

KILROY REALTY CORP
Form 10-K
February 11, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2010

OR

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

For the transition period from to

Commission File Number 1-12675 (Kilroy Realty Corporation)

Commission File Number 000-54005 (Kilroy Realty, L.P.)

KILROY REALTY CORPORATION

KILROY REALTY, L.P.

(Exact name of registrant as specified in its charter)

**Kilroy Realty
Corporation**

**Maryland
(State or other jurisdiction of
incorporation or organization)**

**95-4598246
(I.R.S. Employer
Identification No.)**

**Kilroy Realty,
L.P.**

**Delaware
(State or other jurisdiction of
incorporation or organization)**

**95-4612685
(I.R.S. Employer
Identification No.)**

12200 W. Olympic Boulevard, Suite 200, Los Angeles, California 90064

(Address of principal executive offices) (Zip Code)

**Registrant's telephone number, including area code: (310)
481-8400 Securities registered pursuant to Section 12(b) of the Act:**

Registrant	Title of each class	Name of each exchange on which registered
Kilroy Realty Corporation	Common Stock, \$.01 par value	New York Stock Exchange
Kilroy Realty Corporation	7.80% Series E Cumulative Redeemable Preferred Stock, \$.01 par value	New York Stock Exchange

Kilroy Realty Corporation	7.50% Series F Cumulative Redeemable Preferred Stock, \$.01 par value	New York Stock Exchange
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Securities registered pursuant to Section 12(g) of the Act:

Registrant	Title of each class
Kilroy Realty, L.P.	Common Units Representing Limited Partnership Interests

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Kilroy Realty Corporation Yes ☐ No ☐

Kilroy Realty, L. P. Yes ☐ No ☐

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

Kilroy Realty Corporation Yes ☐ No ☐

Kilroy Realty, L. P. 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.

Kilroy Realty Corporation Yes ☐ No ☐

Kilroy Realty, L. P. 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).

Kilroy Realty Corporation Yes ☐ No ☐

Kilroy Realty, L. P. Yes ☐ No ☐

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

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.

Kilroy Realty Corporation

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

Kilroy Realty, L.P.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

Kilroy Realty Corporation Yes ☐ No ☒

Kilroy Realty, L. P. Yes ☐ No ☒

The aggregate market value of the voting and non-voting common shares held by non-affiliates of Kilroy Realty Corporation was approximately \$1,554,766,591 based on the quoted closing price on the New York Stock Exchange for such shares on June 30, 2010.

As of February 10, 2011, 52,421,591 shares of Kilroy Realty Corporation's common stock, par value \$.01 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Kilroy Realty Corporation's Proxy Statement with respect to its 2011 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the registrant's fiscal year are incorporated by reference into Part III of this Form 10-K.

EXPLANATORY NOTE

This report combines the annual reports on Form 10-K for the year ended December 31, 2010 of Kilroy Realty Corporation and Kilroy Realty, L.P. Unless stated otherwise or the context otherwise requires, references to Kilroy Realty Corporation or the Company mean Kilroy Realty Corporation, a Maryland corporation, and its controlled and consolidated subsidiaries, and references to Kilroy Realty, L.P. or the Operating Partnership mean Kilroy Realty, L.P., a Delaware limited partnership, and its controlled and consolidated subsidiaries. The terms the Company, we, our, and us refer to the Company or the Company and the Operating Partnership together, as the text requires.

The Company is a real estate investment trust, or REIT, and the general partner of the Operating Partnership. As of December 31, 2010, the Company owned an approximate 96.8% common general partnership interest in the Operating Partnership. The remaining approximate 3.2% common limited partnership interests are owned by non-affiliated investors and certain directors and officers of the Company. As the sole general partner of the Operating Partnership, the Company exercises exclusive and complete discretion over the Operating Partnership's day-to-day management and control and can cause it to enter into certain major transactions including acquisitions, dispositions, and refinancings and cause changes in its line of business, capital structure, and distribution policies.

There are a few differences between the Company and the Operating Partnership which are reflected in the disclosures in this Form 10-K. We believe it is important to understand the differences between the Company and the Operating Partnership in the context of how the Company and the Operating Partnership operate as an interrelated, consolidated company. The Company is a REIT, whose only material asset is its ownership of partnership interests of the Operating Partnership. As a result, the Company does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing equity from time to time and guaranteeing certain debt of the Operating Partnership. The Company itself is not directly obligated under any indebtedness, but guarantees some of the debt of the Operating Partnership. The Operating Partnership owns substantially all the assets of the Company either directly or through its subsidiaries, conducts the operations of the business and is structured as a limited partnership with no publicly traded equity. Except for net proceeds from equity issuances by the Company, which the Company is required to contribute to the Operating Partnership in exchange for common partnership units, the Operating Partnership generates the capital required by the Company's business through the Operating Partnership's operations, by the Operating Partnership's incurrence of indebtedness or through the issuance of partnership units.

Noncontrolling interests and stockholders' equity and partners' capital are the main areas of difference between the consolidated financial statements of the Company and those of the Operating Partnership. The common limited partnership interests in the Operating Partnership are accounted for as partners' capital in the Operating Partnership's financial statements and as noncontrolling interests in the Company's financial statements. The Operating Partnership's financial statements reflect the noncontrolling interest in Kilroy Realty Finance Partnership, L.P. This noncontrolling interest represents the Company's 1% indirect general partnership interest in Kilroy Realty Finance Partnership, L.P., which is directly held by Kilroy Realty Finance, Inc., a wholly-owned subsidiary of the Company. The differences between stockholders' equity, partners' capital and noncontrolling interests result from the differences in the equity issued at the Company and the Operating Partnership levels and in the Company's noncontrolling interest in Kilroy Realty Finance Partnership, L.P.

We believe combining the annual reports on Form 10-K of the Company and the Operating Partnership into this single report results in the following benefits:

Combined reports better reflect how management and the analyst community view the business as a single operating unit;

Combined reports enhance investor understanding of the Company and the Operating Partnership by enabling them to view the business as a whole and in the same manner as management;

Combined reports are more efficient for the Company and the Operating Partnership and result in savings in time, effort and expense; and

Combined reports are more efficient for investors by reducing duplicative disclosure and providing a single document for their review.

To help investors understand the significant differences between the Company and the Operating Partnership, this report presents the following separate sections for each of the Company and the Operating Partnership:

consolidated financial statements;

the following notes to the consolidated financial statements:

Secured and Unsecured Debt of the Company and Secured and Unsecured Debt of the Operating Partnership;

Noncontrolling Interests on the Company's Consolidated Financial Statements;

Stockholders' Equity of the Company and Preferred and Common Units in the Operating Partnership's Consolidated Financial Statements;

Net Income Available to Common Stockholders per Share of the Company and Net Income Available to Common Unitholders per Unit of the Operating Partnership;

Quarterly Financial Information of the Company (Unaudited) and Quarterly Financial Information of the Operating Partnership (Unaudited);

Pro Forma Results of the Company (Unaudited) and Pro Forma Results of the Operating Partnership (Unaudited); and

Liquidity and Capital Resources in Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations.

This report also includes separate sections under Item 9A, Controls and Procedures and separate Exhibit 31 and Exhibit 32 certifications for each of the Company and the Operating Partnership to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that the Company and Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, as amended (the Exchange Act), and 18 U.S.C. § 1350.

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PART I

This document contains certain forward-looking statements (as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Exchange Act. These statements relate to, among other things, our future results of operations, cash available for distribution, property acquisitions, level of future property dispositions, ability to timely lease or re-lease space at current or anticipated rents, ability to complete current and future development or redevelopment properties within budget and on schedule, sources of growth, planned development and expansion of owned or leased property, capital requirements, compliance with contractual obligations and federal, state, and local regulations, conditions of properties, environmental findings, and general business, industry, and economic conditions applicable to us. These statements are based largely on our current expectations and are subject to a number of risks and uncertainties. Actual results could differ materially from these forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date this annual report was filed with the Securities and Exchange Commission (the SEC).

ITEM 1. BUSINESS

The Company

We are a self-administered REIT active in premier office and industrial submarkets along the West Coast. We own, develop, acquire and manage primarily Class A real estate assets in the coastal regions of Los Angeles, Orange County, San Diego, greater Seattle and the San Francisco Bay Area, which we believe have strategic advantages and strong barriers to entry. Class A real estate encompasses attractive and efficient buildings of high quality that are attractive to tenants, are well-designed and constructed with above-average material, workmanship and finishes and are well-maintained and managed. We qualify as a REIT under the Internal Revenue Code of 1986, as amended (the Code).

As of December 31, 2010, our stabilized portfolio was comprised of the following office buildings (the Office Properties) and industrial buildings (the Industrial Properties). As of December 31, 2010, all but one of our properties are located in California:

	Number of Buildings	Rentable Square Feet	Number of Tenants	Percentage Occupied
Office Properties ⁽¹⁾	100	10,395,208	365	87.5%
Industrial Properties	40	3,602,896	58	93.9%
Total Stabilized Portfolio	140	13,998,104	423	89.1%

(1) Includes ten office buildings acquired in 2010 (see Note 3 to our consolidated financial statements included in this report for additional information).

Our stabilized portfolio excludes undeveloped land, one office redevelopment property that is currently under construction and one industrial property that we are in the process of repositioning for residential use.

We own our interests in all of our Office Properties and Industrial Properties through the Operating Partnership and Kilroy Realty Finance Partnership, L.P. (the Finance Partnership), a Delaware limited partnership. We conduct substantially all of our operations through the Operating Partnership of which as of December 31, 2010, we owned a 96.8% general partnership interest. The remaining 3.2% common limited partnership interest in the Operating Partnership as of December 31, 2010 was owned by non-affiliated investors and certain of our directors and officers. Kilroy Realty Finance, Inc., a wholly-owned subsidiary of the Company, is the sole general partner of the Finance Partnership and owns a 1.0% general partnership interest. The Operating Partnership owns the remaining 99.0% limited partnership interest. We conduct substantially all of our development activities through Kilroy Services, LLC (KSLLC), which is a wholly-owned subsidiary of the Operating Partnership. With the exception of the Operating Partnership, all of the Company's subsidiaries, which include, Kilroy Realty TRS, Inc., Kilroy Realty Management, L.P., Kilroy RB, LLC, Kilroy RB II, LLC, Kilroy Northside Drive, LLC, and Kilroy Realty 303, LLC are wholly-owned.

The following diagram illustrates our organizational structure as of December 31, 2010:

Available Information; Website Disclosure; Corporate Governance Documents

Kilroy Realty Corporation was incorporated in the state of Maryland on September 13, 1996 and Kilroy Realty, L.P. was organized in the state of Delaware on October 2, 1996. Our principal executive offices are located at 12200 W. Olympic Boulevard, Suite 200 Los Angeles, California 90064. Our telephone number at that location is (310) 481-8400. Our website is located at www.kilroyrealty.com. The information found on, or otherwise accessible through, our website is not incorporated into, and does not form a part of, this annual report on Form 10-K or any other report or document we file with or furnish to the United States Securities and Exchange Commission, or the SEC. All reports we will file with the SEC will be available free of charge via EDGAR through the SEC website at www.sec.gov. In addition, the public may read and copy materials we file with the SEC at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549. All reports that we will file with the SEC will also be available free of charge on our website at www.kilroyrealty.com as soon as reasonably practicable after we file those materials with, or furnish them to, the SEC.

The following documents relating to corporate governance are also available free of charge on our website under Investor Relations Corporate Governance and available in print to any security holder upon request:

Corporate Governance Guidelines

Code of Business Conduct and Ethics

Audit Committee Charter

Executive Compensation Committee Charter

Nominating / Corporate Governance Committee Charter

You may request copies of any of these documents by writing to:

Attention: Investor Relations

Kilroy Realty Corporation

12200 West Olympic Boulevard, Suite 200

Los Angeles, CA 90064

Business and Growth Strategies

Growth Strategies. We believe that a number of factors and strategies will enable us to continue to achieve our objectives of long-term sustainable growth in Net Operating Income (defined below) and FFO (defined below) as well as maximization of long-term stockholder value. These factors and strategies include:

the quality and location of our properties;

our ability to efficiently manage our assets as a low cost provider of commercial real estate through our seasoned management team possessing core capabilities in all aspects of real estate ownership, including property management, leasing, marketing, financing, accounting, legal, construction management, and new development;

our strong financial position that has and will continue to allow us to pursue attractive acquisition opportunities;

our access to development, redevelopment, acquisition, and leasing opportunities as a result of our extensive experience and significant working relationships with major west coast property owners, corporate tenants, municipalities, and landowners given our over 60-year presence in the California market; and

our existing pipeline of undeveloped land holdings

Net Operating Income is defined as operating revenues (rental income, tenant reimbursements, and other property income) less property and related expenses (property expenses, real estate taxes, provision for bad debts, and ground leases) before depreciation. FFO is funds from operations as defined by the National Association of Real Estate Investment Trusts (NAREIT). See Item 7: Management s Discussion and Analysis of Financial

Condition and Results of Operations Results of Operations and Non-GAAP Supplemental Financial Measures: Funds From Operations for a reconciliation of these measures to generally accepted accounting principles (GAAP) net income available for common stockholders.

Operating Strategies. We focus on enhancing long-term growth in Net Operating Income and FFO from our properties by:

- maximizing cash flow from our properties through active leasing, early renewals, and effective property management;

- structuring leases to maximize returns and internal growth;

- managing portfolio credit risk through effective underwriting, including the use of credit enhancements and interests in collateral to mitigate portfolio credit risk;

- managing operating expenses through the efficient use of internal management, leasing, marketing, financing, accounting, legal, and construction management functions;

- maintaining and developing long-term relationships with a diverse tenant base;

- managing our properties to offer the maximum degree of utility and operational efficiency to tenants;

- continuing to effectively manage capital improvements to enhance our properties competitive advantages in their respective markets and improve the efficiency of building systems; and

- attracting and retaining motivated employees by providing financial and other incentives to meet our operating and financial goals.

Acquisition Strategies. We believe we are well positioned to acquire properties as the result of our extensive experience, strong financial position, and ability to access capital. We continue to actively monitor our target markets and focus on acquiring additional high quality office and industrial properties that:

- provide attractive yields and significant potential for growth in cash flow from property operations;

- present growth opportunities in our existing or other strategic markets; and

- demonstrate the potential for improved performance through intensive management and leasing that should result in increased occupancy and rental revenues.

Development Strategies. We and our predecessors have developed office and industrial properties primarily located in California since 1947. As of December 31, 2010, our development pipeline included 116.7 gross acres of undeveloped land, with which we believe we will have the potential to develop over two million rentable square feet of office space in the future, depending upon economic conditions. Our strategy with respect to development is to:

- maintain a disciplined approach by emphasizing pre-leasing, commencing development in stages, or phasing, and cost control;

- continue to execute our build-to-suit philosophy in which we develop properties to be leased by specific committed tenants providing for lower-risk development;

be the premier provider of two- to six-story campus style office buildings in California;

reinvest capital from dispositions of nonstrategic assets into new state-of-the-market development assets with higher cash flow and rates of return; and

evaluate redevelopment opportunities in supply-constrained markets since such efforts generally achieve similar returns to new development with reduced entitlement risk and shorter construction periods.

Redevelopment opportunities are those projects in which we spend significant development and construction costs on existing buildings pursuant to a formal plan, the intended result of which is a higher economic return on the property. We may engage in the additional development or redevelopment of office and/or industrial properties, when market conditions support a favorable risk-adjusted return on such development or redevelopment. We expect that our significant working relationships with tenants, municipalities, and landowners on the west coast will give us

further access to development opportunities. We cannot assure you that we will be able to successfully develop or redevelop any of our properties or that we will have access to additional development or redevelopment opportunities.

