

AWARE INC /MA/
Form 10-K
February 10, 2017

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, 2016

Commission file number 000-21129

AWARE, INC.
(Exact Name of Registrant as Specified in Its Charter)

Massachusetts 04-2911026
(I.R.S.
(State or Other Employer
Jurisdiction of Identification
No.)
Incorporation or
Organization)

40 Middlesex Turnpike, Bedford, Massachusetts 01730
(Address of Principal Executive Offices)

(Zip Code)

(781) 276-4000

(Registrant's Telephone Number, Including Area Code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, par value \$.01 per share	The Nasdaq Global Market

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

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

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ 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 ☒ 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 ☒ 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. ☒

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

Large Accelerated Filer ☐ Accelerated Filer ☒ Non-Accelerated Filer ☐ Smaller Reporting Company ☐

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

As of June 30, 2016 the aggregate market value of the registrant's common stock held by non-affiliates of the registrant, based on the closing sale price as reported on the Nasdaq Global Market, was approximately \$62,581,598.

The number of shares outstanding of the registrant's common stock as of February 3, 2017 was 22,431,324.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive Proxy Statement to be delivered to shareholders in connection with the registrant's Annual Meeting of Shareholders to be held on May 24, 2017 are incorporated by reference into Part III of this Annual Report on Form 10-K.

AWARE, INC.

FORM 10-K

FOR THE YEAR ENDED DECEMBER 31, 2016

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PART I

FORWARD LOOKING STATEMENTS

Matters discussed in this Annual Report on Form 10-K relating to future events or our future performance, including any discussion, express or implied, of our anticipated growth, operating results, future earnings per share, market opportunity, plans and objectives, are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These statements are often identified by the words “may,” “will,” “expect,” “believe,” “anticipate,” “intend,” “could,” “estimate,” or “continue,” and expressions or variations. Such forward-looking statements are subject to risks, uncertainties and other factors that could cause actual results and the timing of certain events to differ materially from future results expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in the section titled “Risk Factors,” set forth in Item 1A of this Annual Report on Form 10-K and elsewhere in this Report. The forward-looking statements in this Annual Report on Form 10-K represent our views as of the date of this Annual Report on Form 10-K. We anticipate that subsequent events and developments will cause our views to change. However, while we may elect to update these forward-looking statements at some point in the future, we have no current intention of doing so except to the extent required by applicable law. You should, therefore, not rely on these forward-looking statements as representing our views as of any date subsequent to the date of this Annual Report on Form 10-K.

ITEM 1. BUSINESS

Company Overview

Aware, Inc. (“Aware”, “we”, “us”, “our”, or the “Company”) is a leading provider of software and services to the biometrics industry. We have been engaged in this business since 1993. Our software products are used in government and commercial biometrics systems to identify or authenticate people. Principal government applications of biometrics systems include border control, visitor screening, law enforcement, national defense, intelligence, secure credentialing, access control, and background checks. Principal commercial applications include: i) user authentication for login to mobile devices, computers, networks, and software programs; ii) user authentication for financial transactions and purchases (online and in-person); iii) physical access control to buildings; and iv) screening and background checks of prospective employees and customers.

Our products provide interoperable, standards-compliant, field-proven biometric functionality and are used to capture, verify, format, compress and decompress biometric images as well as aggregate, analyze, process, match and transport

those images within biometric systems. We sell a broad range of software products for fingerprint, facial, and iris modalities. We also offer a variety of software engineering services, including: i) project planning and management; ii) system design; iii) software design, development, customization, configuration, and testing; and iv) software integration and installation. We sell our biometrics software products and services globally through systems integrators and OEMs, and directly to end user customers.

Aware was incorporated in Massachusetts in 1986. We are headquartered at 40 Middlesex Turnpike in Bedford, Massachusetts, and our telephone number at this address is (781) 276-4000. Our website address is www.aware.com. The information on our website is not part of this Form 10-K, unless expressly noted. Our stock is traded on the Nasdaq Global Market under the symbol AWRE.

Industry Background

Biometrics is the measurement of unique, individual physiological characteristics, such as fingerprints, faces, irises, and voices that can be used to determine or verify an individual's identity. The biometrics industry offers technology that digitally captures and encodes biometric characteristics and then compares those characteristics against previously encoded biometric data to determine or verify an individual's identity. Biometrics addresses the limitations inherent in traditional identification and authentication processes, such as paper credentials, passwords, PIN codes, and magnetic access cards.

The biometrics industry provides solutions for a broad range of government and commercial applications. Principal government biometrics applications include border control, visitor screening, law enforcement, national defense, intelligence, secure credentialing, access control and background checks. Principal commercial applications include: i) user authentication for login to mobile devices, computers, networks, and software programs; ii) user authentication for financial transactions and purchases (online and in-person); iii) physical access control to buildings; and iv) screening and background checks of prospective employees and customers.

We believe that government and commercial entities will continue to adopt and expand the use of biometrics-enabled solutions to address the limitations and vulnerabilities of traditional identification and authentication processes. We believe the following factors, among others, will contribute to the growth of biometrics solutions: i) government-mandated implementation of identification for employees, citizens, and foreign nationals to enhance national security; ii) military implementations for the identification of terrorists and other hostile persons; iii) increasing threats to personal security encountered in areas such as transportation; iv) government and commercial efforts to detect and reduce fraud and cybercrime; v) adoption of biometrics on mobile devices; and vi) the emergence and adoption of international biometrics standards.

The biometrics industry may be segmented into government and commercial sub-markets. While these markets are similar in many respects and share similar characteristics and technology, certain aspects of the markets are different. We believe that this market-based distinction is important to an understanding of Aware's business as the vast majority of our revenue is currently derived from government customers.

Government market

Governments throughout the world were early adopters of biometrics technology and continue to be the largest consumers of the technology. Biometrics technology is used by local, state, and national governments.

At the local and state level, biometrics technology is used in the following applications:

- Law enforcement applications that enable officers in the field to correctly identify potential suspects more reliably and efficiently by submitting biometrics samples to state or federal biometric search services;
- Background checks for employment screening;
- Drivers' licenses and identification cards; and
- Benefits issuance.

At the national level, biometrics technology is used in the following applications:

Border control

National governments throughout the world have mandated increased spending on security measures, implemented new regulations and placed greater emphasis on technology to address growing security concerns. Immigration and border control agencies have taken steps to improve security in response to heightened concerns over public safety from the threat of terrorism. They use biometrics to help establish the identity of visitors upon application for a visa or upon arrival at border checkpoints. For example, the U.S. Office of Biometric Identity Management currently requires foreign visitors entering the United States to have their ten fingers scanned and a facial photograph taken to determine if they are present on a watch list. The European Union now mandates that e-passports include fingerprint data in addition to a digital photograph.

Defense

Within military organizations, key applications of biometrics include: i) background checks of military personnel and contractors; ii) access control to physical and digital assets; and iii) identification of unknown and potentially hostile persons by a comparison of their biometric sample against a watch list.

Law enforcement and background checks

Law enforcement agencies perform background checks that use biometrics to help confirm the identity of individuals who might be present in a biometric database. Background checks might also be provided as a service to other agencies within the government.

Physical access control

Governments also use biometrics for physical access control by storing biometric data on a digital ID card and performing a match to verify that the holder of the card is the same person who was issued the card. Biometrics are also used for securing access to digital assets, where a biometric match might be required in addition to a password to gain access to a computer system.

Government biometrics systems typically operate on client/server-based computer networks. Enrollment workstations with peripheral capture devices are used to enroll individuals into biometrics systems. Enrollment involves the capture, processing, and formatting of “biometric samples.” A “biometric sample” is biometric data which may include: i) images of fingerprints, faces, or irises; ii) digital voice signals; or iii) some other electronic representation of a biometric characteristic. Examples of capture peripherals include: i) scanners for fingerprint images, ii) cameras for iris and facial images, iii) handheld devices for mobile capture of fingerprint, iris, and facial images, or iv) mobile phones and/or micro phones for voice signals.

After biometric samples are captured, they are transported in digital form to centralized matching systems for identification. Equipment used to perform these functions includes: i) servers to process and transport biometric samples; and ii) mainframe computers and servers to store and match those samples. In addition, military applications may employ handheld devices that are capable of capturing samples and matching those samples against sample databases that reside on the devices.

Due to the nature of government applications, particularly those involving security and defense, government biometrics systems must be capable of accurately and rapidly searching and matching biometric samples against large databases of stored samples. The ability to accurately and rapidly match samples against databases of millions of samples is critical because incorrect or delayed results could have severe adverse consequences. These requirements are an important distinguishing characteristic of the government market as compared to the commercial market.

Another characteristic that defines government markets can be seen in the difference between biometric identification and biometric verification. Biometric identification involves a one-to-many search of thousands or even millions of records to determine which, if any, record belongs to the individual in question. Government applications tend to involve biometric identification.

Biometric verification involves a one-to-one biometric comparison that serves to verify that both biometric samples belong to the same individual. One-to-one matches tend to require less algorithmic accuracy, speed, sensor fidelity, and computer processing power than “one-to-many” searches performed on large databases of stored biometric records. Commercial applications tend to involve biometric verification.

Commercial market

Principal biometrics applications in commercial markets involve the authentication and/or identification of individuals. The types of users that may need to be authenticated or identified in commercial applications include customers, employees, suppliers, visitors, patients, or other parties wishing to gain access to information, systems,

bank accounts, credit card accounts, events, devices, buildings, or organizations.

Biometrics-based solutions compete with more traditional security methods including keys, cards, passwords, personal identification numbers (PINs) and security personnel in commercial markets. The adoption of biometrics by leading vendors of smartphones and other popular consumer products has increased users' confidence and comfort with biometrics as a convenient and secure means of authentication in place of or in addition to passwords. Biometrics solutions are also being considered in commercial markets as a means of increasing security and reducing fraud as part of "know-your-customer" and "know-your-employee" efforts. "Know-your-customer" initiatives are designed to verify the identity of customers before providing products or services. "Know-your-employee" initiatives are designed to verify the identity of employment candidates upon application for employment.

Commercial markets for biometrics technology are in the process of developing and evolving. The rate of adoption of biometrics in commercial markets depends upon a number of factors, including: i) the performance and reliability of biometric solutions; ii) costs involved in adopting and integrating biometric solutions; iii) public concerns regarding privacy, including potential privacy legislation; and iv) standardization efforts by various industry consortia and standards bodies.

Examples of commercial market applications include:

- User authentication for login and access to mobile devices, computers, networks, and software programs.
 - User authentication for financial transactions in the financial services industry.
 - User authentication for in-person or online purchases in the retail industry.

- User authentication for physical access to secured buildings and perimeters.
- User authentication of employees to access private patient information in the healthcare industry.
 - Identity verification of patients in hospital and surgical settings.
 - Identity verification of test takers in the educational testing industry.
 - Identification of prospective customers in the financial services industry.
- Identification of candidates for pre-employment screening and background checks.
 - Identification of undesirable customers in the gaming industry.

We believe the commercial biometrics market may be further segmented into: i) a mobile segment; and ii) an enterprise segment. While we believe this delineation serves a useful purpose in describing the current state of the market, it has its limitations because the two segments overlap.

Mobile segment – Mobile devices, such as smartphones and tablets, are now capable of: i) capturing biometric samples (e.g., fingerprints, facial and iris images, and voices); ii) processing and storing those samples in a secure area on the device; and iii) matching new live samples against the stored samples. Once a biometric match is achieved, the subsequent software functions are analogous to password authentication. This type of biometric authentication is sometimes referred to as a “one-to-one” match and it requires a less complex and robust biometric match capability than that used in large server-based systems for biometric search.

Mobile biometric authentication is incorporated into most smartphones using: i) biometric sensors, such as fingerprint sensors and cameras; and ii) functionality that is part of the smartphone operating system and hardware. In these environments, third-party applications on smartphones are generally granted access to biometric authentication results, but not raw biometric samples, hardware, relevant security functions, or other smartphone capabilities. In contrast, third party developers can create authentication applications using facial or voice biometric modalities by making use of cameras and microphones on phones as these components are not as tightly controlled.

There are applications where it is desirable to implement biometric security features that are independent of those provided by device manufacturers. Several advantages include higher level security and uniform functionality across different device models. Once enabled with more robust biometric authentication capabilities, mobile devices may be used to gain access to online networks, systems, services, or accounts.

User authentication enabled by smartphones continues to evolve, and we expect to see further changes in smartphone security features and functionality. In the past year the FIDO® (Fast IDentity Online) Alliance, an industry consortium, has emerged to take a leading role in promoting technical standards for password-free authentication on mobile devices and desktops. The FIDO Alliance is developing specifications that define an open, scalable, interoperable set of mechanisms that supplant reliance on passwords to securely authenticate users of online services. The new standard for security devices and browser plugins will allow any website or cloud application to interface with a broad variety of existing and future FIDO-enabled devices that the user has for online security.

Enterprise segment – Enterprise biometrics systems are similar to government systems in that they typically operate in a client/server environment that: i) captures biometrics samples on a client PC or mobile device; ii) stores those samples in a database on a server, and then, when queried; iii) matches live samples against stored samples. Mobile devices are likely to be used in conjunction with enterprise systems as we have seen a desire by customers to use smartphones as enrollment and access devices.

Opportunities and customer demand are beginning to emerge in the enterprise segment of the commercial market, but it remains a nascent and evolving market. We are beginning to see three potential types of opportunities, including:

Internal biometrics systems - Some customers want to purchase, install, and maintain custom or off-the shelf biometrics systems that they will operate. These customers tend to have a critical need or the scale to justify the cost of acquiring an internal biometrics system. Companies in the financial services industry would be an example of this class of customer.

Biometrics-as-a-service - Biometrics are often provided as services in government settings. For example, many traditional government biometrics systems can be considered a service provided to other government entities, such as those offered by the FBI to state and local law enforcement agencies.

Biometrics service providers have begun to offer pay-per-transaction biometrics service offerings in commercial markets. These services allow organizations to biometrically identify or verify employees, customers, or other individuals relevant to their business. A pay-per-transaction model may be potentially more financially attractive for some organizations as compared to the cost of purchasing, installing and maintaining internal biometrics systems.

Biometrically-enabled solutions – There are companies that offer products, systems, or solutions that are not principally marketed as biometrics products, but include biometrically-enabled components. These vendors 3. represent an opportunity for core biometrics technology providers, because they generally do not own core biometrics technology. Examples of this class of customer would be companies that offer secure identification/access solutions or biometrics smart cards.

Biometrics industry participants

There are a large number of vendors that serve government and commercial biometrics markets. In order to provide an understanding of the biometrics industry and our role in it, we have categorized industry participants into categories that have been defined by us. While we believe our categorization is a reasonable representation of the industry, we acknowledge that: i) knowledgeable industry participants may define categories differently or classify vendors differently; and ii) not all companies involved in the industry were included. Accordingly, the classification that follows represents our perspective on the industry.

We believe that biometrics industry participants may be classified into the following categories:

- | | |
|----|--|
| 1) | Core technology suppliers |
| 2) | System integrators |
| 3) | Fully integrated solution suppliers |
| 4) | Biometrics-as-a-service providers |
| 5) | Vendors of biometrically-enabled solutions |

Category descriptions and companies that offer products and services in each category are provided below. It should be noted that some companies appear in multiple categories.

1)	<u>Core technology suppliers</u>
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Core biometrics technology includes hardware and software products that enable: i) traditional biometrics systems used by government and commercial customers; ii) new biometric service offerings; and iii) biometrically-enabled functionality embedded in other products and solutions. Core biometrics technology includes three types of products:

i) sensor products, ii) biometric capture devices, and iii) software products.

