periods equal to the amount of unpaid rent and deferred rent. The Fund takes into consideration many factors to evaluate the level of reserves necessary, including historical termination/default activity and current economic conditions. As of December 31, 2010 and 2009, the Fund had allowances for doubtful accounts and deferred rent of \$1,059 and \$738 (unaudited), respectively.

**Interest Rate Agreements**

The Fund manages the Fund's interest rate risk associated with borrowings by obtaining interest rate swap contracts. The interest rate swap agreements the Fund utilizes effectively modify the Fund's exposure to interest rate risk by converting the Fund's floating-rate debt to a fixed-rate basis, thus reducing the impact of interest-rate changes on future interest expense. These agreements involve the receipt of floating-rate amounts in exchange for fixed-rate interest payments over the life of the agreements without an exchange of the underlying principal amount. The Fund does not use any other derivative instruments.

At December 31, 2010, all of the Fund's derivatives were considered cash flow hedges. The effective portion of changes in the fair value of the derivatives is initially reported in other comprehensive income (outside of earnings) and subsequently reclassified to earnings when the hedged transaction affects earnings. The ineffective portion of changes in fair value of the derivative is recognized directly in earnings. The Fund assesses the effectiveness of each hedging relationship by comparing the changes in fair value or cash flows of the derivative hedging instrument with the changes in fair value or cash flows of the designated hedged item or transaction.

The Fund records all derivatives on the balance sheet at fair value. The fair value of these hedges is obtained through independent third-party valuation sources that use conventional valuation algorithms.

**Douglas Emmett Fund X, LLC**  
**Notes to Consolidated Financial Statements**  
**(in thousands)**

The Financial Accounting Standards Board (“FASB”) has established a framework for measuring fair value which uses a market based measurement, not an entity-specific measurement. The FASB established a fair value hierarchy that distinguishes between assumptions based on market data obtained from sources independent of the reporting entity and the reporting entity’s own assumptions about market-based inputs. Level 1 inputs utilize unadjusted quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs that are observable either directly or indirectly for similar assets and liabilities in active markets. Level 3 inputs are observable assumptions generated by the reporting entity.

The Fund incorporates credit valuation adjustments to appropriately reflect both own nonperformance risk and the respective counterparty’s nonperformance risk in the fair value measurements. In adjusting the fair value or the Fund’s derivative contracts for the effect on nonperformance risk, the Fund considered the impact of netting and any applicable credit enhancements, such as collateral postings, thresholds, mutual puts and guarantees. The Fund has determined that its derivative valuations in their entirety are classified in Level 2 of the fair value hierarchy. The Fund did not have any fair value measurements using significant unobservable inputs (Level 3) as of December 31, 2010.

**Income Taxes**

No provision is made to the accompanying consolidated financial statements for federal, state and local income taxes. Each member is responsible for reporting its share of the Fund’s taxable income or loss.

**Recently Issued Accounting Literature**

Changes to Generally Accepted Accounting Principles of the United States (GAAP) are established by the FASB in the form of accounting standards updates (ASUs) to the FASB’s Accounting Standards Codification. The Fund considers the applicability and impact of all ASUs. Newly issued ASUs not listed below are expected to not have any material impact on its consolidated financial position and results of operations, because either the ASU is not applicable or the impact is expected to be immaterial.

In January 2010, the Fund adopted FASB guidance contained in ASU No. 2009-17, *Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities*. This standard requires an enterprise to perform an analysis to determine whether an enterprise’s variable interest or interests give it a controlling financial interest in a variable interest entity. Additionally, an enterprise is required to assess whether it has an implicit financial responsibility to ensure that a variable interest entity operates as designed when determining whether it has the power to direct the activities of the variable interest entity that most significantly impact the entity’s economic performance. The adoption of ASU 2009-17 did not have a material effect on the Fund’s consolidated financial position or results of operations.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. This guidance provides for new disclosures requiring the Fund to (i) disclose separately the amounts of significant transfers in and out of Level 1 and Level 2 fair value measurements and describe the reasons for the transfers and (ii) present separately information about purchases, sales, issuances and settlements in the reconciliation of Level 3 fair value measurements. This guidance also provides clarification of existing disclosures requiring the Fund to (i) determine each class of assets and liabilities based on the nature and risks of the investments rather than by major security type and (ii) for each class of assets and liabilities, disclose the valuation techniques and inputs used to measure fair value for both Level 2 and Level 3 fair value measurements. This ASU is effective for annual and interim reporting periods beginning after December 15, 2009 for most of the new disclosures and for periods beginning after December 15, 2010 for the new Level 3 disclosures. The adoption of this ASU did not have a material effect on the Fund’s consolidated financial position and results of operations as it only addresses disclosure.