Financing Strategies. Our financing policies and objectives are determined by our board of directors. Our goal is to limit our dependence on leverage and maintain a conservative ratio of debt-to-total market capitalization. As of December 31, 2010, our total debt as a percentage of total market capitalization was 40.2%, and our total debt and liquidation value of our preferred equity as a percentage of total market capitalization was 45.8%, both of which were calculated based on the quoted closing price per share of the Company's common stock of \$36.47 on December 31, 2010. Our financing strategies are to:

maintain financial flexibility, including a low secured to unsecured debt ratio, to maximize our ability to access a variety of both public and private capital sources;

maintain a staggered debt maturity schedule in which the maturity dates of our debt are spread out over several years to limit risk exposure at any particular point in the capital and credit market cycles;

complete financing in advance of the need for capital; and

manage interest rate exposure by generally maintaining a greater amount of fixed-rate debt as compared to variable-rate debt.

We utilize multiple sources of capital, including borrowings under our unsecured line of credit, proceeds from the issuance of debt or equity securities and other bank and/or institutional borrowings, and dispositions of nonstrategic assets. There can be no assurance that we will be able to obtain capital as needed on terms favorable to us or at all. See the discussion under the caption "Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations - Factors That May Influence Future Results of Operations" and "Item 1A: Risk Factors".

Significant Tenants

As of December 31, 2010, our fifteen largest tenants in terms of annualized base rental revenues represented approximately 39.5% of our total annualized base rental revenues, defined as annualized monthly contractual rents from existing tenants as of December 31, 2010 determined on a straight-line basis over the term of the related lease in accordance with GAAP.

For further information on the composition of our tenant base, see "Item 2: Properties - Significant Tenants."

Competition

We compete with several developers, owners, operators and acquirers of office, industrial, and other commercial real estate, many of which own properties similar to ours in the same submarkets in which our properties are located. For further discussion of the potential impact of competitive conditions on our business, see "Item 1A: Risk Factors."

Segment and Geographic Financial Information

For financial information about our two reportable segments, Office Properties and Industrial Properties, see Note 18 to our consolidated financial statements.

All of our business is currently conducted in California with the exception of the operation of one property in the state of Washington. For information about our revenues and long-lived assets and other financial information, see our

consolidated financial statements included in this report and Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations.

Employees

As of December 31, 2010, we employed 141 people through the Operating Partnership, KSLLC, and Kilroy Realty TRS, Inc. We believe that relations with our employees are good.

Government Regulations Relating to the Environment

Many laws and governmental regulations relating to the environment are applicable to our properties, and changes in these laws and regulations, or their interpretation by agencies and the courts, occur frequently and may adversely affect us.

Existing conditions at some of our properties. Independent environmental consultants have conducted Phase I or similar environmental site assessments on all of our properties. We generally obtain these assessments prior to the acquisition of a property and may later update them as required for subsequent financing of the property or as requested by a tenant. Site assessments are generally performed to American Society for Testing and Materials standards then-existing for Phase I site assessments and typically include a historical review, a public records review, a visual inspection of the surveyed site, and the issuance of a written report. These assessments do not generally include any soil samplings or subsurface investigations. Depending on the age of the property, the Phase I may have included an assessment of asbestos-containing materials. For properties where asbestos-containing materials were identified or suspected, an operations and maintenance plan was generally prepared and implemented.

Historical operations at or near some of our properties, including the presence of underground storage tanks, may have caused soil or groundwater contamination. The prior owners of the affected properties conducted remediation of known contamination in the soils on our properties, and we do not believe that further clean-up of the soils is required. We are not aware of any such condition, liability, or concern by any other means that would give rise to material environmental liability. However, the assessments may have failed to reveal all environmental conditions, liabilities, or compliance concerns; there may be material environmental conditions, liabilities, or compliance concerns that arose at a property after the review was completed; future laws, ordinances, or regulations may impose material additional environmental liability; and environmental conditions at our properties may be affected in the future by tenants, third parties, or the condition of land or operations near our properties, such as the presence of underground storage tanks. We cannot be certain that costs of future environmental compliance will not have an adverse effect on our financial condition, results of operations, cash flow, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to security holders.

Use of hazardous materials by some of our tenants. Some of our tenants handle hazardous substances and wastes on our properties as part of their routine operations. Environmental laws and regulations may subject these tenants, and potentially us, to liability resulting from such activities. We generally require our tenants in their leases to comply with these environmental laws and regulations and to indemnify us for any related liabilities. As of December 31, 2010, approximately 5% of our tenants handled hazardous substances and/or wastes on less than 5% of the aggregate square footage of our properties as part of their routine operations. These tenants are primarily involved in the life sciences and the light industrial and warehouse business. The hazardous substances and wastes are primarily comprised of diesel fuel for emergency generators and small quantities of lab and light manufacturing chemicals including, but not limited to, alcohol, ammonia, carbon dioxide, cryogenic gases, dichlorophenol, methane, naturalyte acid, nitrogen, nitrous oxide, and oxygen which are routinely used by life science and light manufacturing companies. We are not aware of any material noncompliance, liability, or claim relating to hazardous or toxic substances or petroleum products in connection with any of our properties, and management does not believe that on-going activities by our tenants will have a material adverse effect on our operations.

Costs related to government regulation and private litigation over environmental matters. Under applicable environmental laws and regulations, we may be liable for the costs of removal, remediation, or disposal of certain hazardous or toxic substances present or released on our properties. These laws could impose liability without regard to whether we are responsible for, or even knew of, the presence or release of the hazardous materials. Government investigations and remediation actions may have substantial costs, and the presence or release of hazardous substances on a property could result in governmental clean-up actions, personal injury actions, or similar claims by private

plaintiffs.

Potential environmental liabilities may exceed our environmental insurance coverage limits. We carry what we believe to be sufficient environmental insurance to cover any potential liability for soil and groundwater contamination and the presence of asbestos-containing materials at the affected sites identified in the environmental

site assessments. The policy is subject to various terms, conditions, qualifications, and limitations of coverage. Therefore, we cannot provide any assurance that our insurance coverage will be sufficient or that our liability, if any, will not have a material adverse effect on our financial condition, results of operations, cash flows, quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to security holders.

ITEM 1A RISK FACTORS

The following section sets forth material factors that may adversely affect our business and operations. The following factors, as well as the factors discussed in Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations Factors That May Influence Future Results of Operations and other information contained in this report, should be considered in evaluating us and our business.

Risks Related to our Business and Operations

Global market and economic conditions may adversely affect our liquidity and financial condition and those of our tenants. In the U.S., market and economic conditions continue to be challenging with tight credit conditions and modest growth. While recent economic data reflects a stabilization of the economy and credit markets, the cost and availability of credit may continue to be adversely affected. Concern about continued stability of the economy and credit markets generally, and the strength of counterparties specifically, has led many lenders and institutional investors to reduce, and in some cases, cease to provide funding to borrowers. Volatility in the U.S. and international capital markets and continued recessionary conditions in global economies, and in the California economy in particular, may adversely affect our liquidity and financial condition and the liquidity and financial condition of our tenants. If these market conditions continue, they may limit our ability and the ability of our tenants to timely refinance maturing liabilities and access the capital markets to meet liquidity needs.

Our operations and those of our tenants may be adversely affected by the impact of California economic conditions and California's budget deficit. As of December 31, 2010, all but one of our properties and all of our undeveloped land are located in California. The continuing economic crisis has particularly affected the economy of California. The State of California began its fiscal year on July 1, 2010 with a significant reported deficit, which continues to impact and aggravate current recessionary conditions within the State. Given the budgetary situation in California, there is also the possibility that the California State Legislature could enact new tax legislation, increasing tax rates in California. New legislation also could cut funding for government programs that are relied upon by our tenants. The economic and legislative environment within the State could have an adverse impact on businesses operating in California, including us and our tenants.

As a result of these factors, continued economic weakness in California could impact our ability to generate revenues sufficient to meet our operating expenses or other obligations, which would adversely impact our financial condition, results of operations, cash flows, the quoted trading price of the Company's common stock and of the Operating Partnership's publicly-traded notes, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

Our performance and value are subject to risks associated with our investments in real estate assets and with trends in the real estate industry. Our economic performance and the value of our real estate assets, and consequently the value of the Company's common stock, are subject to the risk that our properties may not generate revenues sufficient to meet our operating expenses or other obligations. A deficiency of this nature would adversely impact our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

Events and conditions applicable to owners and operators of real estate that are beyond our control and could impact our economic performance and the value of our real estate assets may include:

local oversupply or reduction in demand for office, industrial, or other commercial space, which may result in decreasing rental rates and greater concessions to tenants;

inability to collect rent from tenants;

vacancies or inability to rent space on favorable terms or at all;

inability to finance property development and acquisitions on favorable terms or at all;

increased operating costs, including insurance premiums, utilities, and real estate taxes;

costs of complying with changes in governmental regulations;

the relative illiquidity of real estate investments;

changing submarket demographics; and

property damage resulting from seismic activity or other natural disasters.

We depend upon significant tenants and the loss of a significant tenant could adversely affect our financial condition, revenues and results of operations. As of December 31, 2010, our fifteen largest tenants represented approximately 39.5% of total annualized base rental revenues. See further discussion on the composition of our tenants by industry and our largest tenants under Item 1: Business Significant Tenants and Item 2: Properties Significant Tenants.

Although we have been able to mitigate the impact of past significant tenant defaults on our financial condition, revenues, and results of operations, our financial condition, results of operations, ability to borrow funds, and cash flows would be adversely affected if any of our significant tenants fails to renew its lease(s), renew its lease(s) on terms less favorable to us, or becomes bankrupt or insolvent or otherwise unable to satisfy its lease obligations.

Downturn in tenants' businesses may reduce our cash flows. For the year ended December 31, 2010, we derived approximately 99.0% of our revenues from continuing operations from rental income and tenant reimbursements. A tenant may experience a downturn in its business, which may weaken its financial condition and result in its failure to make timely rental payments or result in defaults under our leases. In the event of default by a tenant, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment.

The bankruptcy or insolvency of a major tenant also may adversely affect the income produced by our properties. If any tenant becomes a debtor in a case under the Bankruptcy Code, we cannot evict the tenant solely because of the bankruptcy. In addition, the bankruptcy court might permit the tenant to reject and terminate its lease with us. Our claim against the tenant for unpaid and future rent could be subject to a statutory cap that might be substantially less than the remaining rent actually owed under the lease. Therefore, our claim for unpaid rent would likely not be paid in full. Any losses resulting from the bankruptcy of any of our existing tenants could adversely impact our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

We may be unable to renew leases or re-lease available space. As of December 31, 2010, we had office and industrial space available for lease representing approximately 10.9% of the total square footage of our properties. In addition, leases representing approximately 5.8% and 10.3% of the leased rentable square footage of our properties are scheduled to expire in 2011 and 2012, respectively. Above market rental rates on some of our properties may force us to renew or re-lease expiring leases at rates below current lease rates. As of December 31, 2010, we believe that the weighted average cash rental rates for our overall portfolio, including recently acquired properties, are approximately 10% above the current average quoted market rental rates, and weighted average cash rental rates for leases scheduled to expire during 2011 are approximately 15% above the current average quoted market rental rates, although individual properties within any particular submarket presently may be leased at, above, or below the current market

rental rates within that submarket. We cannot give any assurance that leases will be renewed or that available space will be re-leased at rental rates equal to or above the current rental rates. If the average rental rates for our properties decrease or existing tenants do not renew their leases, our financial condition, results of operations, cash flows, the quoted trading price of the Company's common stock and of the Operating Partnership's publicly-traded notes, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders could be adversely affected.

We are subject to governmental regulations that may affect the development, redevelopment, and use of our properties. We are subject to governmental regulations that may have a material adverse effect on our financial condition, results of operations, cash flow, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

Our properties are subject to regulation under federal laws, such as the Americans with Disabilities Act of 1990 (the ADA) and updates thereof under which all public accommodations must meet federal requirements related to access and use by disabled persons, and state and local laws addressing earthquake, fire, and life safety requirements. Although we believe that our properties substantially comply with requirements under applicable governmental regulations, none of our properties have been audited or investigated for compliance by any regulatory agency. If we were not in compliance with material provisions of the ADA or other regulations affecting our properties, we might be required to take remedial action, which could include making modifications or renovations to properties. Federal, state, or local governments may also enact future laws and regulations that could require us to make significant modifications or renovations to our properties. If we were to incur substantial costs to comply with the ADA or any other regulations, our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders could be adversely affected.

Our properties are subject to land use rules and regulations that govern our development, redevelopment, and use of our properties. Restrictions on our ability to develop, redevelop, or use our properties resulting from changes in the existing land use rules and regulations could have an adverse effect on our financial position, results of operations, cash flows, quoted trading price of our securities, our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

Increasing utility costs in California may have an adverse effect on our operating results and occupancy levels. The State of California continues to address issues related to the supply of electricity, water, and natural gas. In recent years, shortages of electricity have resulted in increased costs for consumers and certain interruptions in service. Increased consumer costs and consumer perception that the State is not able to effectively manage its utility needs may reduce demand for leased space in California office and industrial properties.

Our debt level reduces cash available for distribution and may expose us to the risk of default under our debt obligations. Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate our properties or to pay in cash the distributions necessary to maintain the Company's REIT qualification. See

Risks Related to the Company's Status as a REIT-Loss of the Company's REIT status would have significant adverse consequences to us and the value of the Company's common stock. Our level of debt and the limitations imposed by our debt agreements may have substantial consequences to us, including the following:

- we may be unable to refinance our indebtedness at maturity, or the refinancing terms may be less favorable than the terms of our original indebtedness;

- cash flows may be insufficient to meet required principal and interest payments;

- we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms;

- we may default on our obligations, and the lenders or mortgagees may foreclose on our properties that secure the loans and receive an assignment of rents and leases; and

- our default under one mortgage loan could result in a default on other indebtedness with cross default provisions.

If one or more of these events were to occur, our financial condition, results of operations, cash flow, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders could be adversely affected. In addition, foreclosures could create taxable income without accompanying cash proceeds, which could require our security holders to pay income tax. As of December 31, 2010, we had approximately \$1.5 billion aggregate principal amount of indebtedness, \$75.0 million of which is contractually due prior to December 31, 2011. Our total debt and preferred equity at December 31, 2010 represented 45.8% of our total market capitalization (which we define as the aggregate of our long-term debt, liquidation value of our preferred equity, and the market value of the Company's common stock and common units).

For the calculation of our market capitalization and additional information on debt maturities see Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources of the Company.

Our credit facility includes financial covenants relating to our operations, which could limit our ability to make distributions to our stockholders. We rely exclusively on cash distributions we receive from the Operating Partnership for our working capital, including the cash necessary to pay dividends and distributions on shares of our common stock and preferred stock. The Operating Partnership has a \$500 million unsecured revolving credit facility (the Credit Facility) which restricts the Operating Partnership from making, in any year, distributions to us or other holders of its partnership interests in an aggregate amount in excess of the greater of:

95% of the Operating Partnership's consolidated funds from operations (as defined in the Credit Facility) for such year; and

an amount which results in distributions to us (excluding any preferred partnership distributions to the extent the same have been deducted from consolidated funds from operation for such year) in an amount sufficient to permit us to (a) pay dividends to our stockholders which we reasonably believe are necessary to maintain our qualification as a REIT for federal and state income tax purposes and (b) avoid the payment of federal or state income or exercise tax.

In addition, the Credit Facility provides that, if the Operating Partnership fails to pay when due any principal of or interest on any borrowings under the Credit Facility, then the Operating Partnership may make only those partnership distributions to us and other holders of its partnership interests necessary to enable us to make distributions to our stockholders which we reasonably believe are necessary to maintain our status as a REIT for federal and state income tax purposes. Any limitation on our ability to make distributions to our stockholders, whether as a result of these provisions in the Credit Facility or otherwise, could have a material adverse effect on the market value of our common stock and preferred stock.

We face significant competition, which may decrease the occupancy and rental rates of our properties. We compete with several developers, owners, and operators of office, industrial, and other commercial real estate, many of which own properties similar to ours in the same submarkets in which our properties are located but which have lower occupancy rates than our properties. Therefore, our competitors have an incentive to decrease rental rates until their available space is leased. As previously mentioned, at December 31, 2010 we believe that the weighted average cash rental rates for our overall portfolio are 10% above the current average quoted market rental rates. If our competitors offer space at rental rates below the rates currently charged by us for comparable space, we may be pressured to reduce our rental rates below those currently charged in order to retain tenants when our tenant leases expire. As a result, our financial condition, results of operations, cash flow, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders may be adversely affected.