Sensor products

Biometrics sensors are primarily silicon-based devices that capture biometrics samples, such as fingerprints. Sensors are typically embedded in other devices, such as smartphones or biometric capture devices.

Examples of companies that offer biometric sensor products include: 1) Qualcomm Technologies, Inc.; 2) Sonavation, Inc.; 3) Synaptics, Inc.; 4) Fingerprint Cards AB; 5) Integrated Biometrics, LLC; and 6) Next Biometrics AS.

Biometric capture devices

Biometric capture devices are designed to capture and process biometric samples as their primary function. These products may be strictly hardware products or hardware products that also incorporate biometrics software.

Examples of companies that offer biometric capture devices include: 1) Cross Match Technologies, Inc.; 2) Suprema, Inc.; 3) HID Global Corporation (“HID”); 4) Iris ID Systems, Inc (“Iris ID”); 5) Precise Biometrics AB (“Precise Biometrics”); 6) Credence ID, LLC; 7) SecuGen Corporation; 8) IrisGuard, Inc. (“IrisGuard”); 9) Aurora Biometrics, Inc. (“Aurora Biometrics”); 10) EyeLock LLC (“EyeLock”); and 11) Tascent, Inc.

Software products

Biometrics software products provide functionality that captures, formats, stores, processes, or matches samples of fingerprints, faces, iris, voices and other modalities. Biometrics software is capable of operating on a variety of equipment platforms, including personal computers, smartphones, biometric capture devices, hand-held devices, servers, and mainframe computers.

Examples of companies that offer biometrics software products include: 1) Aware, Inc.; 2) Safran Identity & Security (formerly Morpho), which is a unit of Safran SA (“Safran”); 3) 3M Cogent Inc. (“3M Cogent”); 4) NEC Corporation (“NEC”); 5) Cognitec Systems GmbH (“Cognitec”); 6) Neurotechnology; 7) Iritech, Inc. (“Iritech”); 8) Innovatrics s.r.o. (“Innovatrics”); 9) SpeechPro, Inc.; 10) Agnitio S.L. which was acquired by Nuance Communications, Inc. in 2016; 11) Precise Biometrics; 12) VoiceTrust GmbH.; 13) Eyelock; 14) BIO-key International, Inc.; 15) VoiceVault Inc.; 16) EyeVerify, Inc.; 17) Iris ID; 18) Dermalog Identification Systems GmbH (“Dermalog”); 19) FacePhi Biometria; and 20) Sensory, Inc.

2)

System integrators

System integrators purchase hardware and software technology from core biometrics technology vendors and incorporate those components into customized biometrics systems that they deliver to end-user customers. Historically those end-user customers have been governments, but in recent years system integrators have begun to serve commercial enterprise customers as well. System integrators include large multinationals with a broad range of expertise and the capacity to execute very large projects, as well as smaller system integrators that have more focused expertise on a particular market sector, technology, or geography. Some system integrators have developed their own biometric technologies that they deliver as part of their solutions.

Examples of companies that offer systems integration services include: 1) Northrop Grumman Corporation; 2) Science Applications International Corporation; 3) Hewlett-Packard Enterprise Services; 4) International Business Machines Corporation; 5) Fujitsu Limited; 6) Accenture plc; 7) Unisys Corporation; 8) Leidos, Inc.; and 9) ManTech International Corporation.

3)

Fully integrated solutions suppliers

Fully integrated solutions suppliers are similar to systems integrators in that they deliver customized biometrics systems to government and commercial enterprise end-user customers. They differ from system integrators in that they use core hardware and software technologies that they developed in-house or acquired from others. Vendors in this category may purchase some third party software, but we believe such purchases represent a minor component of the overall systems they deliver.

There are three large global suppliers of fully integrated solutions, including: 1) Safran; 2) 3M Cogent; and 3) NEC. We believe these companies supply a large percentage of the biometric systems that are delivered to government customers around the world.

In addition to these three large suppliers, we would categorize Dermalog as a fully integrated solution provider, but one that operates on a smaller scale. Aware also has a product portfolio and services capability that enables us to deliver fully integrated solutions. We have acted in this capacity on a limited basis in the past and an element of our strategy is to grow this part of our business in the future.

4) Biometrics-as-a-service providers

Biometrics service providers have begun to offer a pay-per-transaction biometrics service offering. This service allows organizations to biometrically identify or verify employees, customers, or other individuals relevant to their business. A pay-per-transaction model may be potentially more financially attractive for some organizations as compared to the cost of purchasing, installing and maintaining internal biometrics systems.

Examples of companies offering biometrics services include: 1) Certibio Identidade Biometrica, a wholly-owned subsidiary of Certisign Certificadora Digital S.A. (“Certisign”); 2) Safran; 3) RightPatient, Inc.; 4) Microsoft Corporation; 5) SkyBiometry, Inc.; 6) BioID GmbH; and 7) VoiceIt Technologies, LLC.

5) Vendors of biometrically-enabled solutions

Vendors of biometrically-enabled solutions provide products that are not principally marketed as biometrics products, but include biometric functionality. Biometrics capability is a feature, but not the chief function of these products. Such vendors represent a potential opportunity for core biometrics technology providers as some of them do not own core biometrics technology.

Examples of companies that offer biometrically-enabled smartphone products include: 1) Apple, Inc.; 2) Samsung Electronics Co., Ltd.; and 3) Google, Inc.

Examples of companies that offer secure identification/access solutions that incorporate biometrically-enabled components include: 1) Gemalto NV; 2) HID; 3) Entrust Datacard Corporation; and 4) Oberthur Technologies.

Examples of companies that offer physical access control solutions that may incorporate biometrics include: 1) Honeywell International, Inc.; 2) Tyco International Ltd.; 3) Lenel Systems International Inc.; and 4) Stanley Security Limited.

Products and Services

Software products

We sell a broad range of biometrics software products that enable important functions in biometrics systems, including:

1. Enrollment, analysis, and processing of biometric images and data on workstations or mobile devices.
2. Integration of peripheral biometric capture devices.
3. Centralized workflow, transaction processing, and subsystem integration.
4. Matching of biometric samples against biometric databases to authenticate or verify identities; and
5. Analysis and processing of text-based identity data.

Our biometrics software products range from discrete software blocks, such as software development kits (“SDKs”) that customers can use to develop their own solutions to more complete applications that customers can use to reduce or eliminate their development times. Our products are described below.

1) Biometric Services Platform

Our Biometric Services Platform product is called BioSP™. BioSP is a service-oriented platform used to enable a biometric system with advanced biometric data processing and management functionality in a web services architecture. It provides workflow, data management and formatting, and other important utilities for large-scale fingerprint recognition, face recognition, and iris recognition systems. BioSP is well suited for applications that require the collection of biometrics throughout a distributed network, and subsequent aggregation, analysis, processing, distribution, matching, and sharing of data with other system components. BioSP is modular, programmable, scalable, and secure, capable of managing all aspects of transaction workflow including messaging, submissions, responses, and logging. BioSP makes extensive use of open-source components and is J2EE-compliant.

2)

Biometric Search and Match

We have three types of biometric search and match products, including:

Automated Biometric Identification System (“ABIS”)

Our ABIS product offering is called Astra™. Astra is used for large-scale fingerprint recognition, face recognition, iris recognition, and text-based name matching and identity resolution. It is a highly scalable biometric identification and authentication platform that performs one-to-many search or one-to-one match against large stores of biometrics and other identity data. It does so by deploying biometric and text data and matching algorithms across a cluster of multiple computing nodes.

Biometric Search and Match SDKs

Our line of biometric search and match SDKs is call Nexa™ and it includes NexaFingerprint™, NexaFace™, and NexaIris™. These products provide high-performance biometric algorithms for fingerprint, facial and iris identification or authentication. The algorithms in these products convert images into biometric templates, which can then be compared to templates stored in databases to find matches.

Each Nexa SDK can be deployed on a workstation or a server, either as a standalone biometric search/match API, or in combination with our other SDKs, applications, BioSP, or Astra products. Our SequenceCheck, PreFace, and IrisCheck SDKs may be used in concert with Nexa libraries to perform optional quality assurance and preprocessing for enhanced fingerprint, face, and iris search and match functionality.

Interoperable Fingerprint Matching SDK

Our product offering in this category is called AwareXM™. AwareXM is an SDK that provides MINEX-certified, INCITS 378-compliant fingerprint minutiae extraction, template generation, and fingerprint authentication.

3)

Text Search and Identity Analytics SDKs

Our product offering in this category is called Inquire™. Inquire is a software development kit that performs fuzzy text-based filtering, searching, matching, and linking functions towards discovery of useful information in identity data. Analysis of text-based identity data is naturally complementary to biometric verification and identification, and Inquire is optimized for processing and analysis of data that includes biometrics.

Inquire provides many advanced text matching comparison algorithms and flexibility in how matching algorithms behave (e.g. thresholds, data definitions). It can be used to perform advanced analysis of text-based identity data for several useful investigative applications including data analysis and quality assurance, data integration, identity resolution, and link analysis. Inquire is fully scalable, with infrastructure that automatically determines processing resources and optimizes their utilization.

4)

Biometric Applications.

Our products in this category combine user interfaces with multiple Aware software products to create more complete applications that operate on client workstations or mobile devices. We have four types of biometric application products, including:

Enrollment – Fingerprint, Face, and Iris

Our enrollment application products include Universal Registration Client (“URC™”) and WebEnroll.

URC is a configurable Windows-based enrollment application that performs a variety of biometric data capture, analysis, matching, formatting, and hardware abstraction functions.

WebEnroll is a browser-based enrollment application available as an option with BioSP that captures biographic data, fingerprints, facial images, and iris images.

Fingerprint Cards

Our fingerprint card products include FormScannerSE™ and FormScannerMB™. The two products are independent applications that may be used for scanning and processing of inked fingerprint cards.

FormScannerSE is designed for one-at-a-time, assisted “scan and entry” processing of fingerprint cards, such as for manual data entry of previously scanned card batches. It can also be used for manual “rework” such as crop region adjustments.

FormScannerMB is designed for “multi-batch” scanning of large volumes of cards in an automated fashion, and provides features useful for high-volume processing such as support for automatic document feeding and real-time image quality feedback.

Forensic Analysis and QA

Our forensic analysis and quality assurance products include our WorkbenchSuite™ of products. WorkbenchSuite is a family of .NET workstation applications that are designed to be used by an operator to analyze and repair or otherwise process digital records containing biometric images and data. Each targets a particular use case and implements workflow carefully designed to best assist analysts in their task. The suite comprises:

Forensic Workbench which is used for the categorization, processing, and standards-compliant formatting of biometric images and demographic data.

Sequence Workbench which is used for the detection and assisted repair of fingerprint records containing sequence errors.

CrosslinkWorkbench which is used for assisting with identifying and repairing of crosslink errors in ANSI/NIST ITL transactions. Crosslinks are biometric records that erroneously contain data from different individuals.

·FaceWorkbench which enables an analyst to analyze and process candidates returned from a biometric face search.

Military-Grade Enrollment and Search

URCITactical™ is a software application for performing biometric enrollment, identification, and screening on ruggedized mobile biometric devices, such as those used by military personnel in the field. It allows the operator to capture both biographic and biometric data from subjects and then match the biometric information to onboard watch lists and known mission-encountered individuals.

Biometric Enrollment SDKs. Our software development kits consist of: i) multiple software libraries; ii) sample applications that show customers how to use the libraries; and iii) documentation. Customers use our SDKs to design and develop biometrics applications. Our suite of enrollment SDKs performs a variety of functions that are critical to biometric enrollment, including image capture, image quality assurance, image formatting, and image compression. Our enrollment SDK products include:

Biometric Capture and Hardware Abstraction – This group of products includes: i) LiveScan API; ii) PreFac™; iii) IrisCheck™; and iv) SequenceCheck™.

·Data Formatting and Validation – This group of products includes: i) NISTPack; ii) ICAOPack; and iii) PIVPack™.

Fingerprint Enrollment Bundle – Our product in this category is called CaptureSuite™. CaptureSuite is a bundle of software development kits that support the development of applications with comprehensive functionality for capture of either live scan or card scan fingerprint images. CaptureSuite provides quality and compliance assurance mechanisms for applications, such as fingerprint recognition, fingerprint authentication, and automated fingerprint identification systems.

·Fingerprint Cards – This group of products includes: i) AccuScan™; and ii) AccuPrint™.

·Image Compression – This group of products includes: i) Aware WSQ1000; and ii) Aware JPEG2000.

Controls and applets - This group of products consists of our BioComponents™ line of products. Our BioComponents products allow customers to develop biometric enrollment applications more quickly than if they purchased our SDKs. Each product in the group includes a user interface and one or more software libraries that perform a discrete set of functions, such as automated image capture, quality assurance, and capture hardware integration. BioComponents comprise modular, independent, self-contained software components that can operate either independently or in concert with one another. Specific BioComponents products and the functions they perform are:

- BiographicComponent enables highly configurable data entry of biographic and textual information.
- FingerprintComponent is used to capture, verify image quality, and compress fingerprint images.
 - FaceComponent is used to capture, verify image quality, and manipulate facial images.
 - IrisComponent is used to capture, segment, and verify image quality of iris images.
- TravelDocComponent is used to authenticate travel documents, such as passports and driver's licenses.
 - ScanningComponent is used to scan forms such as inked fingerprint cards.
- PrintingComponent is used for printing FBI-quality fingerprint images on cards and forms.
- SignatureComponent is used to collect handwritten signature images from an electronic signature pad.
 - PackagingComponent allows access to the data sets from the other components.

6)

Mobile Biometrics

Over the past few years, we have modified some of our traditional Windows-based, client-server products for mobile devices that operate on Android and iOS platforms. As of the end of 2016, our mobile biometrics product line-up included:

Biometric Authentication

In 2016, we announced our FIDO® Suite of software products for biometric authentication on mobile devices. FIDOSuite is a family of products that are certified by the FIDO Alliance and are interoperable with other FIDO-certified products. Our FIDOSuite includes: i) Aware FIDO® Face Authenticator; ii) Aware FIDO® Client; and iii) Aware FIDO® Server. These products are available for Android and iOS devices and enable the functionality described below.

The FIDO authentication process employs a challenge/response mechanism using digital signatures that works in a two-step process as follows:

Registration: Users complete a registration process by submitting their biometrics and PIN through a special app or website. If there is a successful biometric/PIN match, a public key pair is created. A private key is retained on the client in a cryptographic keystore and a public key is sent to a server where it is saved in a keystore under a user's ID.

Login: When users attempt to login, a FIDO authentication server creates a random challenge and sends it to the FIDO client. The biometrics and PIN are matched locally by a FIDO authenticator against the biometrics enrolled for that user. Biometrics data is never transmitted to the server. Users are prompted again to enter their biometrics and PIN. If the match is successful, the private key from the FIDO client keystore is unlocked. The FIDO client signs the challenge using the user's private key and sends it to the FIDO server. The server verifies the signature using the public key received during registration and the user is permitted to login.

Mobile Enrollment and Search

We also offer several other products for mobile biometric enrollment and search, including:

URC|Mobile™ is a software application for capturing fingerprint and facial images on an Android smart phone or tablet using its onboard camera and a tethered fingerprint capture device. It is designed to be used by an enrollment attendant for rapid capture and quality assurance of biometric data and submission to a centralized biometric database for enrollment, search, or authentication. URC|Mobile is best suited for an environment where mobility beyond a desktop is useful or where a more economical client platform than a desktop solution is needed.