In February 2010, the FASB issued ASU No. 2010-09, *Subsequent Events (Topic 855): Amendments to Certain Recognition and Disclosure Requirements*. This standard amends the authoritative guidance for subsequent events that was previously issued and, among other things, exempts SEC registrants from the requirement to disclose the date through which it has evaluated subsequent events for either original or restated financial statements. This standard does not apply to subsequent events or transactions that are within the scope of other applicable GAAP that provides different guidance on the accounting treatment for subsequent events or transactions. The adoption of this ASU did not have a material effect on the Fund’s consolidated financial position and results of operations as it only addresses disclosures.

**Douglas Emmett Fund X, LLC**  
**Notes to Consolidated Financial Statements**  
**(in thousands)**

In February 2010, the FASB issued ASU No. 2010-10, *Consolidation—Amendments for Certain Investment Funds*. This standard indefinitely defers the effective date of the updated variable-interest entity accounting guidance contained in ASU No. 2009-17 for certain investment funds. To qualify for the deferral, the investment fund needs to meet certain attributes of an investment company, does not have explicit or implicit obligations to fund losses of the entity and is not a securitization entity, an asset-backed financing entity, or an entity formerly considered a qualifying special-purpose entity. The adoption of this ASU did not have a material effect on the Fund's consolidated financial position or results of operations.

**3. Future Minimum Lease Receipts**

The Fund leases space to tenants primarily under noncancelable operating leases that generally contain provisions for a base rent plus reimbursement for certain operating expenses. Operating expense reimbursements are reflected in the Fund's consolidated statements of operations as tenant recoveries.

Future minimum base rentals on the Fund's non-cancelable office leases at December 31, 2010 were as follows:

Year:		
2011	\$	34,062
2012		29,513
2013		23,421
2014		19,502
2015		14,559
Thereafter		19,621
Total future minimum base rentals	\$	<u>140,678</u>

**4. Secured Note Payable**

As of December 31, 2010, secured note payable consisted of a term loan in the amount of \$365 million secured by the Fund Properties in a cross-collateral pool. The loan matures on August 17, 2013 and bears interest at LIBOR plus 1.65%, which has been effectively fixed at 5.515% per annum based on an actual/360-day basis under interest rate swaps which mature on September 4, 2012. The interest rate swaps notional amount was \$365 million as of December 31, 2010.

**5. Fair Value of Financial Instruments**

The Fund's estimates of the fair value of financial instruments at December 31, 2010 were determined using available market information and appropriate valuation methods. Considerable judgment is necessary to interpret market data and develop estimated fair value. The use of different market assumptions or estimation methods may have a material effect on the estimated fair value amounts.

The carrying amounts for cash and cash equivalents, rents and other receivables, accounts payable and other liabilities approximate fair value because of the short-term nature of these instruments. The Fund calculates the fair value of its secured note payable based on a currently available market rate assuming the loan is outstanding through maturity and considering the collateral. At December 31, 2010, the fair value of the Fund's secured note payable was estimated to be approximately \$362 million, based on a credit-adjusted present value of the principal and interest payments that are at floating rates, in comparison to the carrying value of \$365 million at December 31, 2010.

The Fund has used interest rate swaps to manage interest rate risk resulting from variable interest payments on its floating rate debt. These financial instruments are carried on the Fund's balance sheet at fair value based on the assumptions that market participants would use in pricing the asset or liability. See note 2.