Potential casualty losses, such as earthquake losses, may not be covered by insurance and payment of such losses may adversely affect our financial condition and results of operations. We carry comprehensive liability, fire, extended coverage, rental loss, and terrorism insurance covering all of our properties. Management believes the policy specifications and insured limits are appropriate given the relative risk of loss, the cost of the coverage, and industry practice. We do not carry insurance for generally uninsurable losses such as loss from riots or acts of God. Some of our policies, like those covering losses resulting from floods, are subject to limitations involving large deductibles or co-payments.

We are subject to environmental and health and safety laws and regulations, and any costs to comply with, or liabilities arising under, such laws and regulations could be material. As an owner, operator, manager, and developer of real properties, we are subject to environmental and health and safety laws and regulations. Certain of these laws and regulations impose joint and several liability, without regard to fault, for investigation and clean-up costs on current and former owners and operators of real property and persons who have disposed of or released hazardous substances into the environment. At some of the properties, there are asbestos-containing materials, or tenants routinely handle hazardous substances as part of their operations. In addition, historical operations, including the presence of underground storage tanks, have caused soil or groundwater contamination at or near

some of the properties. Although we believe that the prior owners of the affected properties conducted remediation of known soil contamination at these properties, we cannot assure you that all such contamination has been remediated. The discovery of previously unknown contamination or the compliance with existing or new environmental or health and safety laws and regulations could require us to incur costs or liabilities that could be material.

Earthquake damage to our properties could have an adverse effect on our financial condition and operating results. All but one of our properties are located in California. We carry earthquake insurance on our properties in an amount and with deductibles that management believes are commercially reasonable. However, the amount of our earthquake insurance coverage may not be sufficient to cover losses from earthquakes. In addition, our earthquake insurance policies include substantial self-insurance portions, and we may discontinue earthquake insurance on some or all of our properties in the future if the cost of premiums for earthquake insurance exceeds the value of the coverage discounted for the risk of loss. If we experience a loss that is uninsured or which exceeds policy limits, we could lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if the properties were irreparable.

We may be unable to complete acquisitions and successfully operate acquired properties. We continually evaluate the market of available properties and may continue to acquire office and industrial properties and undeveloped land when strategic opportunities exist. Our ability to acquire properties on favorable terms and successfully operate them is subject to the following risks:

- we may potentially be unable to acquire a desired property because of competition from other real estate investors with significant capital, including both publicly traded REITs and institutional investment funds;

- the possibility that, even if we enter into agreements for the acquisition of office and industrial properties, we may be unable to complete such acquisitions since they remain subject to customary conditions to closing including the completion of due diligence investigations to management's satisfaction;

- we may be unable to finance acquisitions on favorable terms or at all;

- we may spend more than budgeted amounts to make necessary improvements or renovations to acquired properties;

- we may lease acquired properties at below expected rental rates;

- we may acquire properties that are subject to liabilities for which we may have limited or no recourse; and

- we may be unable to complete an acquisition after making a nonrefundable deposit and incurring certain other acquisition related costs.

If we cannot finance property acquisitions on favorable terms or operate acquired properties to meet financial expectations, our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders could be adversely affected.

We may be unable to successfully complete and operate acquired, developed, and redeveloped properties. There are significant risks associated with property acquisition, development, and redevelopment including the possibility that:

we may be unable to lease acquired, developed, or redeveloped properties at expected rental rates or within budgeted timeframes;

we may not complete development or redevelopment properties on schedule or within budgeted amounts;

we may expend funds on and devote management's time to acquisition, development, or redevelopment properties that we may not complete;

we may encounter delays or refusals in obtaining all necessary zoning, land use, and other required entitlements, and building, occupancy, and other required governmental permits and authorizations;

we may encounter delays, refusals, unforeseen cost increases, and other impairments resulting from third-party litigation; and

we may fail to obtain the financial results expected from properties we acquire, develop, or redevelop.

If one or more of these events were to occur in connection with our acquired properties, undeveloped land, or development or redevelopment properties under construction, we could be required to recognize an impairment loss. These events could also have an adverse impact on our financial condition, results of operations, cash flow, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

While we historically have acquired, developed, and redeveloped office properties in California markets, we acquired one property in Washington during the year ended December 31, 2010 and may in the future acquire, develop, or redevelop properties for other uses and expand our business to other geographic regions where we expect the development or acquisition of property to result in favorable risk-adjusted returns on our investment. Presently, we do not possess the same level of familiarity with development of property types other than office and industrial, or with certain outside markets, which could adversely affect our ability to acquire or develop properties or to achieve expected performance.

We could default on leases for land on which some of our properties are located. As of December 31, 2010, we owned one office complex, Kilroy Airport Center in Long Beach, California, located on various land parcels, which we lease individually on a long-term basis. As of December 31, 2010, we had approximately 949,100 aggregate rentable square feet, or 6.8% of our total stabilized portfolio, of rental space located on these leased parcels. If we default under the terms of any particular lease, we may lose the ownership rights to the property subject to the lease. Upon expiration of a lease, we may not be able to renegotiate a new lease on favorable terms, if at all. The loss of the ownership rights to these properties or an increase of rental expense could have an adverse effect on our financial condition, results of operations, cash flow, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

Real estate assets are illiquid, and we may not be able to sell our properties when we desire. Our investments in our properties are relatively illiquid, limiting our ability to sell our properties quickly in response to changes in economic or other conditions. In addition, the Code generally imposes a 100% prohibited transaction tax on the Company on profits derived from sales of properties held primarily for sale to customers in the ordinary course of business, which effectively limits our ability to sell properties other than on a selected basis. These restrictions on our ability to sell our properties could have an adverse effect on our financial condition, results of operations, cash flow, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

We may invest in securities related to real estate, which could adversely affect our ability to pay dividends and distributions to our security holders. We may purchase securities issued by entities which own real estate and may, in the future, also invest in mortgages. In general, investments in mortgages are subject to several risks, including:

borrowers may fail to make debt service payments or pay the principal when due;

the value of the mortgaged property may be less than the principal amount of the mortgage note securing the property; and

interest rates payable on the mortgages may be lower than our cost for the funds used to acquire these mortgages.

Owning these securities may not entitle us to control the ownership, operation, and management of the underlying real estate. In addition, we may have no control over the distributions with respect to these securities, which could adversely affect our ability to pay dividends and distributions to our security holders.

Future terrorist activity or engagement in war by the U.S. may have an adverse effect on our financial condition and operating results. Terrorist attacks in the U.S. and other acts of terrorism or war, may result in declining economic activity, which could harm the demand for and the value of our properties. In addition, the public perception that certain locations are at greater risk for attack, such as major airports, ports, and rail facilities, may decrease the demand for and the value of our properties near these sites. A decrease in demand could make it difficult for us to renew or re-lease our properties at these sites at lease rates equal to or above historical rates. Terrorist activities also could directly impact the value of our properties through damage, destruction, or loss, and the availability of insurance for these acts may be less, and cost more, which could adversely affect our financial condition. To the extent that our tenants are impacted by future attacks, their businesses similarly could be adversely affected, including their ability to continue to honor their existing leases.

Terrorist acts and engagement in war by the U.S. also may adversely affect the markets in which our securities trade and may cause further erosion of business and consumer confidence and spending and may result in increased volatility in national and international financial markets and economies. Any one of these events may cause a decline in the demand for our office and industrial leased space, delay the time in which our new or renovated properties reach stabilized occupancy, increase our operating expenses, such as those attributable to increased physical security for our properties, and limit our access to capital or increase our cost of raising capital.

Risks Related to our Organizational Structure

Our growth depends on external sources of capital that are outside of our control and the inability to obtain capital on terms that are acceptable to us, or at all, could adversely affect our financial condition and results of operations. The Company is required under the Code to distribute at least 90% of its taxable income (subject to certain adjustments and excluding net capital gain) and the Operating Partnership is required to make distributions to the Company to allow the Company to satisfy these REIT distribution requirements. For distributions with respect to our 2008 through 2011 taxable years, IRS guidance allows the Company to satisfy up to 90% of this requirement through the distribution of shares of its common stock, if certain conditions are met. Because of these distribution requirements, the Operating Partnership is required to make distributions to the Company, and we may not be able to fund future capital needs, including any necessary acquisition financing, from operating cash flow. Consequently, management relies on third-party sources of capital to fund our capital needs. We may not be able to obtain financing on favorable terms or at all. Any additional debt we incur will increase our leverage. Access to third-party sources of capital depends, in part, on general market conditions and the availability of credit, the market's perception of our growth potential, our current and expected future earnings, our cash flows and cash distributions, and the quoted market price of our securities. If we cannot obtain capital from third-party sources, our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders may be adversely affected.

Our common limited partners have limited approval rights, which may prevent us from completing a change of control transaction that may be in the best interests of all our security holders. The Company may not withdraw as the Operating Partnership's general partner or transfer its general partnership interest in the Operating Partnership without the approval of the holders of at least 60% of the units representing common limited partnership interests, including the common units held by the Company in its capacity as the Operating Partnership's general partner. In addition, the Company may not engage in a merger, consolidation, or other combination or the sale of substantially all of its assets or such similar transaction, without the approval of the holders of 60% of the common units, including the

common units held by the Company in its capacity as the Operating Partnership's general partner. The right of our common limited partners to vote on these transactions could limit our ability to complete a change of control transaction that might otherwise be in the best interest of all our security holders.

In certain circumstances, our limited partners must approve our dissolution and the disposition of properties contributed by the limited partners. For as long as limited partners own at least 5% of all of our partnership

interests, we must obtain the approval of limited partners holding a majority of the units representing common limited partnership interests before we may dissolve. As of December 31, 2010, limited partners owned approximately 3.2% of our partnership interests, of which 2.7% was owned by John B. Kilroy, Sr. and John B. Kilroy, Jr. In addition, we agreed to use commercially reasonable efforts to minimize the tax consequences to common limited partners resulting from the repayment, refinancing, replacement, or restructuring of debt, or any sale, exchange, or other disposition of any of our other assets. The exercise of one or more of these approval rights by the limited partners could delay or prevent us from completing a transaction that may be in the best interest of all our security holders.

The Chairman of our board of directors and our President and Chief Executive Officer each have substantial influence over our affairs. John B. Kilroy, Sr. is the Chairman of our board of directors and the father of John B. Kilroy, Jr., our President and Chief Executive Officer. Each is a member of our board of directors, and together, as of December 31, 2010, they beneficially owned approximately 3.3% of the total outstanding shares of the Company's common stock. The percentage of outstanding shares of common stock beneficially owned includes 239,477 shares of common stock, 176,616 restricted stock units that were vested and held by John B. Kilroy, Jr. at December 31, 2010, and assumes the exchange into shares of the Company's common stock of the 1,335,135 common units held by Messrs. Kilroy (which are redeemable in exchange for, at the option of the Company, an equal number of shares of the Company's common stock). The beneficial ownership percentage excludes 33,201 nonvested restricted stock units held by John B. Kilroy, Jr. at December 31, 2010.

Pursuant to the Company's charter, no other stockholder may own, actually or constructively, more than 7.0% of the outstanding Company common stock without obtaining a waiver from the board of directors. The board of directors has waived the ownership limits with respect to John B. Kilroy, Sr., John B. Kilroy, Jr., members of their families, and some of their affiliated entities. These named individuals and entities may own either actually or constructively, in the aggregate, up to 19.6% of the Company's outstanding common stock, excluding Operating Partnership units that are exchangeable into shares of Company common stock. Consequently, Messrs. Kilroy have substantial influence on the Company, and because the Company is the manager of the Operating Partnership, on the Operating Partnership, and could exercise their influence in a manner that is not in the best interest of our stockholders, noteholders or unitholders. Also, they may, in the future, have a substantial influence on the outcome of any matters submitted to our stockholders or unitholders for approval.

There are restrictions on the ownership of the capital stock of the Company, which limit the opportunities for a change of control at a premium to existing security holders. Provisions of the Maryland General Corporation Law, the Company's charter and bylaws, and the Operating Partnership's partnership agreement may delay, deter, or prevent a change of control over us, or the removal of existing management. Any of these actions might prevent our security holders from receiving a premium for their common shares or common units over the then-prevailing market price of the shares of the Company's common stock.

The Code contains ownership limits on the Company's capital stock that apply as a result of the Company's decision to be taxed as a REIT, including:

no more than 50% in value of the Company's capital stock may be owned, actually or constructively, by five or fewer individuals, including some entities, during the last half of a taxable year;

the Company's common stock must be held by a minimum of 100 persons for at least 335 days of a 12-month taxable year, or a proportionate part of a short taxable year; and

if the Operating Partnership, the Company or any entity which owns 10% or more of the Company's capital stock, actually or constructively own 10% or more of one of the Operating Partnership's tenants, a tenant of the Company or any partnership in which the Operating Partnership or the Company is a partner, then any

rents received from that tenant will not be qualifying income for purposes of the Code's REIT gross income tests, regardless of whether the rent is received directly or through a partnership.

The Company's charter also establishes ownership limits to protect the Company's REIT status. No single stockholder may own, either actually or constructively, absent a waiver from the board of directors, more than 7.0% (by value or by number of shares, whichever is more restrictive) of the Company's common stock outstanding. Similarly, absent a waiver from the board of directors, no single holder of the Company's 7.45% Series A

Cumulative Redeemable Preferred stock (the Series A Preferred Stock), if issued, may actually or constructively own any class or series of the Company's preferred stock, so that their total capital stock ownership would exceed 7.0% by value of the Company's total outstanding shares of capital stock; no single holder of the Company's 7.8% Series E Cumulative Redeemable Preferred stock (the Series E Preferred Stock) may actually or constructively own more than 9.8% (by value or by number of shares, whichever is more restrictive) of the Company's Series E Preferred Stock; and no single holder of the Company's 7.5% Series F Cumulative Redeemable Preferred stock (the Series F Preferred Stock) may actually or constructively own more than 9.8% (by value or by number of shares, whichever is more restrictive) of the Company's Series F Preferred Stock.

The board of directors may waive the ownership limits if it is satisfied that the excess ownership would not jeopardize the Company's REIT status and if it believes that the waiver would be in our best interest. The board of directors has waived the ownership limits with respect to John B. Kilroy, Sr., John B. Kilroy, Jr., members of their families, and some of their affiliated entities. These named individuals and entities may own either actually or constructively, in the aggregate, up to 19.6% of the Company's outstanding common stock, excluding units that are exchangeable into shares of common stock. The board of directors has also waived the ownership limits with respect to the initial purchasers of each of our 3.25% Exchangeable Senior Notes due 2012 (the 3.25% Exchangeable Notes) and the 4.25% Exchangeable Senior Notes due 2014 (the 4.25% Exchangeable Notes) and, together with the 3.25% Exchangeable Notes, the Exchangeable Notes) and certain of their affiliated entities to beneficially own up to 9.8%, in the aggregate, of the Company's common stock in connection with hedging the capped call transactions.

If anyone acquires shares in excess of any ownership limits, the transfer to the transferee will be void with respect to the excess shares, the excess shares will be automatically transferred from the transferee or owner to a trust for the benefit of a qualified charitable organization, the purported transferee or owner will have no right to vote those excess shares, and the purported transferee or owner will have no right to receive dividends or other distributions from those excess shares.