Mobile SDKs – We have ported some of our Windows-based SDKs to mobile operating systems, including iOS and Android. They offer the same functionality as the Windows versions, and include documentation and reference applications specific to these operating systems. Our family of mobile SDKs includes: i) NexalFace™ Mobile; ii)

NexalFingerprint™ Mobile; iii) PreFace™ Mobile; iv) LiveScan API Mobile; v) NISTPack Mobile; vi) WSQ1000 Mobile; and vii) AwareXM™ Mobile.

Imaging products

In addition to our biometrics software products, we also sell products used in applications involving medical and advanced imaging. Our principal imaging product is Aware JPEG 2000, which is based on the JPEG2000 standard. The JPEG2000 standard is an image compression standard and coding system that was created by the Joint Photographic Experts Group committee in 2000. Our JPEG2000 product is used to compress, store, and display images. Those images are typically medical images.

Software maintenance

We also sell software maintenance contracts to many of our customers who purchase software licenses. These contracts typically have a one year term during which customers have the right to receive technical support and software updates, if and when they become available. Customers tend to renew maintenance contracts during the period of time that our software is being used in their biometrics systems.

Services

We offer a variety of software engineering services, including: i) project planning and management; ii) system design; iii) software design, development, customization, configuration, and testing; and iv) software integration and installation. Services are typically, but not always, sold in conjunction with software licenses.

Service engagement deliverables may include: i) custom-designed software products; ii) custom-configured versions of existing software products; iii) one or more subsystems comprised of software products that are integrated within a larger system; or iv) complete software solutions. In some cases, the software resulting from service engagements may form the basis for new or improved Aware software products.

Our customers for services include: i) government agencies; ii) large multinational systems integrators; iii) smaller systems integrators with a particular market, technology or geographic focus; and iv) commercial providers of products, solutions, and services. We provide services directly to end-users or indirectly to end-users through systems integrators. When we provide services to systems integrators, they are often engaged with the end-user as a prime contractor and are responsible for delivery of a complete solution, in which case we typically serve as a subcontractor assigned a subset of the total scope of work.

The scope of our services projects varies. A small project might involve configuration and testing of a single software product, taking a small team one month or less. A large project might involve delivery of a more complex solution comprised of multiple products and subsystems, requiring a larger team to conduct project management, system design, software customization and integration, and taking up to one year or more. Some projects are followed by subsequent projects that serve to change or extend the features and functionality of the initial system.

Hardware products

We developed a biometrics software system for a U.S. government customer under a Small Business Innovation Research (“SBIR”) contract that began in 2008 and ended in early 2013. When the software development project ended in early 2013, we entered into a separate contract to supply hardware products incorporating the developed software. Hardware products sold to this customer integrate the developed software with: i) hardware purchased from third parties; ii) software purchased from third parties; and iii) some of our biometrics software products. While other customers could theoretically purchase the hardware products developed for this customer, we believe that it is unlikely that they will do so, because of the highly customized nature of the products.

Sales and Marketing

As of December 31, 2016, we had a total of 11 employees in our sales and marketing organization. In addition to our employee sales staff, we also engage third party sales agents to sell our products and services in foreign countries.

We sell our products and services through three principal channels of distribution:

- i) Systems integrator channel – we sell to systems integrators that incorporate our software products into biometrics systems that are delivered primarily to government end users.
- ii) OEM channel – we sell to hardware and software solution providers that incorporate our software products into their products.
- iii) Direct channel – we also sell directly to government, and, to a lesser degree, to commercial customers.

All of our revenue in 2016, 2015, and 2014 was derived from unaffiliated customers. Revenue from the U.S. Marine Corps represented 18%, 3%, and 10% of total revenue during 2016, 2015, and 2014, respectively. Revenue from Leidos, Inc. represented 18%, 6%, and 1% of total revenue during 2016, 2015, and 2014, respectively. Revenue from Telos Corporation represented 12%, 2%, and 5% of total revenue during 2016, 2015, and 2014, respectively. Revenue from the U.S. Navy represented 6%, 9%, and 24% of total revenue during 2016, 2015, and 2014, respectively. Revenue from Certisign Certificadora Digital S.A. represented 5%, 10%, and 2% of total revenue during 2016, 2015, and 2014, respectively. No other customer represented 10% or more of total revenue in any of those years.

Competition

The markets for our products and services are competitive and uncertain. We compete against: i) other companies that provide biometric software solutions; and ii) fully diversified companies that provide biometric software solutions and also act as systems integrators. We can give no assurance that: i) our products and services will succeed in the market; ii) that we will be able to compete effectively; or iii) that competitive pressures will not seriously harm our business.

Many of our competitors are larger than us and have significantly greater financial, technological, marketing and personnel resources than we do. At the other end of the competitive spectrum, we have seen increasing competition from smaller biometrics companies in foreign countries. These smaller foreign competitors have demonstrated a willingness to sell their biometrics software products at low prices.

We can give no assurance that our customers will continue to purchase products from us or that we will be able to compete effectively in obtaining new customers to maintain or grow our business.

Aware's Strategy

Our strategy is to capitalize on our strong brand and reputation to sell biometrics software products and services into government and commercial markets. We intend to offer a broad portfolio of high quality products that are coupled with expert technical support and services. We expect to continue to employ a three-pronged distribution strategy using systems integrators, OEMs, and direct sales.

See accompanying notes to the unaudited condensed consolidated financial statements.

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income and Comprehensive Income

(Unaudited)

(In thousands, except share and per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Rental and other property	\$302,522	\$268,512	\$876,852	\$684,813
Management and other fees from affiliates	2,104	2,361	6,809	6,856
	304,626	270,873	883,661	691,669
Expenses:				
Property operating, excluding real estate taxes	60,528	56,294	173,547	146,474
Real estate taxes	33,591	31,768	97,820	77,452
Depreciation and amortization	116,308	102,286	336,946	253,890
General and administrative	11,129	11,479	31,223	28,621
Merger and integration expenses	—	3,857	3,798	46,413
Acquisition and investment related costs	381	51	1,357	768
	221,937	205,735	644,691	553,618
Earnings from operations	82,689	65,138	238,970	138,051
Interest expense	(50,053)	(45,830)	(148,401)	(117,021)
Interest and other income	7,367	2,992	14,820	8,685
Equity income in co-investments	7,179	4,910	15,962	21,065
Gains on sale of real estate and land	—	31,372	7,112	38,853
Gain on remeasurement of co-investment	—	—	34,014	—
Net income	47,182	58,582	162,477	89,633
Net income attributable to noncontrolling interest	(3,545)	(3,720)	(11,295)	(8,971)
Net income attributable to controlling interest	43,637	54,862	151,182	80,662
Dividends to preferred stockholders	(1,314)	(1,296)	(3,941)	(3,977)
Net income available to common stockholders	\$42,323	\$53,566	\$147,241	\$76,685
Comprehensive income	\$46,970	\$61,036	\$163,609	\$99,070
Comprehensive income attributable to noncontrolling interest	(3,538)	(3,789)	(11,332)	(9,345)
Comprehensive income attributable to controlling interest	\$43,432	\$57,247	\$152,277	\$89,725
Per share data:				
Basic:				
Net income available to common stockholders	\$0.65	\$0.85	\$2.28	\$1.41
Weighted average number of shares outstanding during the period	65,138,868	62,892,601	64,714,994	54,250,104
Diluted:				
Net income available to common stockholders	\$0.65	\$0.85	\$2.27	\$1.41
Weighted average number of shares outstanding during the period	65,297,550	63,069,772	64,892,770	54,443,227
Dividend per common share	\$1.44	\$1.30	\$4.32	\$3.81

See accompanying notes to the unaudited condensed consolidated financial statements.

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Equity for the nine months ended September 30, 2015

(Unaudited)

(Dollars and shares in thousands)

	Series H Preferred stock		Common stock		Additional paid-in	Distributions in excess of accumulated earnings	Accumulated other comprehensive loss, net	Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount	Capital				
Balances at December 31, 2014	2,950	\$73,750	63,683	\$6	\$6,651,165	\$ (650,797)	\$ (51,452)	\$ 113,396	\$6,136,068
Net income	—	—	—	—	—	151,182	—	11,295	162,477
Change in fair value of derivatives and amortization of swap settlements	—	—	—	—	—	—	1,621	54	1,675
Change in fair value of marketable securities	—	—	—	—	—	—	(526)	(17)	(543)
Issuance of common stock under:									
Stock option and restricted stock plans	—	—	170	—	22,173	—	—	—	22,173
Sale of common stock	—	—	1,382	—	307,835	—	—	—	307,835
Equity based compensation costs	—	—	—	—	2,564	—	—	2,947	5,511
Reclassification of noncontrolling interest to redeemable noncontrolling interest	—	—	—	—	—	—	—	(144)	(144)
Changes in the redemption value of redeemable noncontrolling interest	—	—	—	—	(1,095)	—	—	—	(1,095)
Distributions to noncontrolling interest	—	—	—	—	—	—	—	(16,327)	(16,327)
Redemptions of noncontrolling interest	—	—	—	—	(2,199)	—	—	(422)	(2,621)
	—	—	—	—	—	(283,186)	—	—	(283,186)

Common and
preferred stock
dividends

Balances at

September 30, 2015	2,950	\$73,750	65,235	\$6	\$6,980,443	\$ (782,801)	\$ (50,357)	\$ 110,782	\$6,331,823
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See accompanying notes to the unaudited condensed consolidated financial statements.

ESSEX PROPERTY TRUST, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(In thousands)

	Nine Months Ended September	
	30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 162,477	\$ 89,633
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	336,946	253,890
Amortization of discount on marketable securities	(9,012)	(6,555)
Amortization of (premium) discount and debt financing costs, net	(15,064)	(4,987)
Gain on sale of marketable securities and other investments	(598)	(886)
Company's share of gain on the sales of co-investments	(469)	(3,211)
Earnings from co-investments	(15,493)	(17,854)
Operating distributions from co-investments	28,632	20,122
Gains on the sales of real estate and land	(7,112)	(38,853)
Non cash merger and integration expenses	—	7,562
Equity-based compensation	5,511	4,996
Gain on remeasurement of co-investments	(34,014)	—
Changes in operating assets and liabilities:		
Prepaid expense, receivables and other assets	(1,851)	8,923
Accounts payable and accrued liabilities	36,480	43,988
Other liabilities	1,475	1,393
Net cash provided by operating activities	487,908	358,161
Cash flows from investing activities:		
Additions to real estate:		
Acquisitions of real estate and acquisition related capital expenditures	(327,799)	(438,088)
Redevelopment	(66,783)	(55,921)
Development acquisitions of and additions to real estate under development	(138,101)	(108,659)
Capital expenditures on rental properties	(42,809)	(21,074)
Acquisition of membership interest in co-investments	(115,724)	—
Proceeds from insurance for property losses	12,044	29,160
Proceeds from dispositions of real estate	74,485	61,331
BRE merger consideration paid	—	(555,826)
Proceeds from dispositions of co-investments	31,556	13,900
Contributions to co-investments	(119,120)	(128,268)
Changes in restricted cash and refundable deposits	38,282	(39,482)
Purchases of marketable securities	(14,300)	(15,516)
Sales and maturities of marketable securities and other investments	7,566	6,275
Collections of notes and other receivables	—	76,585
Non-operating distributions from co-investments	382	23,248
Net cash used in investing activities	(660,321)	(1,152,335)
Cash flows from financing activities:		
Borrowings under debt agreements	1,068,032	1,737,322
Repayment of debt	(924,844)	(1,327,840)
Additions to deferred charges	(4,320)	(16,941)
Net proceeds from issuance of common stock	307,835	449,464
Net proceeds from stock options exercises	22,173	6,526

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Distributions to noncontrolling interest	(15,789) (13,217)
Redemption of noncontrolling interest	(2,621) (4,707)
Common and preferred stock dividends paid	(272,000) (177,400)
Net cash provided by financing activities	178,466	653,207	

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	Nine Months Ended September 30,	
	2015	2014
Cash acquired from the BRE merger	—	140,353
Cash acquired in consolidation of co-investment	4,005	—
Net increase (decrease) in cash and cash equivalents	10,058	(614)
Cash and cash equivalents at beginning of period	25,610	18,491
Cash and cash equivalents at end of period	\$35,668	\$17,877
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of \$12.2 million and \$17.8 million capitalized in 2015 and 2014, respectively	\$135,736	\$93,342
Supplemental disclosure of noncash investing and financing activities:		
Issuance of Operating Partnership units for contributed properties	\$—	\$1,419,816
Retirement of Operating Partnership units	\$—	\$(1,419,816)
Transfer from real estate under development to rental properties	\$308,069	\$71,496
Transfer from real estate under development to co-investments	\$5,913	\$81,332
Reclassifications of and changes in redeemable noncontrolling interest from additional paid in capital and noncontrolling interest	\$1,333	\$18,764
Debt assumed in connection with acquisition of co-investment	\$114,435	\$—

See accompanying notes to the unaudited condensed consolidated financial statements.

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Unaudited)

(In thousands, except unit amounts)

	September 30, 2015	December 31, 2014
ASSETS		
Real estate:		
Rental properties:		
Land and land improvements	\$2,566,586	\$2,424,930
Buildings and improvements	9,753,982	8,819,751
	12,320,568	11,244,681
Less accumulated depreciation	(1,858,134)	(1,564,806)
	10,462,434	9,679,875
Real estate under development	226,690	429,096
Co-investments	1,036,043	1,042,423
Real estate held for sale, net	8,742	56,300
	11,733,909	11,207,694
Cash and cash equivalents-unrestricted	35,668	25,610
Cash and cash equivalents-restricted	36,638	70,139
Marketable securities and other investments	133,058	117,240
Notes and other receivables	22,668	24,923
Acquired in place lease value, net	12,675	47,748
Prepaid expenses and other asset	38,101	33,378
Total assets	\$12,012,717	\$11,526,732
LIABILITIES AND CAPITAL		
Unsecured debt, net	\$3,090,896	\$2,603,548
Mortgage notes payable, net	2,224,513	2,234,317
Lines of credit, net	2,011	242,824
Accounts payable and accrued liabilities	177,807	135,162
Construction payable	26,411	30,892
Distributions payable	99,945	88,221
Other liabilities	34,722	32,444
Total liabilities	5,656,305	5,367,408
Commitments and contingencies		
Redeemable noncontrolling interest	24,589	23,256
Capital:		
General Partner:		
Common equity (65,234,597 and 63,682,646 units issued and outstanding, respectively)	6,200,189	6,002,915
Series H 7.125% Preferred interest (liquidation value of \$73,750)	71,209	71,209
	6,271,398	6,074,124
Limited Partners:		
Common equity (2,176,563 and 2,168,158 units issued and outstanding, respectively)	46,793	48,665
Accumulated other comprehensive loss	(48,224)	(49,356)
Total partners' capital	6,269,967	6,073,433
Noncontrolling interest	61,856	62,635
Total capital	6,331,823	6,136,068

Total liabilities and capital	\$ 12,012,717	\$ 11,526,732
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See accompanying notes to the unaudited condensed consolidated financial statements.