**Douglas Emmett Fund X, LLC**  
**Notes to Consolidated Financial Statements**  
**(in thousands)**

**6. Related Party Transactions**

The Manager receives a priority distribution from the Fund equal to (i) 1.25% per annum of the aggregate capital drawn less (ii) any Excess Organizational Costs (as defined in the Operating Agreement). From inception through December 31, 2010, the Manager received a priority distribution of \$5,053, based on an aggregate of \$7,777 accrued less Excess Organizational Costs of \$2,724.

The Fund and the Fund Properties have been involved in certain related party transactions with the affiliates of the Manager as follows:

An affiliate of the Manager provides property management services to the Fund Properties in exchange for fees calculated in accordance with the Operating Agreement. During 2010, 2009 and 2008, these property management fees aggregated \$1,022, \$1,144 (unaudited) and \$226 (unaudited), respectively, of which \$88 and \$272 (unaudited) were payable as of December 31, 2010 and 2009, respectively.

An affiliate of the Manager provides leasing services to the Fund Properties in exchange for commissions calculated in accordance with the Operating Agreement. During 2010, 2009 and 2008, these commissions aggregated \$847, \$675 (unaudited) and \$66 (unaudited), respectively, of which \$0 and \$193 (unaudited) were payable as of December 31, 2010 and 2009, respectively.

An affiliate of the Manager provides certain construction work in connection with improvements to tenant suites and common areas related to certain tenants of the Fund Properties in exchange for payments calculated in accordance with the Operating Agreement. During 2010, 2009 and 2008, these payments aggregated \$3,558, \$2,491 (unaudited) and \$306 (unaudited), respectively, of which \$0 and \$1,369 (unaudited) were payable as of December 31, 2010 and 2009, respectively.

An affiliate of the Manager provides certain construction work in connection with improvements to building and common areas in exchange for payments calculated in accordance with the Operating Agreement. During 2010, 2009 and 2008, these payments aggregated \$430, \$5,997 (unaudited) and \$1,293 (unaudited), respectively, of which \$0 and \$1,034 (unaudited) were payable as of December 31, 2010 and 2009, respectively.

During 2010, 2009 and 2008, the Fund incurred certain costs in connection with certain pass-through items aggregating \$2,521, \$2,499 (unaudited) and \$769 (unaudited), respectively, comprised of (i) on-site property level employee costs; (ii) leasing lawyer costs; (iii) property insurance; and (iv) concierge services. As of December 31, 2010 and 2009, \$197 and \$467 (unaudited), respectively, were payable to affiliates of the Manager for such items.

In November 2010, the Fund received \$547 from Douglas Emmett Partnership X, L.P. as reimbursement of organizational costs. No reimbursement was received by the Fund from affiliates of the Manager for the years ended December 31, 2009 and 2008, respectively.

During 2009 and 2008, an affiliate of the Manager received reimbursements from the Fund for organizational costs aggregating \$206 (unaudited) and \$633 (unaudited), respectively. No reimbursements were made by the Fund during the year ended December 31, 2010.

**7. Investment in Unconsolidated Real Estate Fund**

The Fund owns a 9.4% equity interest in Douglas Emmett Partnership X, L.P. (the "Partnership"), through which institutional investors provide capital commitments for acquisition of properties. As of December 31, 2010, the Fund's investment balance was \$5.5 million and it had a commitment for future capital contributions totaling \$19.3 million. The Fund accounts for its investment in the Partnership under the equity method.

**Douglas Emmett Fund X, LLC**  
**Notes to Consolidated Financial Statements**  
**(in thousands)**

**8. Commitments and Contingencies**

From time to time, the Fund is party to various lawsuits, claims and other legal proceedings that arise in the ordinary course of its business. Excluding ordinary routine litigation incidental to its business, the Fund is not currently a party to any legal proceedings that it believes would reasonably be expected to have a material adverse effect on its business, financial condition or results of operation.