The Company's charter contains provisions that may delay, deter, or prevent a change of control transaction. The following provisions of the Company's charter may delay or prevent a change of control over us, even if a change of control might be beneficial to our security holders, deter tender offers that may be beneficial to our security holders, or limit security holders' opportunity to receive a potential premium for their shares and/or units if an investor attempted to gain shares beyond the Company's ownership limits or otherwise to effect a change of control:

The Company's charter authorizes the board of directors to issue up to 30,000,000 shares of the Company's preferred stock, including convertible preferred stock, without stockholder approval. The board of directors may establish the preferences, rights, and other terms, including the right to vote and the right to convert into common stock any shares issued. The issuance of preferred stock could delay or prevent a tender offer or a change of control even if a tender offer or a change of control was in our security holder's interest. As of December 31, 2010, 5,060,000 shares of the Company's preferred stock were issued and outstanding, consisting of 1,610,000 shares of the Company's Series E Preferred Stock and 3,450,000 shares of the Company's Series F Preferred Stock, and an additional 1,500,000 shares of preferred stock were designated as Series A Preferred Stock, which was reserved for possible issuance in exchange for the Operating Partnership's outstanding Series A Preferred Units (the Series A Preferred Units); and

The Company's charter states that any director, or the entire board of directors, may be removed from office at any time, but only for cause and then only by the affirmative vote of the holders of at least two thirds of the votes of the Company's capital stock entitled to be cast in the election of directors.

The board of directors may change investment and financing policies without unitholder or stockholder approval, causing us to become more highly leveraged, which may increase our risk of default under our debt obligations.

We are not limited in our ability to incur debt. Our financing policies and objectives are determined by the board of directors. Our goal is to limit our dependence on leverage and maintain a conservative ratio of debt to total

market capitalization. However, our organizational documents do not limit the amount or percentage of indebtedness, funded or otherwise, that we may incur. As of December 31, 2010, we had approximately \$1.5 billion aggregate principal amount of indebtedness outstanding, which represented 40.2% of our total market capitalization. Our total debt and the liquidation value of our preferred equity as a percentage of total market capitalization was approximately 45.8% as of December 31, 2010. See Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources of the Company for a calculation of our market capitalization. These ratios may be increased or decreased without the consent of our unitholders or stockholders. Increases in the amount of debt outstanding would result in an increase in our debt service, which could adversely affect cash flow and our ability to pay dividends and distributions to our security holders. Higher leverage also increases the risk of default on our obligations and limits our ability to obtain additional financing in the future.

We may issue additional common units and shares of capital stock without unitholder or stockholder approval, as applicable, which may dilute unitholder or stockholder investment. The Company may issue shares of our common stock, preferred stock, or other equity or debt securities without stockholder approval, including the issuance of shares to satisfy REIT dividend distribution requirements. Similarly, the Operating Partnership may offer our common or preferred units for contributions of cash or property without approval by our unitholders. Further, under certain circumstances, the Company may issue shares of our common stock in exchange for the Operating Partnership's outstanding Exchangeable Notes. Existing security holders have no preemptive rights to acquire any of these securities, and any issuance of equity securities under these circumstances may dilute a unitholder's or stockholder's investment.

Sales of a substantial number of shares of the Company's securities, or the perception that this could occur, could result in decreasing the quoted market price per share for the Company's common stock and of the Operating Partnership's publicly-traded notes. Management cannot predict whether future issuances of shares of the Company's common stock or the availability of shares for resale in the open market will result in decreasing the market price per share of the Company's common stock. As of December 31, 2010, 52,349,670 shares of the Company's common stock and 5,060,000 shares of the Company's preferred stock, consisting of 1,610,000 shares of Series E Preferred Stock and 3,450,000 shares of Series F Preferred Stock, were issued and outstanding, and an additional 1,500,000 shares of preferred stock were designated as Series A Preferred Stock, which was reserved for possible issuance in exchange for the Operating Partnership's outstanding Series A Preferred Units.

As of December 31, 2010, the Company had reserved for future issuance the following shares of common stock: 1,723,131 shares issuable upon the exchange, at the Company's option, of the Operating Partnership's common units; 4,375,533 shares remained available for grant under our 2006 Incentive Award Plan (see Note 12 to our consolidated financial statements); 713,822 shares issuable upon settlement of restricted stock units (RSUs); 20,000 shares issuable upon exercise of outstanding options; and 975,101 shares issuable under our the Company's Dividend Reinvestment and Direct Stock Purchase Plan, as well as 1,681,813 and 4,800,796 shares potentially issuable under certain circumstances, in exchange for the 3.25% Exchangeable Notes and 4.25% Exchangeable Notes, respectively. The Company has a currently effective registration statement registering 1,723,131 shares of our common stock for possible issuance to the holders of the Operating Partnership's common units. That registration statement also registers 306,808 shares of common stock held by certain stockholders for possible resale. The Company also has a currently effective registration statements registering the 1,681,813 shares of our common stock that may potentially be issued in exchange for the Operating Partnership's presently outstanding 3.25% Exchangeable Notes, and 4,800,796 shares of our common stock that may potentially be issued in exchange for the Operating Partnership's presently outstanding 4.25% Exchangeable Notes. Consequently, if and when the shares are issued, they may be freely traded in the public markets.

Risks Related to the Company's Status as a REIT

Loss of the Company's REIT status would have significant adverse consequences to us and the value of the Company's common stock. The Company currently operates in a manner that is intended to allow the Company to qualify as a REIT for federal income tax purposes under the Code. If the Company were to lose its REIT status, the

Company would face serious tax consequences that would substantially reduce the funds available for distribution to our unitholders and stockholders for each of the years involved because:

the Company would not be allowed a deduction for distributions to our stockholders in computing the Company's taxable income and would be subject to federal income tax at regular corporate rates;

the Company could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and

unless entitled to relief under statutory provisions, the Company could not elect to be taxed as a REIT for four taxable years following the year during which the Company was disqualified.

In addition, if the Company failed to qualify as a REIT, the Company will not be required to make distributions to our stockholders, and all distributions to our stockholders will be subject to tax as regular corporate dividends to the extent of its current and accumulated earnings and profits. As a result of all these factors, the Company's failure to qualify as a REIT also could impair our ability to expand our business and raise capital and could adversely affect the value of the Company's common stock.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The complexity of these provisions and of the applicable Treasury regulations that have been promulgated under the Code is greater in the case of a REIT that, like us, holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within our control may affect the Company's ability to continue to qualify as a REIT. For example, to qualify as a REIT, at least 95% of the Company's gross income in any year must be derived from qualifying sources. Also, the Company must make distributions to stockholders aggregating annually at least 90% of the Company's taxable income (subject to certain adjustments and excluding net capital gain). For distributions with respect to our 2008 through 2011 taxable years, IRS guidance allows the Company to satisfy up to 90% of this requirement through the distribution of shares of its common stock, if certain conditions are met. In addition, legislation, new regulations, administrative interpretations, or court decisions may adversely affect the Company's security holders, or the Company's ability to qualify as a REIT for federal income tax purposes or the desirability of an investment in a REIT relative to other investments. Although management believes that we are organized and that we operate in a manner to permit the Company to continue to qualify as a REIT, we can provide no assurance to that effect.

To maintain the Company's REIT status, we may be forced to borrow funds on a short-term basis during unfavorable market conditions. To qualify as a REIT, the Company generally must distribute to our stockholders at least 90% of the Company's taxable income each year (subject to certain adjustments and excluding net capital gain) and we will be subject to regular corporate income taxes to the extent that we distribute less than 100% of our net taxable income each year. In addition, the Company will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our net capital gains, and 100% of our undistributed income from prior years. For distributions with respect to our 2008 through 2011 taxable years, IRS guidance allows the Company to satisfy up to 90% of this requirement through the distribution of shares of its common stock, if certain conditions are met. To maintain the Company's REIT status and avoid the payment of federal income and excise taxes, the Operating Partnership may need to borrow funds on a short-term basis and loan the proceeds to the Company so we can meet the REIT distribution requirements even if the then-prevailing market conditions are not favorable for these borrowings. These short-term borrowing needs could result from differences in timing between the actual receipt of income and inclusion of income for federal income tax purposes, or the effect of nondeductible capital expenditures, the creation of reserves, or required debt or amortization payments.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES**General**

As of December 31, 2010, our stabilized portfolio of operating properties was comprised of the following office and industrial properties, all but one of which are located in California.

	Number of Buildings	Rentable Square Feet	Number of Tenants	Percentage Occupied at December 31, 2010
Office Properties	100	10,395,208	365	87.5%
Industrial Properties	40	3,602,896	58	93.9%
Total Stabilized Portfolio	140	13,998,104	423	89.1%

Our stabilized portfolio excludes undeveloped land, one office redevelopment property that is currently under construction and one industrial property that we are in the process of repositioning for residential use. We own all of our properties through the Operating Partnership and the Finance Partnership. All our properties are held in fee except for the seven office buildings located at Kilroy Airport Center in Long Beach, California, which are held subject to leases for the land that expire in 2084.

In general, the Office Properties are leased to tenants on a full service gross or modified gross basis, and the Industrial Properties are leased to tenants on a triple net basis. Under a full service lease, the landlord is obligated to pay the tenant's proportionate share of real estate taxes, insurance, and operating expenses up to the amount incurred during the tenant's first year of occupancy (Base Year) or a negotiated amount approximating the tenant's pro rata share of real estate taxes, insurance, and operating expenses (Expense Stop). The tenant pays its pro rata share of increases in expenses above the Base Year or Expense Stop. A modified gross lease is similar to a full service gross lease, except tenants are obligated to pay their proportionate share of certain operating expenses, usually electricity, directly to the service provider. Under a triple net lease and a modified net lease, tenants pay their proportionate share of real estate taxes, operating costs, and utility costs.

We believe that all of our properties are well maintained and do not require significant capital improvements. As of December 31, 2010, we managed all of our properties through internal property managers.

Office and Industrial Properties

The following table sets forth certain information relating to each of the stabilized Office Properties and Industrial Properties owned as of December 31, 2010.

	Annualized Base Rental	Average Base Rental Revenue
Percentage		

Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Occupied at 12/31/10 ⁽¹⁾	Revenue (\$000 \$3)	Per Sq. Ft. (\$) ⁽³⁾
Office Properties:						
<i>Los Angeles County</i>						
23925 Park Sorrento, Calabasas, California	1	2001	11,789	100.0%	\$ 421	\$ 35.71
23975 Park Sorrento, Calabasas, California	1	2002	100,592	86.8%	3,126	36.94
24025 Park Sorrento, Calabasas, California	1	2000	102,264	96.8%	3,096	31.27
26541 Agoura Road Calabasas, California	1	1988	90,156	100.0%	1,628	18.06
5151 Camino Ruiz, Camarillo, California ⁽¹⁵⁾	2	1982	187,861	89.4%	1,879	11.19
5153 Camino Ruiz, Camarillo, California ⁽¹⁰⁾	1	1982	38,655	100.0%	626	16.19
5155 Camino Ruiz, Camarillo, California ⁽¹⁰⁾	1	1982	38,856	100.0%	221	11.70

Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/10 ⁽¹⁾	Annualized Base Rental	Average Base Rental
					Revenue (\$000 \$ ³)	Revenue Per Sq. Ft. (\$) ⁽³⁾
2240 E. Imperial Highway, El Segundo, California	1	1983/2008	122,870	100.0%	2,643	21.51
2250 E. Imperial Highway, El Segundo, California	1	1983	293,261	90.5%	8,178	31.07
909 Sepulveda Blvd., El Segundo, California	1	1972/2005	241,607	98.7%	5,902	25.01
999 Sepulveda Blvd., El Segundo, California	1	1962/2003	127,901	100.0%	2,673	23.06
3750 Kilroy Airport Way, Long Beach, California ⁽⁵⁾	1	1989	10,457	100.0%	137	19.85
3760 Kilroy Airport Way, Long Beach, California	1	1989	165,278	96.1%	4,675	29.42
3780 Kilroy Airport Way, Long Beach, California	1	1989	219,745	81.5%	4,888	27.96
3800 Kilroy Airport Way, Long Beach, California	1	2000	192,476	93.6%	5,298	29.40
3840 Kilroy Airport Way, Long Beach, California	1	1999	136,026	100.0%	4,915	36.13
3880 Kilroy Airport Way, Long Beach, California	1	1987	98,243	100.0%	1,289	13.12
3900 Kilroy Airport Way, Long Beach, California	1	1987	126,840	65.2%	2,066	25.05
12100 W. Olympic Blvd., Los Angeles, California	1	2003	150,167	65.1%	3,643	37.25
12200 W. Olympic Blvd., Los Angeles, California	1	2000	150,302	92.2%	4,093	39.70
12312 W. Olympic Blvd., Los Angeles, California ⁽⁴⁾	1	1950/1997	78,000	100.0%	2,108	27.03
1633 26th Street, Santa Monica, California	1	1972/1997	44,915	100.0%	1,152	25.65
2100 Colorado Avenue, Santa Monica, California	3	1992/2009	94,844	58.9%	2,413	43.17
3130 Wilshire Blvd., Santa Monica, California	1	1969/1998	88,339	80.3%	2,265	31.93
501 Santa Monica Blvd., Santa Monica, California	1	1974	73,115	69.0%	2,043	40.50
2829 Townsgate Road, Thousand Oaks, California	1	1990	81,067	82.3%	2,046	30.67

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Subtotal/Weighted Average Los Angeles County	29		3,065,626	89.3%	73,424	27.66
<i>San Diego County</i>						
12225 El Camino Real, Del Mar, California ⁽²²⁾	1	1998	60,148	24.5%	488	33.13
12235 El Camino Real, Del Mar, California ⁽⁶⁾	1	1998	54,673	81.0%	1,587	35.83
12340 El Camino Real, Del Mar, California ⁽⁶⁾	1	2002	87,405	80.2%	3,099	44.20
12390 El Camino Real, Del Mar, California ⁽⁶⁾	1	2000	72,332	100.0%	3,069	42.43

Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/10 ⁽¹⁾	Annualized Base Rental Revenue		Average Base Rental Revenue Per Sq. Ft.
					(\$000	\$)	(\$) ⁽³⁾
12348 High Bluff Drive, Del Mar, California ⁽⁶⁾	1	1999	38,710	93.5%	1,247		34.44
12400 High Bluff Drive, Del Mar, California ⁽⁶⁾	1	2004	208,464	100.0%	9,897		47.48
3579 Valley Centre Drive, Del Mar, California ⁽¹⁶⁾	1	1999	52,375	79.0%	1,572		37.99
3611 Valley Centre Drive, Del Mar, California ⁽⁶⁾	1	2000	130,178	100.0%	4,504		36.42
3661 Valley Centre Drive, Del Mar, California ⁽⁶⁾	1	2001	129,752	96.9%	3,760		32.51
3721 Valley Centre Drive, Del Mar, California ⁽⁶⁾	1	2003	114,780	100.0%	3,767		32.82
3811 Valley Centre Drive, Del Mar, California ⁽⁷⁾	1	2000	112,067	100.0%	5,199		46.39
6200 Greenwich Drive, Governor Park, California ⁽⁷⁾	1	1999	71,000	100.0%	1,637		23.06
6220 Greenwich Drive, Governor Park, California ⁽⁶⁾	1	1996/2010	141,214	100.0%	4,286		30.35
15051 Avenue of Science, I-15 Corridor, California ⁽⁷⁾	1	2002	70,617	100.0%	2,035		28.82
15073 Avenue of Science, I-15 Corridor, California ⁽⁷⁾	1	2002	46,759	100.0%	1,233		26.37
15231 Avenue of Science, I-15 Corridor, California ⁽¹⁷⁾	1	2005	65,638	72.3%	936		19.71
15253 Avenue of Science, I-15 Corridor, California ⁽⁷⁾	1	2005	37,437	100.0%	610		16.29
15333 Avenue of Science, I-15 Corridor, California ⁽⁶⁾	1	2006	78,880	36.3%	737		25.74
15378 Avenue of Science, I-15 Corridor, California ⁽⁷⁾	1	1990	68,910	100.0%	978		14.19
15004 Innovation Drive, I-15 Corridor, California ⁽⁷⁾	1	2008	150,801	100.0%	7,364		48.83
15435 Innovation Drive, I-15 Corridor, California ⁽¹⁸⁾	1	2000	51,500	63.5%	732		22.39
15445 Innovation Drive, I-15 Corridor, California ⁽⁶⁾	1	2000	51,500	100.0%	1,214		23.57
13280 Evening Creek Drive South,	1	2008	42,971	46.5%	541		27.08