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ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

Condensed Consolidated Statements of Income and Comprehensive Income

(Unaudited)

(In thousands, except unit and per unit amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Rental and other property	\$302,522	\$268,512	\$876,852	\$684,813
Management and other fees from affiliates	2,104	2,361	6,809	6,856
	304,626	270,873	883,661	691,669
Expenses:				
Property operating, excluding real estate taxes	60,528	56,294	173,547	146,474
Real estate taxes	33,591	31,768	97,820	77,452
Depreciation and amortization	116,308	102,286	336,946	253,890
General and administrative	11,129	11,479	31,223	28,621
Merger and integration expenses	—	3,857	3,798	46,413
Acquisition and investment related costs	381	51	1,357	768
	221,937	205,735	644,691	553,618
Earnings from operations	82,689	65,138	238,970	138,051
Interest expense	(50,053)	(45,830)	(148,401)	(117,021)
Interest and other income	7,367	2,992	14,820	8,685
Equity income in co-investments	7,179	4,910	15,962	21,065
Gains on sale of real estate and land	—	31,372	7,112	38,853
Gain on remeasurement of co-investment	—	—	34,014	—
Net income	47,182	58,582	162,477	89,633
Net income attributable to noncontrolling interest	(2,074)	(1,904)	(6,180)	(5,529)
Net income attributable to controlling interest	45,108	56,678	156,297	84,104
Preferred interest distributions	(1,314)	(1,296)	(3,941)	(3,977)
Net income available to common unitholders	\$43,794	\$55,382	\$152,356	\$80,127
Comprehensive income	\$46,970	\$61,036	\$163,609	\$99,070
Comprehensive income attributable to noncontrolling interest	(2,074)	(1,904)	(6,180)	(5,529)
Comprehensive income attributable to controlling interest	\$44,896	\$59,132	\$157,429	\$93,541
Per unit data:				
Basic:				
Net income available to common unitholders	\$0.65	\$0.85	\$2.28	\$1.42
Weighted average number of common units outstanding during the period	67,316,498	65,057,157	66,896,293	56,484,589
Diluted:				
Net income available to common unitholders	\$0.65	\$0.85	\$2.27	\$1.41
Weighted average number of common units outstanding during the period	67,475,180	65,234,328	67,074,069	56,677,712
Distribution per common unit	\$1.44	\$1.30	\$4.32	\$3.81

See accompanying notes to the unaudited condensed consolidated financial statements.

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

Condensed Consolidated Statement of Capital for the nine months ended September 30, 2015

(Dollars and units in thousands)

(Unaudited)

	General Partner		Preferred Equity Amount	Limited Partners		Accumulated other comprehensive loss	Noncontrolling	
	Common Units	Equity Amount		Common Units	Equity Amount		Interest	Total
Balances at December 31, 2014	63,683	\$6,002,915	\$71,209	2,168	\$48,665	\$ (49,356)	\$ 62,635	\$6,136,068
Net income	—	147,241	3,941	—	5,115	—	6,180	162,477
Change in fair value of derivatives and amortization of swap settlements	—	—	—	—	—	1,675	—	1,675
Change in fair value of marketable securities	—	—	—	—	—	(543)	—	(543)
Issuance of common units under:								
General partner's stock based compensation	170	22,173	—	—	—	—	—	22,173
Sale of common stock by general partner	1,375	307,835	—	—	—	—	—	307,835
Equity based compensation costs	—	2,564	—	16	2,947	—	—	5,511
Changes in redemption value of redeemable noncontrolling interest	—	(1,095)	—	—	—	—	—	(1,095)
Reclassification of noncontrolling interest to redeemable noncontrolling interest	—	—	—	—	—	—	(144)	(144)
Distributions to noncontrolling interest	—	—	—	—	—	—	(6,393)	(6,393)
Redemptions	7	(2,199)	—	(7)	—	—	(422)	(2,621)
Distributions declared	—	(279,245)	(3,941)	—	(9,934)	—	—	(293,120)
Balances at September 30, 2015	65,235	\$6,200,189	\$71,209	2,177	\$46,793	\$ (48,224)	\$ 61,856	\$6,331,823

See accompanying notes to the unaudited condensed consolidated financial statements.

ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Nine Months Ended September	
	30,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 162,477	\$ 89,633
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	336,946	253,890
Amortization of discount on marketable securities	(9,012)	) (6,555)
Amortization of (premium) discount and debt financing costs, net	(15,064)	) (4,987)
Gain on sale of marketable securities and other investments	(598)	) (886)
Company's share of gain on the sales of co-investments	(469)	) (3,211)
Earnings from co-investments	(15,493)	) (17,854)
Operating distributions from co-investments	28,632	20,122
Gain on the sales of real estate and land	(7,112)	) (38,853)
Non cash merger and integration expenses	—	7,562
Equity-based compensation	5,511	4,996
Gain on remeasurement of co-investments	(34,014)) —
Changes in operating assets and liabilities:		
Prepaid expense, in-place lease value, receivables and other assets	(1,851)	) 8,923
Accounts payable and accrued liabilities	36,480	43,988
Other liabilities	1,475	1,393
Net cash provided by operating activities	487,908	358,161
Cash flows from investing activities:		
Additions to real estate:		
Acquisitions of real estate and acquisition related capital expenditures	(327,799)	) (438,088)
Redevelopment	(66,783)	) (55,921)
Development acquisitions of and additions to real estate under development	(138,101)	) (108,659)
Capital expenditures on rental properties	(42,809)	) (21,074)
Acquisition of membership interest in co-investments	(115,724)) —
Proceeds from insurance for property losses	12,044	29,160
Proceeds from dispositions of real estate	74,485	61,331
BRE merger cash consideration paid	—	(555,826)
Proceeds from dispositions of co-investments	31,556	13,900
Contributions to co-investments	(119,120)	) (128,268)
Changes in restricted cash and refundable deposits	38,282	(39,482)
Purchases of marketable securities	(14,300)	) (15,516)
Sales and maturities of marketable securities and other investments	7,566	6,275
Collections of notes and other receivables	—	76,585
Non-operating distributions from co-investments	382	23,248
Net cash used in investing activities	(660,321)	) (1,152,335)
Cash flows from financing activities:		
Borrowings under debt agreements	1,068,032	1,737,322
Repayment of debt	(924,844)	) (1,327,840)
Additions to deferred charges	(4,320)	) (16,941)
Net proceeds from issuance of common units	307,835	449,464
Net proceeds from stock options exercises	22,173	6,526

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Distributions to noncontrolling interest	(6,455) (3,462)
Redemption of noncontrolling interest	(2,621) (308)
Common and preferred units and preferred interest distributions paid	(281,334) (191,554)
Net cash provided by financing activities	178,466	653,207	

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	Nine Months Ended September 30,	
	2015	2014
Cash acquired from the BRE merger	—	140,353
Cash acquired in consolidation of co-investment	4,005	—
Net increase (decrease) in cash and cash equivalents	10,058	(614)
Cash and cash equivalents at beginning of period	25,610	18,491
Cash and cash equivalents at end of period	\$35,668	\$17,877
Supplemental disclosure of cash flow information:		
Cash paid for interest, net of \$12.2 million and \$17.8 million capitalized in 2015 and 2014, respectively	\$135,736	\$93,342
Supplemental disclosure of noncash investing and financing activities:		
Issuance of Operating Partnership units for contributed properties	\$—	\$1,419,816
Retirement of Operating Partnership units	\$—	\$(1,419,816)
Transfer from real estate under development to rental properties	\$308,069	\$71,496
Transfer from real estate under development to co-investments	\$5,913	\$81,332
Reclassification of and changes in redeemable noncontrolling interest from common equity and noncontrolling interest	\$1,333	\$18,764
Debt assumed in connection with acquisition of co-investment	\$114,435	\$—

See accompanying notes to the unaudited condensed consolidated financial statements.

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(1) Organization and Basis of Presentation

The accompanying unaudited condensed consolidated financial statements present the accounts of Essex Property Trust, Inc. ("Essex" or the "Company"), which include the accounts of the Company and Essex Portfolio, L.P. and subsidiaries (the "Operating Partnership," which holds the operating assets of the Company), prepared in accordance with U.S. generally accepted accounting principles ("GAAP") for interim financial information and in accordance with the instructions to Form 10-Q. In the opinion of management, all adjustments necessary for a fair presentation of the financial position, results of operations and cash flows for the periods presented have been included and are normal and recurring in nature. These unaudited condensed consolidated financial statements should be read in conjunction with the audited consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2014.

All significant intercompany balances and transactions have been eliminated in the condensed consolidated financial statements. Certain reclassifications have been made to conform to the current year's presentation.

The unaudited condensed consolidated financial statements for the three and nine months ended September 30, 2015 and 2014 include the accounts of the Company and the Operating Partnership. Essex is the sole general partner in the Operating Partnership, with a 96.8% general partnership interest as of September 30, 2015. Total Operating Partnership limited partnership units outstanding were 2,176,563 and 2,168,158 as of September 30, 2015 and December 31, 2014, respectively, and the redemption value of the units, based on the closing price of the Company's common stock totaled \$486.3 million and \$447.9 million, as of September 30, 2015 and December 31, 2014, respectively.

As of September 30, 2015, the Company owned or had ownership interests in 245 stabilized apartment communities, aggregating 58,768 apartment homes, excluding the Company's ownership in preferred interest co-investments, (collectively, the "Communities", and individually, a "Community"), four commercial buildings and nine active developments (collectively, the "Portfolio"). The Communities are located in Southern California (primarily Los Angeles, Orange, San Diego, and Ventura counties), Northern California (the San Francisco Bay Area) and the Seattle metropolitan areas.

New Accounting Pronouncements

In February 2015, the FASB issued ASU No. 2015-02 "Consolidation (Topic 810): Amendments to the Consolidation Analysis," which provides new consolidation guidance and makes changes to both the variable interest model and the voting model. Among other changes, the new standard specifically eliminates the presumption in the current voting model that a general partner controls a limited partnership or similar entity unless that presumption can be overcome. Generally, only a single limited partner that is able to exercise substantive kick-out rights will consolidate. The new standard will be effective for the Company beginning on January 1, 2016 and early adoption is permitted, including adoption in an interim period. The new standard must be applied using a modified retrospective approach by recording a cumulative-effect adjustment to equity/capital as of the beginning of the period of adoption or retrospectively to each period presented. The Company has not yet selected a transition method and is currently evaluating the impact of adopting the new standard on its consolidated results of operations and financial position.

In April 2015, the FASB issued ASU No. 2015-03 "Simplifying the Presentation of Debt Issuance Costs," which requires companies to present debt financing costs as a direct deduction from the carrying amount of the associated debt liability rather than as an asset, consistent with the presentation of debt discounts on the consolidated balance sheets. The new standard will be effective for the Company beginning on January 1, 2016 and early adoption is permitted. The new standard must be applied retrospectively to all prior periods presented in the consolidated financial statements. The Company adopted this standard during the second quarter of 2015. This adoption resulted in a reclassification of \$27.1 million and \$29.4 million in debt issuance costs, net of accumulated amortization from an asset to a reduction to associated debt liabilities as of September 30, 2015 and December 31, 2014, respectively.

Marketable Securities

The Company reports its available for sale securities at fair value, based on quoted market prices (Level 2 for the unsecured bonds and Level 1 for the common stock and investment funds, as defined by the Financial Accounting Standards Board

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("FASB") standard for fair value measurements), and any unrealized gain or loss is recorded as other comprehensive income (loss). Realized gains and losses, interest and dividend income, and amortization of purchase discounts are included in interest and other income on the condensed consolidated statements of income and comprehensive income.

As of September 30, 2015 and December 31, 2014, marketable securities consisted primarily of investment-grade unsecured bonds, common stock, investments in mortgage backed securities and investment funds that invest in US treasury or agency securities. As of September 30, 2015 and December 31, 2014, the Company classified its investments in mortgage backed securities, which mature through November 2019 and September 2020, as held to maturity, and accordingly, these securities are stated at their amortized cost. As of September 30, 2015 and December 31, 2014, marketable securities consist of the following (\$ in thousands):

	September 30, 2015		
	Amortized Cost	Gross Unrealized Gain	Carrying Value
Available for sale:			
Investment-grade unsecured bonds	\$11,633	\$144	\$11,777
Investment funds - US treasuries	5,020	6	5,026
Common stock and stock funds	34,653	4,609	39,262
Held to maturity:			
Mortgage backed securities	76,993	—	76,993
Total - Marketable securities and other investments	\$128,299	\$4,759	\$133,058
	December 31, 2014		
	Amortized Cost	Gross Unrealized Gain	Carrying Value
Available for sale:			
Investment-grade unsecured bonds	\$9,435	\$145	\$9,580
Investment funds - US treasuries	3,769	3	3,772
Common stock and stock funds	25,755	5,137	30,892
Held to maturity:			
Mortgage backed securities	67,996	—	67,996
Total - marketable securities	\$106,955	\$5,285	\$112,240
Other investments	5,000	—	5,000
Total - Marketable securities and other investments	\$111,955	\$5,285	\$117,240

The Company uses the specific identification method to determine the cost basis of a security sold and to reclassify amounts from accumulated other comprehensive income for securities sold. For the nine months ended September 30, 2015 and 2014, the proceeds from sales of available for sale securities totaled \$2.0 million and \$6.3 million, respectively, which resulted in no realized gains or losses and gains of \$0.9 million, respectively. For the nine months ended September 30, 2015 and 2014, the proceeds from the sale of other investments totaled \$5.6 million and none, respectively, which resulted in a realized gain of \$0.6 million and none, respectively.

Variable Interest Entities

The Company consolidates 19 DownREIT limited partnerships (comprising twelve communities) since the Company is the primary beneficiary of these variable interest entities (“VIEs”). Total DownREIT units outstanding were 963,172 and 974,790 as of September 30, 2015 and December 31, 2014 respectively, and the redemption value of the units, based on the closing price

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of the Company's common stock totaled \$215.2 million and \$201.4 million, as of September 30, 2015 and December 31, 2014, respectively. The consolidated total assets and liabilities related to these VIEs, net of intercompany eliminations, were approximately \$239.5 million and \$208.1 million, respectively, as of September 30, 2015 and \$235.1 million and \$209.1 million, respectively, as of December 31, 2014. Interest holders in VIEs consolidated by the Company are allocated income equal to the cash distributions made to those interest holders. The remaining results of operations are allocated to the Company. As of September 30, 2015 and December 31, 2014, the Company did not have any other VIEs of which it was deemed to be the primary beneficiary.

Equity Based Compensation

The Company accounts for equity based compensation using the fair value method of accounting. The estimated fair value of stock options granted by the Company is being amortized over the vesting period of the stock options. The estimated grant date fair values of the long term incentive plan units (discussed in Note 13, "Equity Based Compensation Plans," in the Company's Form 10-K for the year ended December 31, 2014) are being amortized over the expected service periods.

Fair Value of Financial Instruments

Management believes that the carrying amounts of outstanding lines of credit, and notes and other receivables approximate fair value as of September 30, 2015 and December 31, 2014, because interest rates, yields and other terms for these instruments are consistent with yields and other terms currently available for similar instruments. Management has estimated that the fair value of the Company's \$4.7 billion of fixed rate debt, including unsecured debt, at September 30, 2015 is approximately \$4.9 billion and the Company's variable rate debt, excluding borrowings under the lines of credit, at September 30, 2015 approximates its fair value based on the terms of existing mortgage notes payable, unsecured debt and variable rate demand notes compared to those available in the marketplace. Management believes that the carrying amounts of cash and cash equivalents, restricted cash, accounts payable and accrued liabilities, construction payables, other liabilities and dividends payable approximate fair value as of September 30, 2015 due to the short-term maturity of these instruments. Marketable securities, except mortgage backed securities that are held to maturity, and derivatives are carried at fair value as of September 30, 2015.

At September 30, 2015, the Company's investments in mortgage backed securities had a carrying value of \$77.0 million and the Company estimated the fair value to be approximately \$107.4 million. At December 31, 2014, the Company's investments in mortgage backed securities had a carrying value of \$68.0 million and the Company estimated the fair value to be approximately \$96.0 million. The Company determines the fair value of the mortgage backed securities based on unobservable inputs (level 3 of the fair value hierarchy) considering the assumptions that market participants would make in valuing these securities. Assumptions such as estimated default rates and discount rates are used to determine expected discounted cash flows to estimate the fair value.