***Tenant Concentrations***

For 2010, no tenant exceeded 10% of the Fund's total rental revenue and tenant reimbursements.



**Certification of Chief Executive Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Jordan L. Kaplan, certify that:

- 1) I have reviewed this annual report on Form 10-K of Douglas Emmett, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 25, 2011

By: /s/ JORDAN L. KAPLAN

Jordan L. Kaplan  
President and Chief Executive Officer

**Certification of Chief Financial Officer  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, William Kamer, certify that:

- 1) I have reviewed this annual report on Form 10-K of Douglas Emmett, Inc.;
- 2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- 3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
- 4) The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
- 5) The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: February 25, 2011

By: /s/ WILLIAM KAMER

William Kamer  
Chief Financial Officer

**OFFICERS' CERTIFICATIONS**  
**Certification of Chief Executive Officer**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Douglas Emmett, Inc. (the "Company"), hereby certifies, to such officer's knowledge, that:

- (i) the accompanying annual report on Form 10-K of the Company for the period ended December 31, 2010 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 25, 2011

By: /s/JORDAN L. KAPLAN

Jordan L. Kaplan  
President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. §1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

**OFFICERS' CERTIFICATIONS**  
**Certification of Chief Financial Officer**

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Douglas Emmett, Inc. (the "Company"), hereby certifies, to such officer's knowledge, that:

- (i) the accompanying annual report on Form 10-K of the Company for the period ended December 31, 2010 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: February 25, 2011

By: /s/ WILLIAM KAMER

William Kamer  
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

The foregoing certification is being furnished solely to accompany the Report pursuant to 18 U.S.C. §1350, and is not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and is not to be incorporated by reference into any filing of the Company, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

## SHAREHOLDER INFORMATION

### CORPORATE HEADQUARTERS

808 Wilshire Boulevard  
2nd Floor  
Santa Monica, CA 90401  
310.255.7700

### SHAREHOLDER ACCOUNT ASSISTANCE

Shareholder records are maintained by  
Douglas Emmett's Transfer Agent:  
Computershare Investor Services, LLC  
312.588.4990

### INVESTOR INFORMATION

Company information is available upon  
request without charge by contacting:  
Mary Jensen  
Vice President – Investor Relations  
mjensen@douglasemmett.com  
310.255.7751  
[www.douglasemmett.com](http://www.douglasemmett.com)

### ANNUAL MEETING

Sheraton Delfina  
530 Pico Boulevard  
Santa Monica, CA 90405  
May 27, 2011 9:00 a.m. (PDT)

### LEGAL COUNSEL

Manatt | Phelps | Phillips LLP  
Los Angeles, CA

### INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP  
Los Angeles, CA

### STOCK EXCHANGE

The New York Stock Exchange – NYSE  
Ticker Symbol – DEI

### CERTIFICATION

The Company filed the certifications  
required by Section 302 of the Sarbanes-  
Oxley Act of 2002 as exhibits to its Annual  
Report on Form 10-K for the year ended  
December 31, 2010, and submitted to the  
New York Stock Exchange the certification  
required by Section 303A.12(a) of the  
NYSE Listed Company Manual.

### BOARD OF DIRECTORS

**DAN EMMETT**  
*Chairman of the Board*

**JORDAN L. KAPLAN**  
*Director*

**KEN PANZER**  
*Director*

**LESLIE E. BIDER**  
*Director*

**THOMAS E. O'HERN**  
*Director*

**GHEBRE SELASSIE MEHRETEAB**  
*Director*

**DR. ANDREA L. RICH**  
*Director*

**WILLIAM WILSON III**  
*Director*

### SENIOR MANAGEMENT

**JORDAN L. KAPLAN**  
*President & Chief Executive Officer*

**KEN PANZER**  
*Chief Operating Officer*

**WILLIAM KAMER**  
*Chief Financial Officer*

**THEODORE E. GRUTH**  
*Executive Vice President*

**ALLAN GOLAD**  
*Senior Vice President,  
Property Management*

**MICHAEL MEANS**  
*Senior Vice President,  
Commercial Leasing*