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I-15 Corridor, California ⁽⁸⁾ 13290 Evening Creek Drive South,	1	2008	61,176	0.0%		
I-15 Corridor, California 13480 Evening Creek Drive North,	1	2008	149,817	100.0%	7,779	51.92
I-15 Corridor, California ⁽⁶⁾ 13500 Evening Creek Drive North,	1	2004	147,533	100.0%	6,471	43.86
I-15 Corridor, California ⁽⁶⁾ 13520 Evening Creek Drive North,	1	2004	141,368	97.7%	4,801	36.85
I-15 Corridor, California ⁽⁶⁾ 7525 Torrey Santa Fe, 56 Corridor, California ⁽⁷⁾	1	2007	103,979	100.0%	3,012	28.97
7535 Torrey Santa Fe, 56 Corridor, California ⁽⁷⁾	1	2007	130,243	100.0%	3,693	28.35

Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/10 ⁽¹⁾	Annualized Base Rental Revenue		Average Base Rental Revenue Per Sq. Ft.
					(\$000	\$)	(\$) ⁽³⁾
7545 Torrey Santa Fe, 56 Corridor, California ⁽⁷⁾	1	2007	130,354	100.0%	3,609		27.69
7555 Torrey Santa Fe, 56 Corridor, California ⁽⁷⁾	1	2007	101,236	100.0%	3,175		31.36
2355 Northside Drive, Mission Valley, California ⁽⁶⁾	1	1990	50,425	59.4%	1,063		35.47
2365 Northside Drive, Mission Valley, California ⁽⁶⁾	1	1990	91,260	82.4%	2,592		34.45
2375 Northside Drive, Mission Valley, California ⁽⁶⁾	1	1990	48,949	78.6%	1,328		34.53
2385 Northside Drive, Mission Valley, California ⁽⁶⁾	1	2008	88,795	71.8%	2,032		31.89
2305 Historic Decatur Road, Point Loma, California ⁽²¹⁾	1	2009	103,900	95.4%	3,796		38.29
10020 Pacific Mesa Blvd, Sorrento Mesa, California ⁽⁴⁾	1	2007	318,000	100.0%	7,683		24.16
4910 Directors Place, Sorrento Mesa, California ⁽²³⁾	1	2009	50,925	24.5%	592		47.36
4921 Directors Place, Sorrento Mesa, California ⁽⁷⁾	1	2008	55,500	85.9%	1,155		24.22
4939 Directors Place, Sorrento Mesa, California ⁽⁷⁾	1	2002	60,662	100.0%	2,276		37.52
4955 Directors Place, Sorrento Mesa, California ⁽⁷⁾	1	2008	76,246	100.0%	2,881		37.79
5005 Wateridge Vista Drive, Sorrento Mesa, California	1	1999	61,460	0.0%			
5010 Wateridge Vista Drive, Sorrento Mesa, California	1	1999	111,318	0.0%			
10243 Genetic Center Drive, Sorrento Mesa, California ⁽²⁷⁾	1	2001	102,875	0.0%			
6055 Lusk Avenue, Sorrento Mesa, California ⁽⁴⁾	1	1997	93,000	100.0%	1,554		16.71
6260 Sequence Drive, Sorrento Mesa, California ⁽⁷⁾	1	1997	130,536	100.0%	1,717		13.15
6290 Sequence Drive, Sorrento Mesa, California ⁽⁷⁾	1	1997	90,000	100.0%	2,098		23.31
6310 Sequence Drive, Sorrento Mesa, California ⁽⁷⁾	1	2000	62,415	100.0%	1,133		18.15

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6340 Sequence Drive, Sorrento Mesa, California ⁽⁷⁾	1	1998	66,400	100.0%	1,341	20.20
6350 Sequence Drive, Sorrento Mesa, California	1	1998	132,600	100.0%	2,507	18.91
10390 Pacific Center Court, Sorrento Mesa, California ⁽⁷⁾	1	2002	68,400	100.0%	2,771	40.51
10394 Pacific Center Court, Sorrento Mesa, California ⁽⁷⁾	1	1995	59,630	100.0%	1,096	18.38
10398 Pacific Center Court, Sorrento Mesa, California ⁽⁷⁾	1	1995	43,645	100.0%	698	15.99
10421 Pacific Center Court, Sorrento Mesa, California ⁽²⁴⁾	1	1995/2002	79,871	63.0%	642	12.76

Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/10 ⁽¹⁾	Annualized Base Rental Revenue (\$000 \$)	Average Base Rental Revenue Per Sq. Ft. (\$) ⁽³⁾
10445 Pacific Center Court, Sorrento Mesa, California ⁽⁷⁾	1	1995	48,709	100.0%	831	17.06
10455 Pacific Center Court, Sorrento Mesa, California	1	1995	90,000	100.0%	1,112	12.36
10350 Barnes Canyon, Sorrento Mesa, California ⁽⁶⁾	1	1998	38,018	100.0%	915	24.07
10120 Pacific Heights Drive, Sorrento Mesa, California ⁽⁷⁾	1	1995	52,540	100.0%	977	18.60
5717 Pacific Center Blvd, Sorrento Mesa, California ⁽⁴⁾	1	2001/2005	67,995	100.0%	1,503	22.10
4690 Executive Drive, UTC, California ⁽⁹⁾	1	1999	47,212	88.3%	1,025	24.60
9455 Towne Center Drive, UTC, California	1	1998	45,195	0.0%		
9785 Towne Center Drive, UTC, California ⁽⁴⁾	1	1999	75,534	100.0%	1,374	18.19
9791 Towne Center Drive, UTC, California ⁽⁴⁾	1	1999	50,466	100.0%	916	18.15
Subtotal/Weighted Average San Diego County	63		5,466,298	86.4%	142,640	30.36
<i>Orange County</i>						
4175 E. La Palma Avenue, Anaheim, California	1	1985	43,263	96.6%	780	19.19
8101 Kaiser Blvd. Anaheim, California	1	1988	59,790	100.0%	1,326	22.18
2211 Michelson, Irvine, California	1	2007	271,556	93.7%	9,905	39.42
111 Pacifica, Irvine Spectrum, California	1	1991	67,496	72.3%	1,043	23.42
999 Town & Country, Orange, California	1	1977/2009	98,551	100.0%	2,919	29.62
Subtotal/Weighted Average Orange County	5		540,656	93.1%	15,973	32.28
<i>San Francisco</i>						
	1	1988	734,035	89.4%	24,298	37.20

303 Second Street,
San Francisco, California⁽²⁸⁾
100 First Street,
San Francisco, California⁽²⁸⁾

1	1988	466,490	76.2%	15,463	44.22
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Subtotal/Weighted Average
San Francisco

2		1,200,525	84.3%	39,761	39.64
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Greater Seattle

15050 N.E. 36th Street,
Redmond, Washington⁽⁴⁾

1	1998	122,103	100.0%	3,130	25.63
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Subtotal/Weighted Average
Greater Seattle

1		122,103	100.0%	3,130	25.63
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**TOTAL/WEIGHTED
AVERAGE
OFFICE PROPERTIES**

100		10,395,208	87.5%	274,928	30.64
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Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/10 ⁽¹⁾	Annualized Base Rental Revenue		Average Base Rental Revenue Per Sq. Ft.
					(\$000	\$3)	(\$) ⁽³⁾
Industrial Properties:							
<i>Los Angeles County</i>							
2031 E. Mariposa Avenue, El Segundo, California	1	1954/1990	192,053	100.0%	2,960		15.41
Subtotal/Weighted Average Los Angeles County	1		192,053	100.0%	2,960		15.41
<i>Orange County</i>							
1000 E. Ball Road, Anaheim, California	1	1956	100,000	100.0%	757		7.57
1230 S. Lewis Road, Anaheim, California	1	1982	57,730	100.0%	388		6.72
1250 N. Tustin Avenue, Anaheim, California	1	1984	84,185	100.0%	593		7.04
3125 E. Coronado Street, Anaheim, California	1	1970	144,000	100.0%	598		4.15
3130/3150 Miraloma, Anaheim, California ⁽¹¹⁾	1	1970	144,000	100.0%	838		5.82
3250 E. Carpenter, Anaheim, California	1	1998	41,225	100.0%	314		7.62
3340 E. La Palma Avenue, Anaheim, California	1	1966	153,320	100.0%	661		4.31
3355 E. La Palma Avenue, Anaheim, California	1	1999	98,200	100.0%	923		9.40
4123 E. La Palma Avenue, Anaheim, California ⁽¹³⁾	1	1985	70,863	100.0%	764		10.79
4155 E. La Palma Avenue, Anaheim, California ⁽¹²⁾	1	1985	74,618	85.8%	731		11.42
5115 E. La Palma Avenue, Anaheim, California	1	1967/1998	286,139	100.0%	2,078		7.26
5325 E. Hunter Avenue, Anaheim, California	1	1983	110,487	100.0%	433		3.92
1145 N. Ocean Boulevard, Anaheim, California ⁽²⁵⁾	1	1999	65,447	0.0%			
1201 N. Miller Street, Anaheim, California	1	1999	119,612	37.9%	441		9.74
	1	1999	200,646	100.0%	1,349		6.72

1211 N. Miller Street, Anaheim, California						
1231 N. Miller Street, Anaheim, California ⁽²⁶⁾	1	1999	113,242	56.7%	302	4.70
950 W. Central Avenue, Brea, California	1	1983	24,000	100.0%	214	8.92
1050 W. Central Avenue, Brea, California ⁽¹⁹⁾	1	1984	30,000	80.0%	236	9.83
1150 W. Central Avenue, Brea, California	1	1984	30,000	100.0%	278	9.27
895 Beacon Street, Brea, California	1	1987	54,795	100.0%	400	7.30
955 Beacon Street, Brea, California	1	1987	37,916	100.0%	212	5.59

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Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/10 ⁽¹⁾	Annualized Base Rental	Average Base Rental
					Revenue (\$'000 \$)	Revenue Per Sq. Ft. (\$) ⁽³⁾
1125 Beacon Street, Brea, California	1	1988	49,178	100.0%	420	8.54
925 Lambert Road, Brea, California ⁽¹⁴⁾	1	1999	80,000	100.0%	521	6.51
1075 Lambert Road, Brea, California ⁽¹⁴⁾	1	1999	98,811	100.0%	663	6.71
1675 MacArthur Blvd, Costa Mesa, California	1	1986	50,842	100.0%	577	11.35
25902 Towne Center Drive, Foothill Ranch, California	1	1998	309,685	100.0%	2,459	7.94
12681/12691 Pala Drive, Garden Grove, California ⁽²⁰⁾	1	1970	84,700	82.6%	544	7.77
7421 Oranewood Avenue, Garden Grove, California ⁽⁷⁾	1	1981	82,602	100.0%	643	7.78
7091 Belgrave Avenue, Garden Grove, California	1	1971	70,000	100.0%	310	4.43
12271 Industry Street, Garden Grove, California ⁽⁶⁾	1	1972	20,000	100.0%	125	8.33
12311 Industry Street, Garden Grove, California ⁽⁶⁾	1	1972	25,000	100.0%	196	7.84
7261 Lampson Avenue, Garden Grove, California	1	1974	47,092	100.0%	330	7.01
12472 Edison Way, Garden Grove, California	1	1984	55,576	100.0%	416	7.49
12442 Knott Street, Garden Grove, California	1	1985	58,303	100.0%	344	5.90
2055 S.E. Main Street, Irvine, California	1	1973	47,583	100.0%	541	11.37
1951 E. Carnegie Avenue, Santa Ana, California	1	1981	100,000	100.0%	746	7.46
2525 Pullman Street, Santa Ana, California	1	1976	103,380	100.0%	548	5.30
14831 Franklin Avenue, Tustin, California	1	1978	36,256	100.0%	279	7.70
2911 Dow Avenue, Tustin, California	1	1998	51,410	100.0%	316	6.15
Subtotal/Weighted Average Orange County	39		3,410,843	93.5%	22,488	7.06

TOTAL/WEIGHTED AVERAGE INDUSTRIAL PROPERTIES	40	3,602,896	93.9%	25,448	7.53
TOTAL/WEIGHTED AVERAGE ALL PROPERTIES	140	13,998,104	89.1%	300,376	\$ 24.32

- (1) Based on all leases at the respective properties in effect as of December 31, 2010. Includes month-to-month leases as of December 31, 2010.
- (2) Calculated as contractual base rental revenues as of December 31, 2010, determined in accordance with GAAP, annualized to reflect a twelve-month period. Annualized base rental revenues excludes the amortization of deferred revenue recorded for tenant-funded tenant improvements. Excludes month-to-month leases and vacant space as of December 31, 2010.
- (3) Reflects annualized contractual base rent calculated on a straight-line basis in accordance with GAAP excluding the amortization of deferred revenue related to tenant-funded tenant improvements and expense reimbursement revenue. Excludes month-to-month leases and vacant space as of December 31, 2010.

- (4) For these properties, the leases are written on a triple net basis.
- (5) For this property, leases of approximately 5,000 rentable square feet are written on a modified gross basis, a lease of approximately 2,000 rentable square feet is written on a full service gross basis, and a lease of approximately 3,000 rentable square feet is written on a gross basis whereby the tenant does not pay any operating expenses.
- (6) For these properties, the leases are written on a modified gross basis.
- (7) For these properties, the leases are written on a modified net basis.
- (8) For this property, a lease of approximately 20,000 rentable square feet is written on a modified net basis. A lease of approximately 5,000 rentable square feet was executed with one tenant during the fourth quarter of 2010 and is written on a modified gross basis. The remaining 18,000 rentable square feet is currently being marketed for lease.
- (9) For this property, leases of approximately 19,000 rentable square feet are written on a modified net basis, and leases of approximately 22,000 rentable square feet are written on a modified gross basis.
- (10) For this property, leases of approximately 20,000 rentable square feet are written on a full service gross basis, and leases of approximately 19,000 rentable square feet are written on a triple net basis.
- (11) For this property, a lease of approximately 144,000 rentable square feet is written on a modified net basis.
- (12) For this property, leases of approximately 15,000 rentable square feet are written on a full service gross basis, leases of approximately 31,000 rentable square feet are written on a triple net basis, and leases of approximately 18,000 rentable square feet are written on a modified triple net basis.
- (13) For this property, a lease of approximately 15,000 rentable square feet is written on a modified gross basis, and a lease of approximately 56,000 rentable square feet is written on a triple net basis.
- (14) For these properties, leases of approximately 142,000 rentable square feet are written on a modified net basis, and a lease of approximately 37,000 rentable square feet is written on a modified gross basis.
- (15) For this property, leases of approximately 168,000 rentable square feet are written on a triple net basis, and the remaining 20,000 rentable square feet are vacant.
- (16) For this property, a lease of approximately 41,000 rentable square feet is written on a modified gross basis. The remaining 11,000 rentable square feet is currently being marketed for lease.
- (17) For this property, a lease of approximately 47,000 rentable square feet is written on a modified net basis. The remaining 18,000 rentable square feet is currently being marketed for lease.
- (18) For this property, a lease of approximately 33,000 rentable square feet is written on a modified gross basis. The remaining 18,000 rentable square feet is currently being marketed for lease.
- (19) For this property, leases of approximately 24,000 rentable square feet are written on a modified gross basis.
- (20) For this property, a lease of approximately 70,000 rentable square feet is written on a modified net basis.
- (21) For this property, leases of approximately 82,000 rentable square feet are written on a modified gross basis, and a lease of approximately 17,000 rentable square feet is written on a gross basis. The remaining 5,000 rentable square feet is currently being marketed for lease.
- (22) For this property, a lease of approximately 15,000 rentable square feet is written on a modified gross basis. A lease of approximately 44,000 rentable square feet was executed with one tenant during the fourth quarter of 2010. The new lease is expected to commence in the first quarter of 2011.
- (23) For this property, a lease of approximately 13,000 rentable square feet is written on a modified net basis, and a lease of approximately 10,000 rentable square feet will commence in the first quarter of 2011 . The remaining 28,000 rentable square feet is currently being marketed for lease.
- (24) For this property, a lease of approximately 50,000 rentable square feet is written on a modified net basis. The remaining 30,000 rentable square feet is currently being marketed for lease.
- (25) For this property, a lease of approximately 65,000 rentable square feet was executed with one tenant during the fourth quarter of 2010. The new lease is expected to commence in the second quarter of 2011.
- (26) For this property, a lease of approximately 50,000 rentable square feet was executed with one tenant during the fourth quarter of 2010. The new lease is expected to commence in the second quarter of 2011.
- (27)

For this property, a lease of approximately 103,000 rentable square feet was executed with one tenant during the fourth quarter of 2010. The new lease is expected to commence in the third quarter of 2011.