Capitalization of Costs

The Company's capitalized internal costs related to development and redevelopment projects were comprised primarily of employee compensation and totaled \$2.9 million during both the three months ended September 30, 2015 and 2014, respectively, and \$8.3 million and \$7.6 million during the nine months ended September 30, 2015 and 2014, respectively. The Company capitalizes leasing commissions associated with the lease-up of a development community

and amortizes the costs over the life of the leases. The amounts capitalized for leasing commissions are immaterial for all periods presented.

Co-investments

The Company owns investments in joint ventures (“co-investments”) in which it has significant influence, but its ownership interest does not meet the criteria for consolidation in accordance with U.S. GAAP. Therefore, the Company accounts for co-investments using the equity method of accounting. The equity method employs the accrual basis for recognizing the investor’s share of investee income or losses. In addition, distributions received from the investee are treated as a reduction in the investment account, not as income. The significant accounting policies of the Company’s co-investment entities are consistent with those of the Company in all material respects.

Upon the acquisition of a controlling interest of a co-investment, the co-investment entity is consolidated and a gain or loss is recognized upon the remeasurement of co-investments in the condensed consolidated statement of income equal to the amount

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by which the fair value of the co-investment interest the Company previously owned exceeds its carrying value. A majority of the co-investments, excluding the preferred equity investments, compensate the Company for its asset management services and may provide promote income if certain financial return benchmarks are achieved. Asset management fees are recognized when earned, and promote fees are recognized when the earnings events have occurred and the amount is determinable and collectible. Any promote fees are reflected in equity income in co-investments.

Changes in Accumulated Other Comprehensive Loss, Net by Component

Essex Property Trust, Inc.

(in thousands)

	Change in fair value and amortization of swap settlements	Unrealized gains on available for sale securities	Total
Balance at December 31, 2014	\$(56,003	) \$4,551	\$(51,452)
Other comprehensive income before reclassification	(4,403	) (526	) (4,929)
Amounts reclassified from accumulated other comprehensive loss	6,024	—	6,024
Other comprehensive income	1,621	(526	) 1,095
Balance at September 30, 2015	\$(54,382	) \$4,025	\$(50,357)

Changes in Accumulated Other Comprehensive Loss, by Component

Essex Portfolio, L.P.

(in thousands):

	Change in fair value and amortization of swap settlements	Unrealized gains on available for sale securities	Total
Balance at December 31, 2014	\$(53,980	) \$4,624	\$(49,356)
Other comprehensive income before reclassification	(4,552	) (543	) (5,095)
Amounts reclassified from accumulated other comprehensive loss	6,227	—	6,227
Other comprehensive income	1,675	(543	) 1,132
Balance at September 30, 2015	\$(52,305	) \$4,081	\$(48,224)

Amounts reclassified from accumulated other comprehensive loss in connection with derivatives are recorded in interest expense on the condensed consolidated statement of income and comprehensive income. Realized gains and losses on available for sale securities are included in interest and other income on the condensed consolidated statement of income and comprehensive income.

Accounting Estimates

The preparation of condensed consolidated financial statements, in accordance with GAAP, requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to acquiring, developing and assessing the carrying values of its real estate portfolio, its investments in and advances to joint ventures and affiliates, its notes receivables and its qualification as a Real Estate Investment Trust ("REIT"). The Company bases its estimates on historical experience, current market conditions, and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may vary from those estimates and those estimates could be different under different assumptions or conditions.

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BRE Merger

The merger with BRE Properties, Inc. ("BRE") was a two step process. First, 14 of the BRE properties were acquired on March 31, 2014 in exchange for \$1.4 billion of limited partnership interests in the Operating Partnership ("OP Units"). The fair value of these properties was substantially all attributable to rental properties which included land, buildings and improvements, and real estate under development and approximately \$19 million was attributable to acquired in-place lease value. Second, the BRE merger was closed on April 1, 2014 in exchange for the total consideration of approximately \$4.3 billion. A summary of the fair value of the assets and liabilities acquired on April 1, 2014 was as follows (includes the 14 properties acquired on March 31, 2014 as the OP Units issued were retired on April 1, 2014) (in millions):

Cash assumed	\$ 140	
Rental properties and real estate under development	5,605	
Real estate held for sale, net	108	
Co-investments	224	
Acquired in-place lease value	77	
Other assets	16	
Mortgage notes payable and unsecured debt	(1,747)
Other liabilities	(87)
Redeemable noncontrolling interest	(5)
	\$4,331	
Cash consideration for BRE merger	\$556	
Equity consideration for BRE merger	3,775	
Total consideration for BRE merger	\$4,331	

During the quarter ended March 31, 2015, the Company recorded adjustments to decrease the preliminary fair value of real property by \$13.1 million, to increase the preliminary fair value of co-investments by \$6.0 million and to decrease its preliminary estimate for liabilities assumed by \$7.1 million. The changes in estimates were the result of subsequent additional information pertaining to the opening balance sheet identified by management. The Company believes that the information gathered to date provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed. Due to these adjustments and the resulting adjustments to depreciation expense, certain amounts do not agree to previously reported balances.

(2) Significant Transactions During the Third Quarter of 2015 and Subsequent Events

Significant Transactions

Preferred Equity Investments

In August 2015, the Company made a \$5.0 million preferred equity investment in a related party limited liability company that owns Alta Vista Apartments, a 92 apartment community located in Los Angeles, CA. This investment will earn a 9.5% preferred return and is scheduled to mature in August 2022. (See Note 5 - "Related Party Transactions" for further discussion.)

In August 2015, the Company redeemed a preferred equity investment in a joint venture that holds property in San Jose, CA with a carrying value of \$20.4 million. The Company recognized a gain of \$1.5 million as a result of this redemption which is included in equity income from co-investments in the Condensed Consolidated Statement of Income and Comprehensive Income.

Common Stock

During the third quarter, the Company issued 155,728 shares of common stock, through our equity distribution program, at an average price of \$228.61 for net proceeds of \$35.4 million.

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Subsequent Events

During the fourth quarter through October 30, 2015, the Company sold 107,098 shares of common stock for \$24.3 million, net of fees and commissions, at an average price of \$228.61.

(3) Co-investments

The Company has co-investments, which are accounted for under the equity method. The co-investments own, operate and develop apartment communities. The following table details the carrying value of Company's co-investments (in thousands):

	September 30, 2015	December 31, 2014
Membership interest/Partnership interest in:		
CPPIB	\$335,493	\$336,977
Wesco I, III and IV	218,316	256,790
BEXAEW	89,236	97,686
Palm Valley	69,428	70,186
Other	6,143	19,519
Total operating co-investments	718,616	781,158
Total development co-investments	212,892	152,574
Total preferred interest co-investments (includes related party investments of \$35.4 million and \$40.8 million as of September 30, 2015 and December 31, 2014, respectively)	104,535	108,691
Total co-investments	\$1,036,043	\$1,042,423

The combined summarized financial information of co-investments are as follows (in thousands).

	September 30, 2015	December 31, 2014
Combined balance sheets: ⁽¹⁾		
Rental properties and real estate under development	\$3,281,309	\$3,426,574
Other assets	117,430	107,902
Total assets	\$3,398,739	\$3,534,476
Debt	\$1,423,734	\$1,568,398
Other liabilities	109,504	91,579
Equity ⁽¹⁾	1,865,501	1,874,499
Total liabilities and equity	\$3,398,739	\$3,534,476
Company's share of equity	\$1,036,043	\$1,042,423

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Combined statements of income: ⁽¹⁾				
Property revenues	\$65,869	\$51,725	\$191,458	\$128,469
Property operating expenses	(23,094)	(18,759)	(69,232)	(48,875)
Net operating income	42,775	32,966	122,226	79,594
Gain on sale of real estate	—	—	14	11,369
Interest expense	(11,314)	(9,838)	(33,727)	(25,283)
General and administrative	(1,335)	(1,840)	(4,414)	(5,039)
Equity income from co-investments ⁽²⁾	—	4,808	—	14,351
Depreciation and amortization	(26,574)	(21,357)	(76,220)	(49,935)
Net income	\$3,552	\$4,739	\$7,879	\$25,057
Company's share of net income ⁽³⁾	\$7,179	\$4,910	\$15,962	\$21,065

⁽¹⁾ Includes preferred equity investments held by the Company.

⁽²⁾ Represents income from Wesco II's preferred equity investment in Park Merced.

⁽³⁾ Includes the Company's share of equity income from co-investments and preferred equity investments, gain on sales of co-investments, co-investment promote income and income from early redemption of preferred equity investments. Includes related party income of \$0.8 million and \$1.1 million for the three months ended September 30, 2015 and 2014, respectively and \$2.9 million for both the nine months ended September 30, 2015 and 2014.

(4) Notes and Other Receivables

Notes receivable secured by real estate and other receivables consist of the following as of September 30, 2015 and December 31, 2014 (in thousands):

	September 30, 2015	December 31, 2014
Notes receivable, secured, bearing interest at 6.0%, due December 2016	\$3,219	\$3,212
Notes and other receivables from affiliates	4,336	8,105
Other receivables	15,113	13,606
	\$22,668	\$24,923

(5) Related Party Transactions

The Company charges certain fees to its co-investments for asset management, property management, development and redevelopment services. These fees from affiliates totaled \$3.3 million and \$4.1 million during the three months ended September 30, 2015 and 2014, respectively and \$12.5 million and \$11.7 million during the nine months ended September 30, 2015 and 2014, respectively. All of these fees are net of intercompany amounts eliminated by the Company. The Company netted development and redevelopment fees of \$1.2 million and \$1.7 million against general and administrative expenses for the three months ended September 30, 2015 and 2014, respectively and \$5.8 million and \$4.9 million for the nine months ended September 30, 2015 and 2014, respectively.

The Company's Chairman and founder, Mr. George Marcus, is the Chairman of the Marcus & Millichap Company ("MMC"), which is a parent company of a diversified group of real estate investment and development firms. Mr. Marcus is also the Co-Chairman of Marcus & Millichap, Inc. ("MMI"), and Mr. Marcus owns a controlling interest in MMI, a national brokerage firm listed on the NYSE.

During the first quarter, a multifamily property, located in Anaheim, CA that was owned by an entity affiliated with MMC, in which the Company held a \$13.7 million preferred equity investment, was sold. That investment of \$13.7 million plus an

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additional \$1.3 million in cash was invested as outlined in the next two paragraphs. Prior to the property sale, the \$13.7 million preferred equity investment earned a 9.0% preferred return and was scheduled to mature in September 2020.

In June 2015, the Company made a \$10.0 million preferred equity investment in an entity affiliated with MMC that owns Greentree Apartments, a 220 apartment community located in San Jose, CA. This investment will earn a 9.5% preferred return and is scheduled to mature in June 2022. Independent members of the Company's Board of Directors that serve on the Nominating and Corporate Governance and Audit Committees approved the investment in this entity.

In June 2015, the Company made a \$5.0 million preferred equity investment in an entity affiliated with MMC that owns Sterling Cove Apartments, a 218 apartment community located in Concord, CA. This investment will earn a 9.5% preferred return and is scheduled to mature in June 2022. Independent members of the Company's Board of Directors that serve on the Nominating and Corporate Governance and Audit Committees approved the investment in this entity.

In August 2015, the Company made a \$5.0 million preferred equity investment in an entity affiliated with MMC that owns Alta Vista Apartments, a 92 apartment community located in Los Angeles, CA. This investment will earn a 9.5% preferred return and is scheduled to mature in August 2022. Independent members of the Company's Board of Directors that serve on the Nominating and Corporate Governance and Audit Committees approved the investment in this entity.

In July 2014, the Company acquired Paragon Apartments, a 301 apartment community located in Fremont, CA for \$111.0 million from an entity that was partially owned by an affiliate of MMC. Independent members of the Company's Board of Directors that serve on the Nominating and Corporate Governance and Audit Committees approved the acquisition of Paragon Apartments.

The Company has provided short-term bridge loans to affiliates. As of September 30, 2015 and December 31, 2014, \$4.3 million and \$8.1 million of short-term loans remained outstanding due from joint venture affiliates and is classified within notes and other receivables in the accompanying condensed consolidated balance sheets.

(6) Debt

The Company does not have indebtedness as debt is incurred by the Operating Partnership. The Company guarantees the Operating Partnership's unsecured debt including the revolving credit facilities for the full term of such debt.

Debt consists of the following (\$ in thousands):

	September 30, 2015	December 31, 2014	Weighted Average Maturity In Years
Unsecured bonds private placement - fixed rate	\$463,776	\$463,443	3.5
Term loan - variable rate	224,383	224,130	1.2
Unsecured bonds - fixed rate	2,402,737	1,915,975	7.0
Unsecured debt, net ⁽¹⁾	3,090,896	2,603,548	

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Lines of credit, net ⁽²⁾	2,011	242,824	
Mortgage notes payable, net ⁽³⁾	\$2,224,513	\$2,234,317	6.3
Total debt	\$5,317,420	\$5,080,689	
Weighted average interest rate on fixed rate unsecured and unsecured private placement bonds	3.6	% 3.6	%
Weighted average interest rate on variable rate term loan	2.4	% 2.4	%
Weighted average interest rate on lines of credit	1.7	% 1.8	%
Weighted average interest rate on mortgage notes payable	4.5	% 4.6	%

(1) Includes unamortized premium of \$17.3 million and \$27.5 million and reduced by unamortized debt issuance costs of \$16.4 million and \$13.9 million, as of September 30, 2015 and December 31, 2014, respectively.

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(Unaudited)

(2) Lines of credit, net excludes unamortized debt issuance costs of \$3.6 million as of September 30, 2015 as the net effect resulted in a debit balance and was reclassified to prepaid expenses and other assets on the condensed consolidated balance sheets. The December 31, 2014 amount includes \$3.6 million of unamortized debt issuance costs because the net balance resulted in a credit balance and is presented on a net basis.

(3) Includes unamortized premium of \$69.3 million and \$83.8 million and reduced by unamortized debt issuance costs of \$10.7 million and \$11.9 million, as of September 30, 2015 and December 31, 2014, respectively.

The aggregate scheduled principal payments of the Company's outstanding debt as of September 30, 2015 are as follows (excluding lines of credit) (\$ in thousands):

Remaining in 2015	\$7,296
2016	379,707
2017	564,178
2018	320,621
2019	641,393
Thereafter	3,342,742
	\$5,255,937

(7) Segment Information

The Company defines its reportable operating segments as the three geographical regions in which its communities are located: Southern California, Northern California and Seattle Metro. Excluded from segment revenues and net operating income are management and other fees from affiliates, and interest and other income. Non-segment revenues and net operating income included in the following schedule also consist of revenue generated from commercial properties. Other non-segment assets include real estate under development, co-investments, cash and cash equivalents, marketable securities, notes and other receivables, prepaid expenses and other assets and deferred charges.

The revenues and net operating income for each of the reportable operating segments are summarized as follows for the three and nine months ended September 30, 2015 and 2014 (\$ in thousands):

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Notes to Condensed Consolidated Financial Statements

September 30, 2015 and 2014

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Revenues:				
Southern California	\$ 135,900	\$ 122,089	\$ 394,375	\$ 311,873
Northern California	110,483	94,807	319,834	239,018
Seattle Metro	51,181	47,132	149,662	120,281
Other real estate assets	4,958	4,484	12,981	13,641
Total property revenues	\$ 302,522	\$ 268,512	\$ 876,852	\$ 684,813
Net operating income:				
Southern California	90,377	78,860	263,715	204,177
Northern California	79,223	66,313	228,190	167,034
Seattle Metro	34,484	31,751	101,288	80,198
Other real estate assets	4,319	3,526	12,292	9,478
Total net operating income	208,403	180,450	605,485	460,887
Management and other fees from affiliates	2,104	2,361	6,809	6,856
Depreciation and amortization	(116,308)	(102,286)	(336,946)	(253,890)
General and administrative	(11,129)	(11,479)	(31,223)	(28,621)
Merger and integration expenses	—	(3,857)	(3,798)	(46,413)
Acquisition and investment related costs	(381)	(51)	(1,357)	(768)
Interest expense	(50,053)	(45,830)	(148,401)	(117,021)
Interest and other income	7,367	2,992	14,820	8,685
Equity income from co-investments	7,179	4,910	15,962	21,065
Gains on sale of real estate and land	—	31,372	7,112	38,853
Gain on remeasurement of co-investment	—	—	34,014	—
Net income	\$ 47,182	\$ 58,582	\$ 162,477	\$ 89,633

Total assets for each of the reportable operating segments are summarized as follows as of September 30, 2015 and December 31, 2014 (\$ in thousands):

	September 30, 2015	December 31, 2014
Assets:		
Southern California	\$ 4,813,844	\$ 4,241,277
Northern California	3,888,700	3,641,720
Seattle Metro	1,616,932	1,647,058
Other real estate assets	142,958	149,820
Net reportable operating segment - real estate assets	10,462,434	9,679,875
Real estate under development	226,690	429,096
Co-investments	1,036,043	1,042,423
Real estate held for sale, net	8,742	56,300
Cash and cash equivalents, including restricted cash	72,306	95,749
Marketable securities and other investments	133,058	117,240
Notes and other receivables	22,668	24,923
Other non-segment assets	50,776	81,126

Total assets	\$12,012,717	\$11,526,732
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ESSEX PORTFOLIO, L.P. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

September 30, 2015 and 2014

(Unaudited)

(8) Net Income Per Common Share

(Amounts in thousands, except per share and unit data)

Essex Property Trust, Inc.

	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
	Income	Weighted- average Common Shares	Per Common Share Amount	Income	Weighted- average Common Shares	Per Common Share Amount
Basic:						
Net income available to common stockholders	\$42,323	65,138,868	\$0.65	\$53,566	62,892,601	\$0.85
Effect of Dilutive Securities	—	158,682		—	177,171	
Diluted:						
Net income available to common stockholders	\$42,323	65,297,550	\$0.65	\$53,566	63,069,772	\$0.85
	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
	Income	Weighted- average Common Shares	Per Common Share Amount	Income	Weighted- average Common Shares	Per Common Share Amount
Basic:						
Net income available to common stockholders	\$147,241	64,714,994	\$2.28	\$76,685	54,250,104	\$1.41
Effect of Dilutive Securities	—	177,776		—	193,123	
Diluted:						
Net income available to common stockholders	\$147,241	64,892,770	\$2.27	\$76,685	54,443,227	\$1.41

Weighted average convertible limited partnership units of 2,177,630 and 2,164,556, which include vested Series Z-1 incentive units, for the three months ended September 30, 2015 and 2014, respectively, and 2,181,299 and 2,234,485 for the nine months ended September 30, 2015, and 2014, respectively, were not included in the determination of diluted EPS because they were anti-dilutive. The related income allocated to these convertible limited partnership units, which includes vested Series Z-1 units, aggregated \$1.5 million and \$1.8 million for the three months ended September 30, 2015 and 2014, respectively, and \$5.1 million and \$3.4 million for the nine months ended September 30, 2015 and 2014, respectively. Additionally, excludes 902,668 DownREIT units as they are anti-dilutive.

Stock options of 24,500 and 24,500 were excluded from the calculation of diluted earnings per share for the three and nine months ended September 30, 2015, respectively, because the effects on earnings per share were anti-dilutive. Stock options of 8,343 and 42,518 for the three and nine months ended September 30, 2014, respectively, were not included in the diluted earnings per share calculation because the effects on earnings per share were anti-dilutive.

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Notes to Condensed Consolidated Financial Statements

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(Unaudited)

Essex Portfolio, L.P.

	Three Months Ended September 30, 2015			Three Months Ended September 30, 2014		
	Income	Weighted- average Common Units	Per Common Unit Amount	Income	Weighted- average Common Units	Per Common Unit Amount
Basic:						
Net income available to common unitholders	\$43,794	67,316,498	\$0.65	\$55,382	65,057,157	\$0.85
Effect of Dilutive Securities	—	158,682		—	177,171	
Diluted:						
Net income available to common unitholders	\$43,794	67,475,180	\$0.65	\$55,382	65,234,328	\$0.85
	Nine Months Ended September 30, 2015			Nine Months Ended September 30, 2014		
	Income	Weighted- average Common Units	Per Common Unit Amount	Income	Weighted- average Common Units	Per Common Unit Amount
Basic:						
Net income available to common unitholders	\$152,356	66,896,293	\$2.28	\$80,127	56,484,589	\$1.42
Effect of Dilutive Securities	—	177,776		—	193,123	
Diluted:						
Net income available to common unitholders	\$152,356	67,074,069	\$2.27	\$80,127	56,677,712	\$1.41

Stock options of 24,500 and 24,500 were excluded from the calculation of diluted earnings per share for the three and nine months ended September 30, 2015, respectively, because the effects on earnings per share were anti-dilutive. Stock options of 8,343 and 42,518 for the three and nine months ended September 30, 2014, respectively, were not included in the diluted earnings per share calculation because the effects on earnings per share were anti-dilutive. Additionally, excludes 902,668 DownREIT units as they are anti-dilutive.

(9) Derivative Instruments and Hedging Activities

As of September 30, 2015, the Company has entered into interest rate swap contracts with an aggregate notional amount of \$225 million that effectively fixed the interest rate on the \$225 million unsecured term loan at 2.4%. These derivatives qualify for hedge accounting.

As of September 30, 2015, the Company has interest rate cap contracts totaling a notional amount of \$148.1 million that effectively limit the Company's exposure to interest rate risk by providing a ceiling on the underlying variable

interest rate for substantially all of the Company's tax exempt variable rate debt.

The Company has total return swaps, with a notional amount of \$114.4 million and a carrying value and fair value of \$5 thousand at September 30, 2015.

As of September 30, 2015 and December 31, 2014, the aggregate carrying value of the interest rate swap contracts was a liability of \$1.9 million and \$1.8 million, respectively, which is classified in other liabilities on the condensed consolidated balance sheets. The aggregate carrying value of the interest rate cap contracts was zero on the balance sheets as of September 30, 2015 and December 31, 2014.

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Notes to Condensed Consolidated Financial Statements

September 30, 2015 and 2014

(Unaudited)

(10) Commitments and Contingencies

To the extent that an environmental matter arises or is identified in the future that has other than a remote risk of having a material impact on the condensed consolidated financial statements, the Company will disclose the estimated range of possible outcomes, and, if an outcome is probable, accrue an appropriate liability for remediation and other potential liability. The Company will consider whether such occurrence results in an impairment of value on the affected property and, if so, impairment will be recognized. The Company is subject to various lawsuits in the normal course of its business operations.

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

The following discussion should be read in conjunction with the Company's Condensed Consolidated Financial Statements and accompanying Notes thereto included elsewhere herein and with the Company's 2014 Annual Report on Form 10-K for the year ended December 31, 2014.

The Company is a self-administered and self-managed REIT that acquires, develops, redevelops and manages apartment communities in selected residential areas located primarily in the West Coast of the United States. Essex owns all of its interests in its real estate investments, directly or indirectly, through the Operating Partnership. Essex is the sole general partner of the Operating Partnership and, as of September 30, 2015, had an approximately 96.8% general partner interest in the Operating Partnership.

The Company's investment strategy has two components: constant monitoring of existing markets, and evaluation of new markets to identify areas with the characteristics that underlie rental growth. The Company's strong financial condition supports its investment strategy by enhancing its ability to quickly shift acquisition, development, redevelopment, and disposition activities to markets that will optimize the performance of the portfolio.

As of September 30, 2015, the Company had ownership interests in 245 stabilized apartment communities, comprising 58,768 apartment homes, excluding the Company's ownership in preferred equity interest co-investments, and the Company also had ownership interests in four commercial buildings with approximately 320,235 square feet and nine active developments. The Company's apartment communities are located in the following major West Coast regions:

Southern California (Los Angeles, Orange, Riverside, San Diego, Santa Barbara, and Ventura counties)

Northern California (the San Francisco Bay Area)

Seattle Metro (Seattle metropolitan area)

As of September 30, 2015, the Company's development pipeline was comprised of two consolidated projects under development and seven unconsolidated joint venture projects under development, all aggregating 2,759 apartment homes, with total incurred costs of \$0.8 billion, and estimated remaining project costs of \$0.8 billion for total estimated project costs of \$1.6 billion.

The Company's consolidated apartment communities are as follows:

As of September 30, 2015 As of September 30, 2014

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	Apartment Homes	%		Apartment Homes	%	
Southern California	23,514	48	%	22,168	46	%
Northern California	14,807	31	%	14,601	31	%
Seattle Metro	10,239	21	%	10,216	21	%
Arizona	-	-		902	2	%
Total	48,560	100	%	47,887	100	%

Co-investments, including Wesco I, LLC ("Wesco I"), Wesco III, LLC ("Wesco III"), Wesco IV, LLC ("Wesco IV"), Canadian Pension Plan Investment Board ("CPPIB" or "CPP"), Palm Valley and BEXAEW, LLC ("BEXAEW") communities, and preferred equity interest co-investment communities are not included in the table presented above for both periods.

On April 1, 2014, the Company completed the merger with BRE Properties, Inc. ("BRE"). For further details regarding the merger see the discussion set forth under the caption "BRE Merger" in Note 1 of the Notes to Consolidated Financial Statements set forth in Part I, Item 1 of this Quarterly Report on Form 10-Q, which is incorporated herein by reference. The net assets and results of operations of BRE are included in our consolidated financial statements as of April 1, 2014.

In March 2015, the Company issued \$500.0 million of 3.50% senior unsecured notes that mature on April 1, 2025. The interest is payable semi-annually in arrears on April 1 and October 1 of each year, commencing October 1, 2015 until the maturity date in April 2025. The Company used the net proceeds of this offering to repay indebtedness under the Company's \$1.0 billion unsecured line of credit facility, its \$25.0 million unsecured working capital line and for other general corporate purposes.

In March 2015, the Company purchased a controlling interest in The Huxley and The Dylan, two properties with a total of 371 apartment homes, located in West Hollywood, California, with cash and the assumption of the mortgage loans with a principal balance of \$114.4 million and with a remaining term to maturity of thirty-two years. As a result of the acquisition, the Company now consolidates these two properties and the related debt.

In April 2015, the Company purchased an additional 49.5% interest in Reveal, a 438 apartment community located in Woodland Hills, CA, from Wesco I, a related party in which the Company holds a 50.0% noncontrolling interest, for a contract price of \$73.0 million. As a result of the acquisition, the property is now consolidated and the Company recorded a gain of \$12.7 million to remeasure the portion of its investment in Wesco I related to Reveal at fair value. The gain is included in "Gain on remeasurement of co-investment" on the Company's Condensed Consolidated Statements of Income and Comprehensive Income for nine months ended September 30, 2015.

In June 2015, the Company purchased Avant, a 247 apartment community, located in downtown Los Angeles, California, for \$99.0 million.

In June 2015, the Company made a \$10.0 million preferred equity investment in a related party limited liability company that owns Greentree Apartments, a 220 apartment community located in San Jose, CA. This investment will earn a 9.5% preferred return and is scheduled to mature in June 2022.

In June 2015, the Company made a \$5.0 million preferred equity investment in a related party limited liability company that owns Sterling Cove Apartments, a 218 apartment community located in Concord, CA. This investment will earn a 9.5% preferred return and is scheduled to mature in June 2022.

In August 2015, the Company made a \$5.0 million preferred equity investment in a related party limited liability company that owns Alta Vista Apartments, a 92 apartment community located in Los Angeles, CA. This investment will earn a 9.5% preferred return and is scheduled to mature in August 2022.

Redemption of Preferred Equity Investment

In August 2015, the Company's preferred equity investment in a joint venture that holds property in San Jose, CA was redeemed. The Company recognized a gain of \$1.5 as a result of this redemption.

Comparison of the Three Months Ended September 30, 2015 to the Three Months Ended September 30, 2014

The Company's average financial occupancies for the Company's stabilized apartment communities or "Quarterly Same-Property" (stabilized properties consolidated by the Company for the quarters ended September 30, 2015 and 2014) was 96.0% and 95.9% for the three months ended September 30, 2015 and 2014, respectively. Financial

occupancy is defined as the percentage resulting from dividing actual rental revenue by total potential rental revenue. Actual rental revenue represents contractual rental revenue pursuant to leases without considering delinquency and concessions. Total potential rental revenue represents the value of all apartment homes, with occupied apartment homes valued at contractual rental rates pursuant to leases and vacant apartment homes valued at estimated market rents. We believe that financial occupancy is a meaningful measure of occupancy because it considers the value of each vacant apartment home at its estimated market rate.

Market rates are determined using the recently signed effective rates on new leases at the property and are used as the starting point in the determination of the market rates of vacant apartment homes. The Company may increase or decrease these rates based on the supply and demand in the apartment community's market. The Company will check the reasonableness of these rents based on its position within the market and compare the rents against the asking rents by comparable properties in the

market. Financial occupancy may not completely reflect short-term trends in physical occupancy and financial occupancy rates, as disclosed by other REITs, may not be comparable to the Company's calculation of financial occupancy.

The Company does not take into account delinquency and concessions to calculate actual rent for occupied apartment homes and market rents for vacant apartment homes. The calculation of financial occupancy compares contractual rates for occupied apartment homes to estimated market rents for unoccupied apartment homes, and thus the calculation compares the gross value of all apartment homes excluding delinquency and concessions. For apartment communities that are development properties in lease-up without stabilized occupancy figures, the Company believes the physical occupancy rate is the appropriate performance metric. While an apartment community is in the lease-up phase, the Company's primary motivation is to stabilize the property which may entail the use of rent concessions and other incentives, and thus financial occupancy, which is based on contractual revenue is not considered the best metric to quantify occupancy.

The regional breakdown of the Company's Quarterly Same-Property portfolio for financial occupancy for the three months ended September 30, 2015 and 2014 is as follows:

	Three Months Ended September 30,			
	2015		2014	
Southern California	95.8	%	95.9	%
Northern California	96.3	%	96.1	%
Seattle Metro	96.1	%	95.6	%

The following table provides a breakdown of revenue amounts, including revenues attributable to the Quarterly Same-Properties:

	Number of Properties	Three Months Ended September 30,		Dollar Change	Percentage Change	
		2015	2014			
Property Revenues (\$ in thousands)						
Quarterly Same-Property ⁽¹⁾ :						
Southern California	84	\$117,186	\$110,915	\$6,271	5.7	%
Northern California	51	94,326	85,594	8,732	10.2	
Seattle Metro	45	46,700	43,522	3,178	7.3	
Total Quarterly Same-Property revenues	180	258,212	240,031	18,181	7.6	
Quarterly Non-Same Property Revenues		44,310	28,481	15,829	55.6	
Total property revenues		\$302,522	\$268,512	\$34,010	12.7	%

⁽¹⁾ Quarterly Same-Property includes BRE properties acquired on April 1, 2014.