- (28) For these properties, the office leases are written on a full service gross basis and the retail leases are written on a triple net basis.

Re-entitlement Property

As of December 31, 2010, we were in the process of repositioning the following property for residential use.

Property Location	No. of Buildings	Year Acquired	Rentable Square Feet	% Occupied at December 31, 2010
17150 Von Karman Irvine, California	1	1997	157,458	

During the year ended December 31, 2010, we received notification that the zoning to allow high density residential improvements on the land underlying this property was adopted by the city of Irvine. We are currently evaluating strategic alternatives for this property.

In Process Redevelopment Property

As of December 31, 2010, we were in the process of redeveloping the following property.

Project	Construction Period Start Date	Estimated Period Estimated Compl. Date	Estimated Stabilization Date⁽¹⁾	Estimated Rentable Square Feet	% Leased
2260 E. Imperial Highway El Segundo, California	3Q 2010	3Q 2011	3Q 2012	300,000	

(1) Based on management's estimation of the earlier of stabilized occupancy (95%) or one year from the date of substantial completion.

Future Development Pipeline

The following table sets forth certain information relating to our undeveloped land located in San Diego, California as of December 31, 2010.

Project	Submarket	Gross Site Acreage
Carlsbad Oaks Lots 4, 5, 7 & 8	Carlsbad	32.0
Pacific Corporate Center Lot 8	Sorrento Mesa	5.0
Rancho Bernardo Corporate Center	I-15 Corridor	21.0
One Paseo (San Diego Corporate Center)	Del Mar	23.0
Santa Fe Summit Phase II and III	56 Corridor	21.8
Sorrento Gateway Lot 2	Sorrento Mesa	6.3
Sorrento Gateway Lot 7	Sorrento Mesa	7.6
Total		116.7

Significant Tenants

The following table sets forth information about our fifteen largest tenants based upon annualized rental revenues as of December 31, 2010.

Annualized Base	Percentage of Total Annualized Base
----------------------------	--

Tenant Name	Property Segment	Rental Revenues⁽¹⁾ (in thousands)	Rental Revenues⁽¹⁾	Lease Expiration Date
Intuit, Inc.	Office	\$ 15,126	5.0%	Various ⁽²⁾
Bridgepoint Education, Inc.	Office	15,099	5.0	Various ⁽³⁾
Scripps Health	Office	12,562	4.2	Various ⁽⁴⁾
Delta Dental of California	Office	10,834	3.6	Various ⁽⁵⁾
CareFusion Corporation ⁽¹⁰⁾	Office	10,087	3.4	Various ⁽⁶⁾
DIRECTV, Inc.	Office	8,540	2.8	July 2014
AMN Healthcare, Inc.	Office	8,192	2.7	July 2018
Fish & Richardson P.C.	Office	6,071	2.0	October 2018
Hewlett-Packard Company	Office	5,803	1.9	Various ⁽⁷⁾
Wells Fargo ⁽¹⁰⁾	Office	5,346	1.8	Various ⁽⁸⁾
BP Biofuels North America LLC	Office	5,128	1.7	Various ⁽⁹⁾
Epson America, Inc.	Office	4,915	1.6	October 2019
Mitchell International, Inc.	Office	3,775	1.3	October 2025
Avnet, Inc.	Office	3,768	1.3	February 2013
Scan Health Plan ⁽¹⁰⁾	Office	3,626	1.2	June 2015
Total		\$ 118,872	39.5%	

(1) Based upon annualized contractual base rental revenue, which is calculated on a straight-line basis in accordance with GAAP, for leases for which rental revenue is being recognized by us as of December 31, 2010.

- (2) The Intuit leases, which contribute \$1.6 million and \$13.5 million of annualized base rental revenues, expire in August 2012 and August 2017, respectively.
- (3) The Bridgepoint Education leases, which contribute \$1.0 million, \$6.3 million, and \$7.8 million of annualized base rental revenues, expire in February 2017, July 2018, and September 2018, respectively.
- (4) The Scripps Health leases, which contribute \$5.2 million and \$7.4 million of annualized base rental revenues, expire in June 2021 and February 2027, respectively.
- (5) The Delta Dental leases, which contribute \$0.5 million and \$10.3 million of annualized base rental revenues, expire in December 2011 and May 2015, respectively.
- (6) The CareFusion Corporation leases, which contribute \$0.8 million and \$9.3 million of annualized base rental revenues, expire in February 2012 and August 2017, respectively.
- (7) The Hewlett-Packard Company leases, which contribute \$4.3 million and \$1.5 million of annualized base rental revenues, expire in April 2012 and July 2015, respectively.
- (8) The Wells Fargo leases, which contribute \$0.1 million, \$1.4 million, \$1.0 million, \$0.7 million, \$2.0 million, and \$0.1 million of annualized rental revenues, expire in January 2011, September 2013, November 2014, August 2015, September 2017, and February 2019, respectively.
- (9) During 2010, these leases were assigned from Verenium Corporation to BP Biofuels North America LLC. These leases, which contribute \$2.9 million and \$2.2 million of annualized base rental revenues, expire in November 2015 and March 2017, respectively.
- (10) We have entered into leases with various affiliates of the tenant name listed above.

The following table sets forth the composition of our tenant base by industry based on Standard Industrial Classifications as of December 31, 2010.

Industry	Percentage of Total Annualized Base Rental Revenues at December 31, 2010
Technology and Media	29.0%
Education and Health Services	22.0
Manufacturing	14.0
Finance, Insurance, and Real Estate	14.0
Professional, Business, and Other Services	12.0
Wholesale and Retail Trade	3.0
Government	2.0
Construction	2.0
Leisure and Hospitality	1.0
Transportation, Warehousing, and Public Utilities	1.0
Total	100.0%

Lease Expirations

The following table sets forth a summary of our lease expirations for the Office Properties and Industrial Properties for each of the next ten years beginning with 2011, assuming that none of the tenants exercise renewal options or termination rights. See further discussion of our lease expirations under Item 1A: Risk Factors .

Lease Expirations by Segment⁽¹⁾

Year of Lease Expiration	Number of Expiring Leases	Net Rentable Area Subject to Expiring Leases (Sq. Ft.)	Percentage of Leased Square Feet Represented by Expiring Leases	Percentage of Annualized Base Rental Revenue Per Square Foot		
				Annualized Base Rental Revenue Under Expiring Leases (000 \$ ³)	Rental Revenue Represented by Expiring Leases ⁽²⁾	Average Annualized Base Rental Revenue Per Square Foot Under Expiring Leases (000 \$ ³)
Office Properties:						
2011	72	565,860	6.3%	\$ 13,111	4.8%	\$ 23.17
2012	75	816,845	9.1%	22,808	8.3%	27.92
2013	72	861,486	9.6%	23,451	8.5%	27.22
2014	57	1,139,710	12.7%	30,298	11.0%	26.58
2015	87	1,501,743	16.7%	49,544	18.0%	32.99
2016	31	454,198	5.1%	10,977	4.0%	24.17
2017	30	1,387,122	15.5%	40,375	14.7%	29.11
2018	15	765,681	8.5%	33,609	12.2%	43.89
2019	9	357,541	4.0%	13,477	4.9%	37.69
2020	11	460,774	5.1%	14,507	5.3%	31.48
2021 and beyond	9	660,878	7.4%	22,771	8.3%	34.46
	468	8,971,838	100.0%	\$ 274,928	100.0%	\$ 30.64

Net Rentable Area Subject	Percentage of Leased Square Feet	Annualized Base Rental Revenue	Percentage of Annualized Base Rental Revenue Represented by Expiring Leases ⁽²⁾	Average Annualized Base Rental Revenue Per Square Foot Under Expiring Leases (000 \$)

Year of Lease Expiration	Number of Expiring Leases	to Expiring Leases (Sq. Ft.)	Feet Represented by Expiring Leases	Rental Revenue Under Expiring Leases (000 \$)	Represented by Expiring Leases⁽²⁾	Under Expiring Leases (000 \$)
Industrial Properties:						
2011	6	149,852	4.4%	\$ 1,393	5.5%	\$ 9.30
2012	11	452,557	13.4%	2,647	10.4%	5.85
2013	9	628,386	18.6%	4,671	18.4%	7.43
2014	13	501,364	14.8%	4,088	16.1%	8.15
2015	10	544,864	16.1%	3,839	15.1%	7.05
2016	3	297,497	8.8%	3,576	14.1%	12.02
2017	4	149,482	4.4%	888	3.5%	5.94
2018	2	137,397	4.1%	1,043	4.1%	7.59
2019	2	168,200	5.0%	1,467	5.8%	8.72
2020	1	50,842	1.5%	577	2.3%	11.35
2021 and beyond	2	297,320	8.9%	1,259	4.7%	4.23
	63	3,377,761	100.0%	\$ 25,448	100.0%	\$ 7.53
Total Portfolio	531	12,349,599	100.0%	\$ 300,376	100.0%	\$ 24.32

- (1) The information presented reflects leasing activity through December 31, 2010. For leases that have been renewed early or space that has been re-leased to a new tenant, the expiration date and annualized base rent information presented takes into consideration the renewed or re-leased lease terms. Excludes space leased under month-to-month leases and vacant space as of December 31, 2010.
- (2) Reflects annualized contractual base rent calculated on a straight-line basis in accordance with GAAP excluding the amortization of deferred revenue related to tenant-funded tenant improvements and expense reimbursement revenue. Additionally, the underlying leases contain various expense structures including full service gross, modified gross and triple net.

Secured Debt

As of December 31, 2010, the Operating Partnership had six outstanding mortgage notes payable, which were secured by certain of our properties. Our secured debt represents an aggregate indebtedness of approximately \$313.7 million, before the effect of unamortized discounts. See additional information regarding our secured debt in Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources Liquidity Sources, Notes 6 and 7 to our consolidated financial statements, and Schedule III Real Estate and Accumulated Depreciation included with this report. Management believes that, as of December 31, 2010, the value of the properties securing the applicable secured obligations in each case exceeded the principal amount of the outstanding obligation.

ITEM 3. LEGAL PROCEEDINGS

We and our properties are subject to routine litigation incidental to our business, we are not a defendant in, and our properties are not subject to, any legal proceedings that, if determined adversely to us, would have a material adverse effect upon our financial condition, results of operations, or cash flows.

ITEM 4. REMOVED AND RESERVED

PART II

ITEM 5. MARKET FOR KILROY REALTY CORPORATION'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is traded on the New York Stock Exchange (NYSE) under the symbol KRC. As of the date this report was filed, there were approximately 105 registered holders of the Company's common stock. The following table illustrates the high, low, and closing prices by quarter as well as dividends declared during 2010 and 2009 as reported on the NYSE.

				Per Share Common Stock Dividends Declared
2010	High	Low	Close	
First quarter	\$ 32.60	\$ 26.75	\$ 30.84	\$ 0.3500
Second quarter	36.72	29.73	29.73	0.3500
Third quarter	34.39	27.54	33.14	0.3500
Fourth quarter	36.72	32.64	36.47	0.3500
2009	High	Low	Close	Per Share Common Stock Dividends Declared
First quarter	\$ 32.83	\$ 15.40	\$ 17.19	\$ 0.5800
Second quarter	23.35	16.16	20.54	0.3500

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Third quarter	30.75	18.67	27.74	0.3500
Fourth quarter	31.99	26.00	30.67	0.3500

The Company pays distributions to common stockholders quarterly each January, April, July, and October at the discretion of the board of directors. Distribution amounts depend on our FFO, financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code, and such other factors as the board of directors deems relevant.

**MARKET FOR KILROY REALTY , L.P. S COMMON EQUITY, RELATED STOCKHOLDER MATTERS
AND ISSUER PURCHASES OF EQUITY SECURITIES**

There is no established public trading market for the Operating Partnership s partnership units. As of the date this report was filed, there were 17 holders of record of our common limited partnership units (including the Company s general partnership interest).

The following table reports the distributions per common limited partnership unit declared during the years ended December 31, 2010 and 2009.

	Per Unit Common Unit Distribution Declared
2010	
First quarter	\$ 0.3500
Second quarter	0.3500
Third quarter	0.3500
Fourth quarter	0.3500

	Per Unit Common Unit Distribution Declared
2009	
First quarter	\$ 0.5800
Second quarter	0.3500
Third quarter	0.3500
Fourth quarter	0.3500

During 2009, the operating partnership redeemed 30,598 common limited partnership units for the same number of shares of the Company's common stock. During 2010, the operating partnership did not redeem any common limited partnership units for shares of the Company's common stock.

PERFORMANCE GRAPH

The following line graph compares the change in cumulative stockholder return on shares of the Company's common stock to the cumulative total return of the NAREIT All Equity REIT Index, the Standard & Poor's 500 Stock Index, and the SNL REIT Office Index for the five-year period ended December 31, 2010. We include an additional index, the SNL REIT Office Index, to the performance graph since management believes it provides additional information to investors about our performance relative to a more specific peer group. The SNL REIT Office Index is a published and widely recognized index that comprises 17 office equity REITs, including us. The graph assumes the investment of \$100 in us and each of the indices on December 31, 2005 and, as required by the SEC, the reinvestment of all distributions. The return shown on the graph is not necessarily indicative of future performance.

ITEM 6. SELECTED FINANCIAL DATA KILROY REALTY CORPORATION

The following tables set forth selected consolidated financial and operating data on an historical basis for the Company. The following data should be read in conjunction with our financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included below in this Form 10-K.

The consolidated balance sheet data as of December 31, 2010, 2009, 2008, 2007, and 2006 and the consolidated statement of operations data for each of the years then ended have been derived from the historical consolidated financial statements of Kilroy Realty Corporation audited by an independent registered public accounting firm.

KILROY REALTY CORPORATION CONSOLIDATED
(in thousands, except share, per share, square footage and occupancy data)

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Statements of Operations					
Data:					
Total revenues	\$ 301,980	\$ 279,434	\$ 289,355	\$ 257,876	\$ 241,138
Income from continuing operations	18,937	35,754	45,849	44,560	47,741
Net income available for common stockholders	4,512	21,794	29,829	101,164	72,256
Per-Share Data:					
Weighted average common shares outstanding-basic	49,497,487	38,705,101	32,466,591	32,379,997	31,244,062
Weighted average common shares outstanding-diluted	49,513,195	38,732,126	32,540,872	32,408,966	31,292,628
Income from continuing operations available to common stockholders per common share-basic	\$ 0.05	\$ 0.47	\$ 0.88	\$ 0.82	\$ 0.96
Income from continuing operations available to common stockholders per common share-diluted	\$ 0.05	\$ 0.47	\$ 0.88	\$ 0.82	\$ 0.96
Net income available to common stockholders per share-basic	\$ 0.07	\$ 0.53	\$ 0.91	\$ 3.09	\$ 2.30
Net income available to common stockholders per share-diluted	\$ 0.07	\$ 0.53	\$ 0.91	\$ 3.09	\$ 2.30
Dividends declared per common share	\$ 1.40	\$ 1.63	\$ 2.32	\$ 2.22	\$ 2.12

	2010	2009	December 31, 2008	2007	2006
Balance Sheet Data:					
Total real estate held for investment, before accumulated depreciation and amortization	\$ 3,216,871	\$ 2,520,083	\$ 2,475,596	\$ 2,370,004	\$ 2,040,761
Total assets	2,816,565	2,084,281	2,102,918	2,069,810	1,799,352
Total debt	1,427,776	972,016	1,142,348	1,072,659	879,198
Total noncontrolling interest preferred units ⁽¹⁾	73,638	73,638	73,638	73,638	73,638
Total preferred stock	121,582	121,582	121,582	121,582	121,582
Total equity ⁽²⁾	1,117,730	883,838	714,886	767,034	713,924
Other Data:					
Funds From Operations ⁽³⁾	\$ 106,639	\$ 107,159	\$ 113,972	\$ 107,324	\$ 118,184
Cash flows provided by (used in):					
Operating activities	119,827	124,965	144,481	147,500	61,570
Investing activities	(701,774)	(50,474)	(93,825)	(244,802)	(136,193)
Financing activities	586,904	(74,161)	(52,835)	97,086	82,690
Property Data:					
Office Properties:					
Rentable square footage	10,395,208	8,708,466	8,650,126	8,088,769	7,835,040
Occupancy	87.5%	80.6%	86.2%	93.7%	95.8%
Industrial Properties:					
Rentable square footage	3,602,896	3,654,463	3,718,663	3,869,969	3,869,969
Occupancy	93.9%	88.2%	96.3%	94.7%	95.8%

(1) Represents the redemption value, less issuance costs of our issued and outstanding 1,500,000 Series A Preferred Units.