Quarterly Same-Property Revenues increased by \$18.2 million or 7.6% to \$258.2 million in the third quarter of 2015 from \$240.0 million in the third quarter of 2014. The increase was primarily attributable to an increase of 7.6% in average rental rates from \$1,824 per apartment home in the third quarter of 2014 to \$1,963 per apartment home in the third quarter of 2015. On a sequential basis the Company experienced Quarterly Same-Property revenue growth from the second quarter of 2015 to the third quarter of 2015 of \$6.0 million or 2.4%, resulting from sequential revenue growth in all three regions mainly driven by an increase in average rental rates of 2.8%.

Quarterly Non-Same Property Revenues increased by \$15.8 million or 55.6% to \$44.3 million in the third quarter of 2015 from \$28.5 million in the third quarter of 2014. The increase was primarily due to revenue generated by nine communities acquired or consolidated since July 1, 2014.

Management and other fees from affiliates decreased by \$0.3 million in the third quarter of 2015 as compared to the third quarter of 2014. The decrease is primarily due to the loss of asset and management fees in 2015, as compared to 2014, due to the consolidation of The Huxley, The Dylan, and Reveal in 2015 and the sale of certain Fund II communities.

Property operating expenses, excluding real estate taxes increased \$4.2 million to \$60.5 million in the third quarter of 2015 from \$56.3 million in the third quarter of 2014, primarily due to the acquisition or consolidation of nine communities since July 1, 2014. Quarterly Same-Property operating expenses, excluding real estate taxes, increased by \$2.2 million or 4.4% for the

third quarter of 2015 compared to the third quarter of 2014, primarily due to a \$1.7 increase in maintenance and repairs and a \$0.8 million increase in management fees, partially offset by a decrease of \$0.3 million in administrative expenses.

Real estate taxes increased by \$1.8 million for the third quarter of 2015 compared to the third quarter of 2014 due primarily to the acquisition or consolidation of nine communities since July 1, 2014. Quarterly Same-Property real estate taxes decreased by \$0.5 million or 1.6% for the third quarter of 2015 compared to the third quarter of 2014 primarily due to property tax refunds received in 2015 related to 2014.

Depreciation and amortization expense increased by \$14.0 million for the third quarter of 2015 compared to the third quarter of 2014, due to the acquisition or consolidation of nine communities since July 1, 2014.

Merger and integration expenses include, but are not limited to, advisor fees, legal, and accounting fees related to the merger with BRE and related integration activity. There were no merger and integration expenses for the third quarter of 2015 and \$3.9 million for the third quarter of 2014.

Interest expense increased \$4.2 million for the third quarter of 2015 compared to the third quarter of 2014, primarily due to a \$2.2 million decrease in capitalized interest for the third quarter of 2015 compared to the third quarter of 2014, which decrease was in turn due to the decrease in development costs as compared to the same period in 2014.

Interest and other income increased by \$4.4 million for the third quarter of 2015 compared to the third quarter of 2014 primarily due to an increase of \$3.1 million in insurance proceeds and \$0.6 million in income from the sale of a marketable security.

Equity income in co-investments increased \$2.3 million for the third quarter of 2015 compared to the third quarter of 2014 primarily due to income of \$1.5 million from the early redemption of a preferred equity investment and a promote income allocation of \$0.2 million during the third quarter of 2015.

Gains on sale of real estate and land decreased by \$31.4 million for the third quarter of 2015 compared to the third quarter of 2014 due to a \$2.2 million gain on the sale of Coldwater Canyon and a \$29.2 million gain on the sale of Mt. Sutro during the third quarter of 2014.

Comparison of the Nine Months Ended September 30, 2015 to the Nine Months Ended September 30, 2014

Our average financial occupancies for the Company's stabilized apartment communities or "2015/2014 Same-Property" (stabilized properties consolidated by the Company for the nine months ended September 30, 2015 and 2014) was 96.3% and 96.2%, for the nine months ended September 30, 2015 and 2014, respectively.

The regional breakdown of the Company's 2015/2014 Same-Property portfolio for financial occupancy for the nine months ended September 30, 2015 and 2014 is as follows:

	Nine Months Ended September 30,			
	2015		2014	
Southern California	96.2	%	96.2	%
Northern California	96.3	%	96.2	%
Seattle Metro	96.3	%	96.0	%

The following table provides a breakdown of revenue amounts, including revenues attributable to the 2015/2014 Same-Properties:

	Number of Properties	Nine Months Ended September 30,		Dollar Change	Percentage Change	
		2015	2014			
Property Revenues (\$ in thousands)						
2015/2014 Same-Property ⁽¹⁾ :						
Southern California	58	\$210,901	\$198,839	\$12,062	6.1	%
Northern California	38	187,319	169,346	17,973	10.6	
Seattle Metro	34	92,204	85,606	6,598	7.7	
Total 2015/2014 Same-Property revenues	130	490,424	453,791	36,633	8.1	
2015/2014 Non-Same Property Revenues		386,428	231,022	155,406	67.3	
Total property revenues		\$876,852	\$684,813	\$192,039	28.0	%

(1) 2015/2014 Same-Property excludes BRE properties acquired on April 1, 2014.

2015/2014 Same-Property Revenues increased by \$36.6 million or 8.1% to \$490.4 million for the nine months ended September 30, 2015 from \$453.8 million for the nine months ended September 30, 2014. The increase was primarily attributable to an increase of 8.1% in average rental rates from \$1,722 per apartment home for the nine months ended September 30, 2014 to \$1,862 per apartment home for the nine months ended September 30, 2015.

2015/2014 Non-Same Property Revenues increased by \$155.4 million or 67.3% to \$386.4 million for the nine months ended September 30, 2015 from \$231.0 million for the nine months ended September 30, 2014. The increase was primarily due to revenue generated from the BRE merger and twelve other communities acquired or consolidated since January 1, 2014.

Property operating expenses, excluding real estate taxes increased \$27.0 million to \$173.5 million for the nine months ended September 30, 2015 from \$146.5 million for the nine months ended September 30, 2014, primarily due to the BRE merger and the acquisition of or consolidation of twelve communities since January 1, 2014. 2015/2014 Same-Property operating expenses, excluding real estate taxes, increased by \$0.8 million or 0.8% for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, primarily due to a \$0.5 million increase in administrative expenses.

Real estate taxes increased by \$20.4 million for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, due primarily to the BRE merger and the acquisition or consolidation of twelve communities since January 1, 2014. 2015/2014 Same-Property real estate taxes increased by \$0.8 million or 2.0% for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014.

Depreciation and amortization expense increased by \$83.1 million for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, due to the BRE merger and the acquisition or consolidation of twelve communities since January 1, 2014.

General and administrative expense increased \$2.6 million or 9.1% for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 primarily due to additional corporate employees from the BRE merger.

Merger and integration expenses include, but are not limited to, advisor fees, legal, and accounting fees related to the merger with BRE and related integration activity. Merger and integration expenses were \$3.8 million for the nine

months ended September 30, 2015 and \$46.4 million for the nine months ended September 30, 2014.

Interest expense increased \$31.4 million for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014, due to an increase in average outstanding debt primarily due to assumed debt in connection with the BRE merger in addition to a \$5.6 million decrease in capitalized interest for the nine months ended September 30, 2015 compared to the same period in 2014, which in turn was due to the decrease in development costs as compared to the same period in 2014.

Interest and other income increased by \$6.1 million for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 primarily due to an increase in interest income attributable to an increase in the estimated

yield on mortgage backed securities in addition to an increase of \$3.1 million in insurance proceeds and \$0.6 million in income from the sale of a marketable security.

Equity income in co-investments decreased \$5.1 million for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 primarily due to events in 2014 which did not recur in 2015, including the Company's share of the gain on the sale of a Fund II community for \$3.2 million, a promote income allocation of \$4.9 million during the nine months ended September 30, 2014, partially offset by \$2.0 million in income from the early redemption of two preferred equity investments during the nine months ended September 30, 2015.

Gains on sale of real estate and land decreased by \$31.7 million for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 primarily due to \$7.1 million in gains on the sales of Pinnacle South Mountain and two commercial buildings during the nine months ended September 30, 2015 as compared to a \$7.5 million gain on the sale of Vista Capri North, a \$2.2 million gain on the sale of Coldwater Canyon and a \$29.2 million gain on the sale of Mt. Sutro during the nine months ended September 30, 2014.

Gain on remeasurement of co-investment increased by \$34.0 million for the nine months ended September 30, 2015 compared to the nine months ended September 30, 2014 due to the remeasurement of the Company's investments, as a consequence of the Company's acquisition of a controlling interest, in The Huxley and The Dylan properties, resulting in a gain of \$21.3 million, and Reveal, resulting in a gain of \$12.7 million.

Liquidity and Capital Resources

As of September 30, 2015, the Company had \$35.7 million of unrestricted cash and cash equivalents and \$133.1 million in marketable securities, of which \$56.1 million were available for sale. We believe that cash flows generated by our operations, existing cash, cash equivalents, and marketable securities balances, availability under existing lines of credit, access to capital markets and the ability to generate cash from the disposition of real estate are sufficient to meet all of our reasonably anticipated cash needs during the next twelve months. The timing, source and amounts of cash flows provided by financing activities and used in investing activities are sensitive to changes in interest rates and other fluctuations in the capital markets environment, which can affect our plans for acquisitions, dispositions, development and redevelopment activities.

Fitch Ratings ("Fitch"), Moody's Investor Service, and Standard and Poor's ("S&P") credit agencies rate Essex Property Trust, Inc. and Essex Portfolio, L.P. BBB+/Stable, Baa2/Positive, and BBB/Positive, respectively.

The Company has two lines of unsecured credit aggregating \$1.03 billion. The Company has a \$1.0 billion unsecured line of credit, and as of September 30, 2015, there were no amounts outstanding on it. The underlying interest rate is based on a tiered rate structure tied to the Company's credit ratings on the credit facility and the rate was LIBOR plus 0.95% as of September 30, 2015. This facility matures in December 2018 with one 18-month extension, exercisable at the Company's option. The Company has a working capital unsecured line of credit agreement for \$25.0 million. This facility matures in January 2016. As of September 30, 2015, there was \$2.0 million outstanding on the \$25.0 million unsecured line. The underlying interest rate on the \$25.0 million line is based on a tiered rate structure tied to Fitch and S&P ratings on the credit facility of LIBOR plus 0.95%.

In March 2015, the Company issued \$500 million of 3.50% senior unsecured notes that mature in April 1, 2025. The interest is payable semi-annually in arrears on April 1 and October 1 of each year, commencing October 1, 2015 until the maturity date in April 2025. The Company used the net proceeds of this offering to repay indebtedness under the Company's \$1.0 billion unsecured line of credit facility, its \$25.0 million unsecured working capital line and for other general corporate purposes.

The Company has entered into equity distribution agreements with Cantor Fitzgerald & Co, Barclays Capital Inc., BMO Capital Markets Corp., BNB Paribas Securities Corp., Citigroup Global Capital Inc., Jefferies, LLC ("Jefferies"), J.P. Morgan Securities LLC ("JP Morgan"), Liquidnet, Inc., Mitsubishi UFJ Securities (USA), Inc., and UBS Securities LLC ("UBS"). Pursuant to its equity distribution program, during the nine months ended September 30, 2015 and through October 30, 2015, the Company has issued 1,481,737 shares of common stock at an average price of \$226.46 per share, for proceeds of \$332.3 million, net of fees and commissions. Under this program, the Company may from time to time sell shares of common stock into the existing trading market at current market prices, and the Company anticipates using the net proceeds, which are contributed to the Operating Partnership, to pay down debt, acquire apartment communities and fund the development pipeline. As of October 30, 2015, the Company may sell an additional 1,719,109 shares under the current equity distribution program.

Essex pays quarterly dividends from cash available for distribution. Until it is distributed, cash available for distribution is invested by the Company primarily in investment grade securities held available for sale or is used by the Company to reduce balances outstanding under its line of credit.

Development and Predevelopment Pipeline

The Company defines development activities as new properties that are being constructed, or are newly constructed and, in the case of development communities, are in a phase of lease-up and have not yet reached stabilized operations. As of September 30, 2015, the Company's development pipeline was comprised of two consolidated projects under development and seven unconsolidated joint venture projects under development, all aggregating 2,759 apartment homes, with total incurred costs of \$0.8 billion, and estimated remaining project costs of approximately \$0.8 billion for total estimated project costs of \$1.6 billion.

The Company expects to fund the development and predevelopment pipeline by using a combination of some or all of the following sources: its working capital, amounts available on its lines of credit, net proceeds from public and private equity and debt issuances, and proceeds from the disposition of assets, if any.

Redevelopment Pipeline

The Company defines redevelopment communities as existing properties owned or recently acquired, which have been targeted for additional investment by the Company with the expectation of increased financial returns through property improvement. During redevelopment, apartment homes may not be available for rent and, as a result, may have less than stabilized operations. As of September 30, 2015, the Company had ownership interests in five major redevelopment communities aggregating 1,313 apartment homes with estimated redevelopment costs of \$159.8 million, of which approximately \$100.0 million remains to be expended. The Company has the ability to cease funding of the redevelopment pipeline as needed.

Derivative Activity

The Company uses interest rate swaps, interest rate cap, and total return swap contracts to manage certain interest rate risks. 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. The fair values of interest rate swaps and total return swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The Company incorporates credit valuation adjustments to appropriately reflect both its own nonperformance risk and the respective counterparty's nonperformance risk in the fair value measurements.

As of September 30, 2015 and December 31, 2014 the aggregate carrying value of the interest rate swap contracts was a liability of \$1.9 million and \$1.8 million, respectively. The aggregate carrying value of the interest rate cap contracts was zero on the consolidated balance sheets as of September 30, 2015 and December 31, 2014. The aggregate carrying value of the total return swaps was an asset of \$5 thousand on the condensed consolidated balance sheet as of September 30, 2015. The Company did not hold any total return swaps as of December 31, 2014.

Alternative Capital Sources

The Company utilizes co-investments as an alternative source of capital for acquisitions of both operating and development communities. As of September 30, 2015, the Company had an interest in 1,988 apartment homes of

communities actively under development with joint ventures for total estimated costs of \$1.1 billion. Total estimated remaining costs total approximately \$542 million, of which the Company estimates that our remaining investment in these development joint ventures will be approximately \$278 million. In addition, the Company had an interest in 10,208 apartment homes of operating communities with joint ventures for a total book value of \$718.6 million as of September 30, 2015.

Critical Accounting Policies and Estimates

The preparation of condensed consolidated financial statements, in accordance with GAAP requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. The Company defines critical accounting policies as those accounting policies that require the Company's management to exercise their most difficult, subjective and complex judgments. The Company's critical accounting

policies and estimates relate principally to the following key areas: (i) accounting for business combinations (ii) consolidation under applicable accounting standards for entities that are not wholly owned; (iii) assessing the carrying values of our real estate properties and investments in and advances to joint ventures and affiliates; and (iv) internal cost capitalization. The Company bases its estimates on historical experience, current market conditions, and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from those estimates made by management.

The Company's critical accounting policies and estimates have not changed materially from information reported in Note 2, "Summary of Critical and Significant Accounting Policies," in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

Forward Looking Statements

Certain statements in this "Management's Discussion and Analysis of Financial Condition and Results of Operations," and elsewhere in this quarterly report on Form 10-Q which are not historical facts may be considered forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended, including statements regarding the Company's expectations, hopes, intentions, beliefs and strategies regarding the future. Forward looking statements include statements regarding the Company's expectations as to the total projected costs of predevelopment, development and redevelopment projects, beliefs as to our ability to meet our cash needs during the next twelve months and the Company's development and redevelopment pipeline, and statements regarding the Company's financing activities.