(2) Includes the noncontrolling interest of the common units of the Operating Partnership.

(3) We calculate FFO in accordance with the White Paper on FFO approved by the Board of Governors of NAREIT. The White Paper defines FFO as net income or loss calculated in accordance with GAAP, excluding extraordinary items, as defined by GAAP, and gains and losses from sales of depreciable operating property, plus real estate-related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets), and after adjustment for unconsolidated partnerships and joint ventures.

We believe that FFO is a useful supplemental measure of our operating performance. The exclusion from FFO of gains and losses from the sale of operating real estate assets allows investors and analysts to readily identify the operating results of the assets that form the core of our activity and assists in comparing those operating results between periods. Also, because FFO is generally recognized as the industry standard for reporting the operations of REITs, it facilitates comparisons of operating performance to other REITs. However, other REITs may use different methodologies to calculate FFO, and accordingly, our FFO may not be comparable to all other REITs.

Implicit in historical cost accounting for real estate assets in accordance with GAAP is the assumption that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or

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

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

Noncash adjustments to arrive at FFO were as follows: noncontrolling interest in earnings of the Operating Partnership, depreciation and amortization of real estate assets, and net gain (loss) from dispositions of operating properties. For additional information, see Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations -Non-GAAP Supplemental Financial Measure: Funds From Operations including a reconciliation of our GAAP net income available for common stockholders to FFO for the periods presented.

SELECTED FINANCIAL DATA KILROY REALTY, L.P.

The following tables set forth selected consolidated financial and operating data on an historical basis for the Operating Partnership. The following data should be read in conjunction with our financial statements and notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included below in this Form 10-K.

The consolidated balance sheet data as of December 31, 2010, 2009, and 2008 and the consolidated statement of operations data for the years ended December 31, 2010, 2009, 2008, and 2007 have been derived from the historical consolidated financial statements of Kilroy Realty, L.P. audited by an independent registered public accounting firm. The consolidated balance sheet data as of December 31, 2007 and 2006 and the consolidated statement of operations data for the year ended December 31, 2006 have been derived from the unaudited historical consolidated financial statements of Kilroy Realty, L.P.

KILROY REALTY, L.P. CONSOLIDATED
(in thousands, except unit, per unit, square footage and occupancy data)

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Statements of Operations					
Data:					
Total revenues	\$ 301,980	\$ 279,434	\$ 289,355	\$ 257,876	\$ 241,138
Income from continuing operations	18,937	35,754	45,849	44,560	47,741
Net income available for common unitholders	4,528	22,618	31,478	107,797	78,008
Per-Unit Data:					
Weighted average common units outstanding-basic	51,220,618	40,436,196	34,531,779	34,615,769	33,842,375
Weighted average common units outstanding-diluted	51,236,326	40,463,221	34,606,060	34,644,738	33,890,941
Income from continuing operations available to common unitholders per common unit-basic	\$ 0.05	\$ 0.47	\$ 0.87	\$ 0.81	\$ 0.95
Income from continuing operations available to common unitholders per common unit-diluted	\$ 0.05	\$ 0.47	\$ 0.87	\$ 0.81	\$ 0.95
Net income available to common unitholders per unit-basic	\$ 0.07	\$ 0.53	\$ 0.90	\$ 3.09	\$ 2.30
Net income available to common unitholders per unit-diluted	\$ 0.07	\$ 0.53	\$ 0.90	\$ 3.09	\$ 2.30

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Distributions declared per common unit	\$	1.40	\$	1.63	\$	2.32	\$	2.22	\$	2.12
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	2010	2009	December 31, 2008	2007	2006
Balance Sheet Data:					
Total real estate held for investment, before accumulated depreciation and amortization	\$ 3,216,871	\$ 2,520,083	\$ 2,475,596	\$ 2,370,004	\$ 2,040,761
Total assets	2,816,565	2,084,281	2,102,918	2,069,810	1,799,352
Total debt	1,427,776	972,016	1,142,348	1,072,659	879,198
Series A redeemable referred units ⁽¹⁾	73,638	73,638	73,638	73,638	73,638
Total preferred capital	121,582	121,582	121,582	121,582	121,582
Total capital ⁽²⁾	1,117,730	883,838	714,886	767,034	713,924
Other Data:					
Cash flows provided by (used in):					
Operating activities	119,827	124,965	144,481	147,500	61,570
Investing activities	(701,774)	(50,474)	(93,825)	(244,802)	(136,193)
Financing activities	586,904	(74,161)	(52,835)	97,086	82,690
Property Data:					
Office Properties:					
Rentable square footage	10,395,208	8,708,466	8,650,126	8,088,769	7,835,040
Occupancy	87.5%	80.6%	86.2%	93.7%	95.8%
Industrial Properties:					
Rentable square footage	3,602,896	3,654,463	3,718,663	3,869,969	3,869,969
Occupancy	93.9%	88.2%	96.3%	94.7%	95.8%

(1) Represents the redemption value, less issuance costs of the Operating Partnership's issued and outstanding 1,500,000 Series A Preferred Units.

(2) Includes the noncontrolling interests in consolidated subsidiaries.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion relates to our consolidated financial statements and should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. The results of operations discussion is combined for the Company and the Operating Partnership because there are no material differences in the results of operations between the two reporting entities.

Statements contained in this report that are not historical facts may be forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected. Some of the information presented is forward-looking in nature, including information concerning projected future occupancy rates, rental rate increases, property development timing and costs, and investment amounts. Numerous factors could affect our actual results, some of which are beyond our control. These include the breadth and duration of the current slowness of economic growth and its impact on our tenants, the strength of commercial and industrial real estate markets, market conditions affecting tenants, our ability to complete and successfully integrate pending and

recent acquisitions, competitive market conditions, interest rate levels, volatility in the trading prices of the Company's securities, and capital market conditions. You are cautioned not to place undue reliance on this information, which speaks only as of the date of this report. We assume no obligation to update publicly any forward-looking information, whether as a result of new information, future events, or otherwise, except to the extent we are required to do so in connection with our ongoing requirements under federal securities laws to disclose material information. For a discussion of important risks related to our business, and related to investing in our securities, including risks that could cause actual results and events to differ materially from results and events referred to in the forward-looking information, see Item 1A: Risk Factors and the discussion under the captions Factors That May Influence Future Results of Operations and Liquidity and Capital Resources below. In light of these risks, uncertainties, and assumptions, our actual results could be materially different from the expectations stated in this report.

Overview and Background

We are a self-administered REIT active in premier office and industrial submarkets along the West Coast. We own, develop, acquire and manage primarily Class A real estate assets in the coastal regions of Los Angeles, Orange County, San Diego, greater Seattle and the San Francisco Bay Area, which we believe have strategic advantages and strong barriers to entry. We own our interests in all of our properties through the Operating Partnership and the Finance Partnership, and conduct substantially all of our operations through the Operating Partnership. We owned a 96.8% and 96.2% general partnership interest in the Operating Partnership as of December 31, 2010 and 2009, respectively.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires us to make estimates, assumptions, and judgments that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting periods.

Certain accounting policies are considered to be critical accounting policies. Critical accounting policies are those policies that require our management team to make significant estimates and/or assumptions about matters that are uncertain at the time the estimates and/or assumptions are made or where we are required to make significant judgments and assumptions with respect to the practical application of accounting principles in our business operations. Critical accounting policies are by definition those policies that are material to our financial statements and for which the impact of changes in estimates, assumptions, and judgments could have a material impact to our financial statements.

The following critical accounting policies discussion reflects what we believe are the most significant estimates, assumptions, and judgments used in the preparation of our consolidated financial statements. This discussion of our critical accounting policies is intended to supplement the description of our accounting policies in the footnotes to our consolidated financial statements and to provide additional insight into the information used by management when evaluating significant estimates, assumptions, and judgments. For further discussion of our significant accounting policies, see Note 2 to the consolidated financial statements included in this report.

Rental Revenue Recognition

Rental revenue is our principal source of revenue. The timing of when we commence rental revenue recognition depends largely on our conclusion as to whether we are or the tenant is the owner for accounting purposes of the tenant improvements at the leased property. When we conclude that we are the owner of tenant improvements for accounting purposes, we record the cost to construct the tenant improvements as an asset, and we commence rental revenue recognition when the tenant takes possession of the finished space, which is typically when such tenant improvements are substantially complete.

The determination of whether we are or the tenant is the owner of the tenant improvements for accounting purposes is subject to significant judgment. In making that determination, we consider numerous factors and perform a detailed evaluation of each individual lease. No one factor is determinative in reaching a conclusion. The factors we evaluate include but are not limited to the following:

- whether the lease agreement requires landlord approval of how the tenant improvement allowance is spent prior to installation of the tenant improvements;

whether the lease agreement requires the tenant to provide evidence to the landlord supporting the cost and what the tenant improvement allowance was spent on prior to payment by the landlord for such tenant improvements;

whether the tenant improvements are unique to the tenant or reusable by other tenants;

whether the tenant is permitted to alter or remove the tenant improvements without the consent of the landlord or without compensating the landlord for any lost utility or diminution in fair value; and

whether the ownership of the tenant improvements remains with the landlord or remains with the tenant at the end of the lease term.

In addition, we also record the cost of certain tenant improvements paid for or reimbursed by tenants when we conclude that we are the owner of such tenant improvements using the factors discussed above. For these tenant-funded tenant improvements, we record the amount funded or reimbursed by tenants as deferred revenue, which is amortized and recognized as rental revenue over the term of the related lease beginning upon substantial completion of the leased premises. During the years ended December 31, 2010, 2009, and 2008, we recorded \$5.4 million, \$2.0 million, and \$28.1 million, respectively, of tenant-funded tenant improvements. The decreasing trend corresponds to the decrease we have been experiencing in our development and redevelopment activities since leases at our development and redevelopment properties generally have higher tenant-funded tenant improvements. For those periods, we also recognized \$9.7 million, \$9.8 million, and \$11.3 million, respectively, of noncash rental revenue related to the amortization of deferred revenue recorded in connection with tenant-funded tenant improvements.

When we conclude that we are not the owner and the tenant is the owner of tenant improvements for accounting purposes, we record our contribution towards those improvements as a lease incentive, which is amortized as a reduction to rental revenue on a straight-line basis over the term of the related lease, and rental revenue recognition begins when the tenant takes possession of or controls the space.

Our determination as to whether we are or the tenant is the owner of tenant improvements for accounting purposes is made on a lease-by-lease basis and has a significant impact on the amount of noncash rental revenue that we record related to the amortization of deferred revenue for tenant-funded tenant improvements, and can also have a significant effect on the timing of our overall revenue recognition.

Tenant Reimbursement Revenue

Reimbursements from tenants consist of amounts due from tenants for common area maintenance, real estate taxes, and other recoverable costs, including capital expenditures. Calculating tenant reimbursement revenue requires an in-depth analysis of the complex terms of each underlying lease. Examples of judgments and estimates used when determining the amounts recoverable include:

- estimating the final expenses, net of accruals, that are recoverable;

- estimating the fixed and variable components of operating expenses for each building;

- conforming recoverable expense pools to those used in establishing the base year or base allowance for the applicable underlying lease; and

- concluding whether an expense or capital expenditure is recoverable pursuant to the terms of the underlying lease.

During the year, we accrue estimated tenant reimbursement revenue in the period in which the tenant reimbursable costs are incurred based on our best estimate of the amounts to be recovered. Throughout the year, we perform analyses to properly match tenant reimbursement revenue with reimbursable costs incurred to date. Additionally, during the fourth quarter of each year, we perform preliminary reconciliations and accrue additional tenant reimbursement revenue or refunds. Subsequent to year end, we perform final detailed reconciliations and analyses on a lease-by-lease basis and bill or refund each tenant for any cumulative annual adjustments in the first and second

quarters of each year for the previous year's activity. Our historical experience for the years ended December 31, 2009, 2008, and 2007 has been that our final reconciliation and billing process resulted in final amounts that approximated the total annual tenant reimbursement revenues recognized.

Allowances for Uncollectible Current Tenant Receivables and Deferred Rent Receivables

Tenant receivables and deferred rent receivables are carried net of the allowances for uncollectible current tenant receivables and deferred rent receivables. Current tenant receivables consist primarily of amounts due for contractual lease payments and reimbursements of common area maintenance expenses, property taxes, and other costs recoverable from tenants. Deferred rent receivables represent the amount by which the cumulative straight-

line rental revenue recorded to date exceeds cash rents billed to date under the lease agreement. As of December 31, 2010 and 2009, current receivables were carried net of an allowance for uncollectible amount of \$2.8 million and \$3.1 million, respectively, and deferred rent receivables were carried net of an allowance for uncollectible accounts of \$3.8 million and \$6.4 million, respectively.

Management's determination of the adequacy of the allowance for uncollectible current tenant receivables and the allowance for deferred rent receivables is performed using a methodology that incorporates a specific identification analysis and an aging analysis and includes an overall evaluation of our historical loss trends and the current economic and business environment. This determination requires significant judgment and estimates about matters that are uncertain at the time the estimates are made, including the creditworthiness of specific tenants, specific industry trends and conditions, and general economic trends and conditions. Since these factors are beyond our control, actual results can differ from our estimates, and such differences could be material.

With respect to the allowance for uncollectible tenant receivables, the specific identification methodology analysis relies on factors such as the age and nature of the receivables, the payment history and financial condition of the tenant, our assessment of the tenant's ability to meet its lease obligations, and the status of negotiations of any disputes with the tenant. With respect to the allowance for deferred rent receivables, given the longer-term nature of these receivables, the specific identification methodology analysis evaluates each of our significant tenants and any tenants on our internal watchlist and relies on factors such as each tenant's financial condition and its ability to meet its lease obligations. We evaluate our reserve levels quarterly based on changes in the financial condition of tenants and our assessment of the tenant's ability to meet its lease obligations, overall economic conditions, and the current business environment.

For the years ended December 31, 2010, 2009, and 2008, we recorded a total provision for bad debts for both current tenant receivables and deferred rent receivables of approximately (0.4)%, 0.2%, and 1.4%, respectively, of recurring rental revenue. The negative provision for the year ended December 31, 2010 reflects the reversal of approximately \$1.0 million of a provision for bad debts recorded in prior years against outstanding receivables from a former tenant due to the settlement of outstanding litigation with the former tenant in 2010. Included in the provision amount for 2008 is approximately \$3.1 million for the unrecoverable portion of the deferred rent receivable balance related to an early termination at one of our Office Properties in San Diego. Excluding the impact of the early termination on the provision for bad debts, for the year ended December 31, 2008, we recorded a provision for bad debts of approximately 0.3% of recurring revenue. During the year ended December 31, 2010, we wrote off approximately \$1.7 million of receivables that were reserved in previous periods. Excluding the \$1.0 million reversal of the provision in 2010, our historical experience has been that actual write-offs of current tenant receivables and deferred rent receivables has approximated the provision for bad debts recorded for the years ended December 31, 2010, 2009, and 2008. In the event our estimates were not accurate and we had to change our allowances by 1% of recurring revenue, the potential impact to our net income would be approximately \$3.0 million, \$2.8 million, and \$2.8 million for the years ended December 31, 2010, 2009, and 2008, respectively.