Such forward-looking statements involve known and unknown risks, uncertainties and other factors including, but not limited to, that the Company will fail to achieve its business objectives, that the total projected costs of current predevelopment, development and redevelopment projects exceed expectations, that such development and redevelopment projects will not be completed, that development and redevelopment projects and acquisitions will fail to meet expectations, that estimates of future income from an acquired property may prove to be inaccurate, that future cash flows will be inadequate to meet operating requirements, that there may be a downturn in the markets in which the Company's properties are located, that the terms of any refinancing may not be as favorable as the terms of existing indebtedness, and that lawsuits will be more costly than anticipated, as well as those risks, special considerations, and other factors referred to in Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the year ended December 31, 2014, and those risk factors and special considerations set forth in the Company's other filings with the Securities and Exchange Commission (the "SEC") which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. All forward-looking statements are made as of the date hereof, and the Company assumes no obligation to update this information.

Funds from Operations Attributable to Common Stockholders and Unitholders

Funds from Operations Attributable to Common Stockholders and Unitholders ("FFO") is a financial measure that is commonly used in the REIT industry. The Company presents funds from operations as a supplemental operating performance measure. FFO is not used by the Company as, nor should it be considered to be, an alternative to net earnings computed under GAAP as an indicator of the Company's operating performance or as an alternative to cash from operating activities computed under GAAP as an indicator of the Company's ability to fund its cash needs.

FFO is not meant to represent a comprehensive system of financial reporting and does not present, nor does it intend to present, a complete picture of the Company's financial condition and operating performance. The Company believes that net earnings computed under GAAP is the primary measure of performance and that FFO is only meaningful when it is used in conjunction with net earnings. The Company considers FFO and FFO excluding non-recurring items and acquisition costs (referred to as "Core FFO") to be useful financial performance measurements

of an equity REIT because, together with net income and cash flows, FFO provides investors with an additional basis to evaluate operating performance and ability of a REIT to incur and service debt and to fund acquisitions and other capital expenditures and ability to pay dividends. Further, the Company believes that its consolidated financial statements, prepared in accordance with GAAP, provide the most meaningful picture of its financial condition and its operating performance.

In calculating FFO, the Company follows the definition for this measure published by the National Association of REITs ("NAREIT"), which is a REIT trade association. The Company believes that, under the NAREIT FFO definition, the two most significant adjustments made to net income are (i) the exclusion of historical cost depreciation and (ii) the exclusion of gains and losses (including impairment charges on depreciable real estate) from the sale of previously depreciated properties. The Company agrees that these two NAREIT adjustments are useful to investors for the following reason:

historical cost accounting for real estate assets in accordance with GAAP assumes, through depreciation charges, that the value of real estate assets diminishes predictably over time. NAREIT stated in its White Paper on Funds from Operations “since real estate asset values have historically risen or fallen with market conditions, many (a) industry investors have considered presentations of operating results for real estate companies that use historical cost accounting to be insufficient by themselves.” Consequently, NAREIT’s definition of FFO reflects the fact that real estate, as an asset class, generally appreciates over time and depreciation charges required by GAAP do not reflect the underlying economic realities.

REITs were created as a legal form of organization in order to encourage public ownership of real estate as an asset class through investment in firms that were in the business of long-term ownership and management of real estate. (b) The exclusion, in NAREIT’s definition of FFO, of gains and losses (including impairment charges on depreciable real estate) from the sales of previously depreciated operating real estate assets allows investors and analysts to readily identify the operating results of the long-term assets that form the core of a REIT’s activity and assists in comparing those operating results between periods.

Management believes that it has consistently applied the NAREIT definition of FFO to all periods presented. However, there is judgment involved and other REITs’ calculation of FFO may vary from the NAREIT definition for this measure, and thus their disclosure of FFO may not be comparable to the Company’s calculation.

The following table sets forth the Company’s calculation of FFO and Core FFO for the three and nine months ended September 30, 2015 and 2014 (in thousands except for share and per share data):

Essex Property Trust, Inc.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income available to common stockholders	\$42,323	\$53,566	\$147,241	\$76,685
Adjustments:				
Depreciation and amortization	116,308	102,286	336,946	253,890
Gains not included in Funds from Operations attributable to common stockholders and unitholders	—	(31,372)	(41,126)	(41,664)
Depreciation add back from unconsolidated co-investments	12,800	9,986	36,822	23,060
Noncontrolling interest related to Operating Partnership units	1,471	1,816	5,115	3,442
Insurance reimbursements	(1,751)	—	(1,751)	—
Depreciation attributable to third party ownership and other	(253)	(335)	(753)	(996)
Funds from Operations attributable to common stockholders and unitholders	\$170,898	\$135,947	\$482,494	\$314,417
Funds from Operations attributable to common stockholders and unitholders per share - diluted	\$2.53	\$2.08	\$7.19	\$5.55
Non-core items:				
Merger and integration expenses	—	3,857	3,798	46,413
Acquisition and investment related costs	381	51	1,357	768
Gain on sales of marketable securities, note prepayment and other investments	(598)	—	(598)	(886)
Gain on sale of land	—	—	—	(400)
Co-investment promote income	(192)	—	(192)	(4,904)
Income from early redemption of preferred equity investments	(1,485)	—	(1,954)	—
Insurance reimbursements	(569)	—	(2,319)	—
Other non-core adjustments	—	1,249	(207)	710
Core Funds from Operations attributable to common stockholders and unitholders	\$168,435	\$141,104	\$482,379	\$356,118
Core Funds from Operations attributable to common stockholders and unitholders per share-diluted	\$2.49	\$2.16	\$7.19	\$6.28
Weighted average number shares outstanding diluted ⁽¹⁾	67,535,685	65,234,328	67,135,143	56,677,712

Assumes conversion of all outstanding operating partnership interests in the Operating Partnership and excludes (1) 902,668 DownREIT units for which the Operating Partnership has the ability and intention to redeem the DownREIT limited partnership units for cash and does not consider them to be common stock equivalents.

Net Operating Income (“NOI”)

Same-property net operating income (“NOI”) is considered by management to be an important supplemental performance measure to earnings from operations included in the Company’s consolidated statements of income. The presentation of same-property NOI assists with the presentation of the Company’s operations prior to the allocation of depreciation and any corporate-level or financing-related costs. NOI reflects the operating performance of a community and allows for an easy comparison of the operating performance of individual communities or groups of communities. In addition, because prospective buyers of real estate have different financing and overhead structures, with varying marginal impacts to overhead by acquiring real estate, NOI is considered by many in the real estate industry to be a useful measure for determining the value of a real estate asset or group of assets. The Company defines same-property NOI as same-property revenue less same-property operating expenses, including property

taxes. Please see the reconciliation of earnings from operations to same-property NOI, which in the table below is the NOI for stabilized properties consolidated by the Company for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Earnings from operations	\$82,689	\$65,138	\$238,970	\$138,051
Adjustments:				
Depreciation and amortization	116,308	102,286	336,946	253,890
Management and other fees from affiliates	(2,104)	(2,361)	(6,809)	(6,856)
General and administrative	11,129	11,479	31,223	28,621
Merger and integration expenses	—	3,857	3,798	46,413
Acquisition and investment related costs	381	51	1,357	768
NOI	208,403	180,450	605,485	460,887
Less: Non same-property NOI	(30,032)	(18,478)	(258,856)	(149,241)
Same-property NOI ⁽¹⁾	\$178,371	\$161,972	\$346,629	\$311,646

Same-Property NOI for the three months ended September 30, 2015 and 2014 includes BRE properties acquired on April 1, 2014, while the BRE properties are excluded from Same-Property NOI for the nine months ended September 30, 2015 and 2014.

Item 3: Quantitative and Qualitative Disclosures About Market Risks

Interest Rate Hedging Activities

The Company's objective in using derivatives is to add stability to interest expense and to manage its exposure to interest rate movements or other identified risks. To accomplish this objective, the Company uses interest rate swaps as part of its cash flow hedging strategy. As of September 30, 2015, the Company has entered into seven interest rate swap contracts to mitigate the risk of changes in the interest-related cash outflows on its \$225.0 million variable rate five-year unsecured term debt. As of September 30, 2015, the Company also had \$292.1 million of variable rate indebtedness, of which \$148.1 million is subject to interest rate cap protection. The Company holds derivative instruments designated as cash flow hedges as of September 30, 2015. The following table summarizes the notional amount, carrying value, and estimated fair value of the Company's cash flow hedge derivative instruments used to hedge interest rates as of September 30, 2015. The notional amount represents the aggregate amount of a particular security that is currently hedged at one time, but does not represent exposure to credit, interest rates or market risks. The table also includes a sensitivity analysis to demonstrate the impact on the Company's derivative instruments from an increase or decrease in 10-year Treasury bill interest rates by 50 basis points, as of September 30, 2015.

(in thousands)	Notional Amount	Maturity Date Range	Carrying and Estimated Fair Value	Estimated 50 Basis Points	Carrying Value -50 Basis Points
Cash flow hedges:					
Interest rate swaps	\$225,000	2016-2017	\$(1,942)	\$(685)	\$(2,989)
Interest rate caps	148,125	2016-2020	—	45	—
Total cash flow hedges	\$373,125	2016-2020	\$(1,942)	\$(640)	\$(2,989)

Additionally, the Company has a total return swap, which does not qualify for hedge accounting, with a notional amount of \$114.4 million and a carrying value and fair value of \$5 thousand at September 30, 2015.

Interest Rate Sensitive Liabilities

The Company is exposed to interest rate changes primarily as a result of its lines of credit and long-term tax exempt variable rate debt and unsecured term debt. The Company's interest rate risk management objective is to limit the

impact of interest rate changes on earnings and cash flows and to lower its overall borrowing costs. To achieve its objectives the Company borrows primarily at fixed rates and may enter into derivative financial instruments such as interest rate swaps, caps and treasury locks

in order to mitigate its interest rate risk on a related financial instrument. The Company does not enter into derivative or interest rate transactions for speculative purposes.

The Company's interest rate risk is monitored using a variety of techniques. The table below presents the principal amounts and weighted average interest rates by year of expected maturity to evaluate the expected cash flows (excludes lines of credit).

For the Years Ended (in thousands, except for interest rates)	2015	2016	2017	2018	2019	Thereafter	Total	Fair value
Fixed rate debt	\$7,296	179,669	538,683	320,080	630,801	3,062,325	\$4,738,854	\$4,908,133
Average interest rate	4.6	% 4.5	% 3.3	% 5.5	% 4.3	% 4.1	% 4.1	%
Variable rate debt	\$—	200,038	(1) 25,495	(1) 541	10,592	280,417	(2) (3) \$517,083	\$513,037
Average interest rate	—	2.1	% 2.0	% 2.0	% 1.8	% 1.5	% 1.8	%

(1)\$225.0 million subject to interest rate swap agreements.

(2)\$148.1 million subject to interest rate caps.

(3)\$114.4 million subject to total return swaps.

The table incorporates only those exposures that exist as of September 30, 2015; it does not consider those exposures or positions that could arise after that date. As a result, our ultimate realized gain or loss, with respect to interest rate fluctuations and hedging strategies would depend on the exposures that arise prior to settlement.

Item 4: Controls and Procedures

Essex Property Trust, Inc.

As of September 30, 2015, Essex carried out an evaluation, under the supervision and with the participation of management, including Essex's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation 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")). Based upon that evaluation, Essex's Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2015, our disclosure controls and procedures were effective to ensure that the information required to be disclosed by Essex in the reports that Essex files or submit under the Exchange Act was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such disclosure controls and procedures were also effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to Essex's management, including Essex's Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

There were no changes in Essex's internal control over financial reporting, that occurred during the quarter ended September 30, 2015, that have materially affected, or are reasonably likely to materially affect, the Essex's internal control over financial reporting.

Essex Portfolio, L.P.

As of September 30, 2015, the Operating Partnership carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of 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”)). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that as of September 30, 2015, our disclosure controls and procedures were effective to ensure that the information required to be disclosed by the Operating Partnership in the reports that the Operating Partnership files or submit under the Exchange Act was recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such disclosure controls and procedures were also effective to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is accumulated and communicated to the Operating Partnership's management, including the Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure.

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There were no changes in the Operating Partnership's internal control over financial reporting, that occurred during the quarter ended September 30, 2015, that have materially affected, or are reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

Part II -- Other Information

Item 1: Legal Proceedings

The Company is subject to various lawsuits in the normal course of its business operations. Such lawsuits could, but are not expected to, have a material adverse effect on the Company's financial condition, results of operations or cash flows.

The Company purchases general liability and all risk property, including loss of rent, insurance coverage for each of its communities. The Company also purchases limited earthquake, terrorism, environmental and flood insurance. There are certain types of losses which may not be covered or could exceed coverage limits. The insurance are subject to deductibles and self-insured retentions in varying amounts. The Company utilizes a wholly owned insurance subsidiary, Pacific Western Insurance LLC ("PWI") to self-insure certain earthquake and all risk losses. As of September 30, 2015, PWI has cash and marketable securities of approximately \$57.4 million, and is consolidated in the Company's financial statements.

Item 1A: Risk Factors

There were no material changes to the Risk Factors disclosed in Item 1A of the Company's Annual Report on Form 10-K for the year ended December 31, 2014, as filed with the SEC and available at www.sec.gov.

Item 2: Unregistered Sales of Equity Securities and Use of Proceeds

Unregistered Sales of Equity Securities; Essex Portfolio, L.P.

During the three months ended September 30, 2015, the Operating Partnership issued partnership units in private placements in reliance on the exemption from registration provided by Section 4(2) of the Securities Act, in the amounts and for the consideration set forth below:

During the three months ended September 30, 2015, Essex Property Trust, Inc. issued an aggregate of 191,916 of its common stock upon the exercise of stock options, the vesting of restricted stock awards and the issuances of common stock into the public market pursuant to its equity distribution program. Essex Property Trust, Inc. contributed the proceeds from the option exercises and issuances of common stock pursuant to its equity distribution program of \$39.0 million for the three months ended September 30, 2015 to our Operating Partnership in exchange for an aggregate of 191,916 common operating partnership units ("common units"), as required by the Operating Partnership's partnership agreement.

Item 5: Other Information

None.

Item 6: Exhibits

A. Exhibits

- | | |
|------|--|
| 12.1 | Ratio of Earnings to Fixed Charges. |
| 31.1 | Certification of Michael J. Schall, Chief Executive Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of Angela L. Kleiman, Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.3 | Certification of Michael J. Schall, Principal Executive Officer of General Partner, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.4 | Certification of Angela L. Kleiman, Principal Financial Officer of General Partner, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification of Michael J. Schall, Chief Executive Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.2 | Certification of Angela L. Kleiman, Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.3 | Certification of Michael J. Schall, Principal Executive Officer of General Partner, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |
| 32.4 | Certification of Angela L. Kleiman, Principal Financial Officer of General Partner, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

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SIGNATURE

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

ESSEX PROPERTY TRUST, INC.
(Registrant)

Date: November 4, 2015

By: /S/ ANGELA L. KLEIMAN

Angela L. Kleiman
Executive Vice President and Chief Financial Officer
(Authorized Officer, Principal Financial Officer)

Date: November 4, 2015

By: /S/ JOHN FARIAS

John Farias
Group Vice President and Chief Accounting Officer

ESSEX PORTFOLIO, L.P.
By Essex Property Trust, Inc., its general partner
(Registrant)

Date: November 4, 2015

By: /S/ ANGELA L. KLEIMAN

Angela L. Kleiman
Executive Vice President and Chief Financial Officer
(Authorized Officer, Principal Financial Officer)

ESSEX PORTFOLIO, L.P.
By Essex Property Trust, Inc., its general partner
(Registrant)

Date: November 4, 2015

By: /S/ JOHN FARIAS

John Farias
Group Vice President and Chief Accounting Officer