Operating Property Acquisitions

We record the acquired tangible and intangible assets and assumed liabilities of operating property acquisitions at fair value at the acquisition date. We assess and consider fair value based on estimated cash flow projections that utilize available market information and discount and/or capitalization rates that we deem appropriate. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, and market and economic conditions. The acquired assets and assumed liabilities for an acquired operating property generally include but are not limited to: land, buildings and improvements, and identified tangible and intangible assets and liabilities associated with in-place leases, including tenant improvements, leasing costs, value of above-market and below-market leases, acquired in-place lease values, and tenant relationships, if any.

The fair value of land is derived from comparable sales of land within the same submarket and/or region. The fair value of buildings and improvements, tenant improvements, and leasing costs are based upon current market replacement costs and other relevant market rate information.

The fair value of the above-market or below-market component of an acquired in-place lease is based upon the present value (calculated using a market discount rate) of the difference between (i) the contractual rents to be paid pursuant to the lease over its remaining term and (ii) management's estimate of the rents that would be paid using fair

market rental rates and rent escalations at the date of acquisition over the remaining term of the lease. We review in-place leases at acquired properties at the time of acquisition to determine if contractual rents are above or below current market rents for the acquired property, and we record an identifiable intangible asset or liability if there is an above or below-market lease. The amounts recorded for above-market leases are included in deferred leasing costs and acquisition-related intangibles, net on the balance sheet and are amortized on a straight-line basis as a reduction of rental income over the remaining term of the applicable leases. The amounts recorded for below-market leases are included in deferred revenue and acquisition-related liabilities, net on the balance sheet and are amortized on a straight-line basis as an increase to rental income over the remaining term of the applicable leases. If a lease were to be terminated prior to its contractual expiration (for example resulting from bankruptcy), amortization of the related unamortized above or below-market lease intangible would be accelerated.

The fair value of acquired in-place leases is derived based on management's assessment of lost revenue and costs incurred for the period required to lease the assumed vacant property to the occupancy level when purchased. This fair value is based on a variety of considerations including, but not necessarily limited to: (1) the value associated with avoiding the cost of originating the acquired in-place leases; (2) the value associated with lost revenue related to tenant reimbursable operating costs estimated to be incurred during the assumed lease-up period; and (3) the value associated with lost rental revenue from existing leases during the assumed lease-up period. Factors considered by us in performing these analyses include an estimate of the carrying costs during the expected lease-up periods, current market conditions, and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses, and estimates of lost rental revenue during the expected lease-up periods based on current market demand at market rates. In estimating costs to execute similar leases, we consider leasing commissions, legal and other related expenses. The amount recorded for acquired in-place leases is included in deferred leasing costs and acquisition-related intangibles, net on the balance sheet and amortized as an increase to depreciation and amortization expense over the remaining term of the applicable leases. If a lease were to be terminated or if termination were determined to be likely prior to its contractual expiration (for example resulting from bankruptcy), amortization of the related unamortized in-place lease intangible would be accelerated.

The determination of the fair value of the acquired tangible and intangible assets and assumed liabilities of operating property acquisitions requires us to make significant judgments and assumptions about the numerous inputs discussed above. The use of different assumptions in these fair value calculations could significantly affect the reported amounts of the allocation of our acquisition related assets and liabilities and the related amortization and depreciation expense recorded for such assets and liabilities. In addition, since the value of above and below market leases are amortized as either a reduction or increase to rental income, respectively, our judgments for these intangibles could have a significant impact on our reported rental revenues and results of operations.

Evaluation of Asset Impairment

We evaluate our real estate assets for potential impairment whenever events or changes in circumstances indicate that the carrying amount of a given asset may not be recoverable. We evaluate our real estate assets for impairment on a property-by-property basis. Indicators we use to determine whether an impairment evaluation is necessary include:

- low occupancy levels or forecasted low occupancy levels at a specific property;

- current period operating or cash flow losses combined with a historical pattern or future projection of potential continued operating or cash flow losses at a specific property;

- deterioration in rental rates for a specific property as evidenced by sudden significant rental rate decreases or continuous rental rate decreases over numerous quarters, which could signal a continued decrease in future cash flow for that property;

deterioration of a given rental submarket as evidenced by significant increases in market vacancy and/or negative absorption rates or continuous increases in market vacancy and/or negative absorption rates over numerous quarters, which could signal a decrease in future cash flow for properties within that submarket;

significant increases in property sales yields, continuous increases in property sales yields over several quarters, or recent property sales at a loss within a given submarket, each of which could signal a decrease in the market value of properties;

significant change in strategy or use of a specific property or any other event that could result in a decreased holding period or significant development delay;

evidence of material physical damage to the property; and

default by a significant tenant when any of the other indicators above are present.

When we evaluate for potential impairment our real estate assets to be held and used, we first evaluate whether there are any indicators of impairment. If any impairment indicators are present for a specific real estate asset, we then perform an undiscounted cash flow analysis and compare the net carrying amount of the real estate asset to the real estate asset's estimated undiscounted future cash flow over the anticipated holding period. If the estimated undiscounted future cash flow is less than the net carrying amount of the real estate asset, we perform an impairment loss calculation to determine if the fair value of the real estate asset is less than the net carrying value of the real estate asset. Our impairment loss calculation compares the net carrying amount of the real estate asset to the real estate asset's estimated fair value, which may be based on estimated discounted future cash flow calculations or third-party valuations or appraisals. We recognize an impairment loss if the amount of the asset's net carrying amount exceeds the asset's estimated fair value. If we recognize an impairment loss, the estimated fair value of the asset becomes its new cost basis. For a depreciable long-lived asset, the new cost basis will be depreciated (amortized) over the remaining useful life of that asset.

Our undiscounted cash flow and fair value calculations contain uncertainties because they require management to make assumptions and to apply judgment to estimate future cash flow and property fair values, including selecting the discount or capitalization rate that reflects the risk inherent in future cash flow. Estimating projected cash flow is highly subjective as it requires assumptions related to future rental rates, tenant allowances, operating expenditures, property taxes, capital improvements, and occupancy levels. We are also required to make a number of assumptions relating to future economic and market events and prospective operating trends. Determining the appropriate capitalization rate also requires significant judgment and is typically based on many factors including the prevailing rate for the market or submarket, as well as the quality and location of the properties. Further, capitalization rates can fluctuate resulting from a variety of factors in the overall economy or within regional markets. If the actual net cash flow or actual market capitalization rates significantly differ from our estimates, the impairment evaluation for an individual asset could be materially affected.

Because of the economic and market environment, circumstances indicated that an analysis for potential impairment of certain of our properties was necessary in each of the years ended December 31, 2010, 2009, and 2008. As a result, for each property where such an indicator occurred and/or for properties within a given submarket where such an indicator occurred, we completed an impairment evaluation. After completing this process, we determined that for each of the properties evaluated, undiscounted cash flows over the holding period were in excess of carrying value and, therefore, we did not record any impairment losses for these periods.

Cost Capitalization and Depreciation

We capitalize costs associated with development and redevelopment activities, capital improvements, tenant improvements, and leasing activities. Amounts capitalized are depreciated or amortized over estimated useful lives determined by management. We depreciate buildings and improvements based on the estimated useful life of the asset, and we amortize tenant improvements and leasing costs over the shorter of the estimated useful life or estimated remaining life of the related lease. All capitalized costs are depreciated or amortized using the straight-line method.

Determining whether expenditures meet the criteria for capitalization and the assignment of depreciable lives requires management to exercise significant judgment. Expenditures that meet one or more of the following criteria generally qualify for capitalization:

provide benefit in future periods;

extend the useful life of the asset beyond our original estimates; and

increase the quality of the asset beyond our original estimates.

Our historical experience has demonstrated that we have not had material write-offs of assets and that our depreciation and amortization estimates have been reasonable and appropriate.

Factors That May Influence Future Results of Operations

Acquisitions. As a key component of our growth strategy, we continually evaluate selected property acquisition opportunities. During the year ended December 31, 2010, we acquired ten buildings in eight transactions for approximately \$697.8 million (see Note 3 to our consolidated financial statements included in this report for additional information). We consider potential acquisitions on an ongoing basis and may have one or more potential acquisitions under consideration at any point in time, which may be at varying stages of the negotiation and due diligence review process. We generally finance our acquisitions through debt and equity offerings and borrowings on our unsecured line of credit. Costs associated with acquisitions are expensed as incurred and we may be unable to complete an acquisition after making a nonrefundable deposit or incurring acquisition-related costs.

In January 2011, we completed our third acquisition in San Francisco with the purchase of 250 Brannan Street in the South Financial District for approximately \$33.0 million. The building encompasses approximately 91,000 rentable square feet and is currently 77% leased to two tenants.

Leasing Activity and Changes in Rental Rates. The amount of net rental income generated by our properties depends principally on our ability to maintain the occupancy rates of currently leased space and to lease currently available space, newly developed or redeveloped properties, and space available from unscheduled lease terminations. The amount of rental income we generate also depends on our ability to maintain or increase rental rates in our submarkets. Negative trends in one or more of these factors could adversely affect our rental income in future periods. The following tables set forth certain information regarding leases that commenced during the year ended December 31, 2010.

Lease Commencement Information by Segment For Leases that Commenced During the Year Ended December 31, 2010

	1st & 2nd Generation ⁽¹⁾				2nd Generation ⁽¹⁾			Weighted Average Lease Term (in months)
	Number of Leases ⁽²⁾		Rentable Square Feet ⁽²⁾		Changes in	Changes in	Retention	
						Cash		
	New	Renewal	New	Renewal	Rents ⁽³⁾	Rents ⁽⁴⁾	Rates ⁽⁵⁾	
Office Properties	57	53	898,090	740,652	(2.3)%	(9.5)%	56.7%	63
Industrial Properties	11	8	508,105	278,700	(26.5)%	(31.7)%	54.8%	81
Total portfolio	68	61	1,406,195	1,019,352	(6.1)%	(12.9)%	56.1%	70

(1) First generation leasing includes space where we have made capital expenditures that result in additional revenue generated when the space is re-leased. Second generation leasing includes space where we have made capital expenditures to maintain the current market revenue stream.

- (2) Represents leasing activity for leases that commenced during the period shown, including first and second generation space, net of month-to-month leases. Excludes leasing on new construction.
- (3) Calculated as the change between GAAP rents for new/renewed leases and the expiring GAAP rents for the same space. Excludes leases for which the space was vacant longer than one year, or vacant when the property was acquired .
- (4) Calculated as the change between stated rents for new/renewed leases and the expiring stated rents for the same space. Excludes leases for which the space was vacant longer than one year, or vacant when the property was acquired.
- (5) Calculated as the percentage of space either renewed or expanded into by existing tenants or subtenants at lease expiration.

The changes in rents and changes in cash rents reported above excludes leases of approximately 893,900 rentable square feet for the twelve months ended December 31, 2010, for which the space was vacant longer than one year or we are leasing the space for the first time. We exclude space vacant for more than one year in our change in rents calculations to provide a meaningful market comparison.

In general, we have experienced decreases in rental rates in many of our submarkets over the last several quarters as the result of continued slow economic growth and other related factors. During the fourth quarter of 2010, we executed 42 leases for an aggregate of 0.8 million rentable square feet. The weighted average change in

rents as compared to the expiring rents for the same space for these new leases was a 6.2% decrease in GAAP rents and a 14.7% decrease in cash rents, excluding leases for which the space was vacant longer than one year. As of December 31, 2010, we believe that the weighted average cash rental rates for our overall portfolio, including recently acquired properties, are approximately 10% above the current average market rental rates, although individual properties within any particular submarket presently may be leased either above, below, or at the current market rates within that submarket, and the average rental rates for individual submarkets may be above, below, or at the average cash rental rate of our portfolio. As previously discussed, our rental rates and occupancy are impacted by general economic conditions, including the pace of regional economic growth and access to capital. Therefore, given the impact of the current economic conditions and continued expectation of slow economic growth in our submarkets, we cannot give any assurance that leases will be renewed or that available space will be re-leased at rental rates equal to or above the current market rates. Additionally, decreased demand and other negative trends or unforeseeable events that impair our ability to timely renew or re-lease space could have further negative effects on our future financial condition, results of operations, and cash flows.

Scheduled Lease Expirations. In addition to the 1.5 million rentable square feet, or 10.9%, of currently available space in our stabilized portfolio, leases representing approximately 5.8% and 10.3% of the occupied square footage of our stabilized portfolio are scheduled to expire during 2011 and in 2012, respectively. The leases scheduled to expire during 2011 and in 2012 represent approximately 1.4 million rentable square feet of office space, or 12.0% of our total annualized base rental revenue, and 0.6 million rentable square feet of industrial space, or 1.3% of our total annualized base rental revenue, respectively. We believe that the weighted average cash rental rates are approximately 15% above the current average quoted market rates for leases scheduled to expire during 2011, although individual properties within any particular submarket presently may be leased either above, below, or at the current quoted market rates within that submarket, and the average rental rates for individual submarkets may be above, below, or at the average cash rental rate of our overall portfolio. Our ability to re-lease available space depends upon both general market conditions and the market conditions in the specific regions in which individual properties are located.

Development and Redevelopment Programs. We believe that a portion of our long-term future potential growth will continue to come from our development pipeline and redevelopment opportunities within our existing portfolio. Redevelopment opportunities are those projects in which we spend significant development and construction costs on existing buildings pursuant to a formal plan, the result of which is a higher economic return on the property. While in recent periods we have delayed the timing and reduced the scope of our development program activity as a result of economic conditions in our submarkets, we continue to proactively evaluate development and redevelopment opportunities throughout California.

In the third quarter of 2010 we commenced the redevelopment of one of our buildings in the El Segundo submarket of Los Angeles County which encompasses approximately 300,000 rentable square feet. We will be upgrading and modernizing the building and adjacent common areas since it was previously occupied by the Boeing Company and its predecessors for more than 25 years. The project has a total estimated investment of approximately \$50 million and is currently expected to be completed in the third quarter of 2011 (see additional information under the caption

Liquidity and Capital Resources of the Operating Partnership Liquidity Uses Redevelopment and Acquisition Opportunities).

Over the next two years, we also plan to continue to evaluate redevelopment opportunities for certain other of our properties, which have been occupied by long-term tenants and require significant capital expenditures to upgrade and modernize the buildings. In addition, we plan to continue to focus on enhancing the entitlements for our existing development land pipeline, and performing additional activities to prepare for the time when development will again be economically attractive.

Incentive Compensation. Our Executive Compensation Committee determines compensation, including equity and cash incentive programs, for our executive officers. The programs approved by the Executive Compensation Committee have historically provided for equity and cash compensation to be earned by our executive officers based on certain performance measures, including financial, operating, and development targets. Incentive compensation for our executive officers for 2011 is structured to allow the Compensation Committee to evaluate a variety of key factors and metrics at the end of the year and make a determination of incentive

compensation for executive officers based on the Company's and management's overall performance. As a result, accrued incentive compensation and compensation expense for future incentive compensation awards will be affected by our operating and development performance, financial results, the performance of the trading price of the Company's common stock, and market conditions. Consequently, we cannot predict the amounts that will be recorded in future periods related to executive compensation.

Share-Based Compensation. As of December 31, 2010, there was \$4.8 million of total unrecognized compensation cost related to outstanding nonvested shares of restricted common stock and nonvested RSUs issued under share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 1.5 years. Additional unrecognized compensation cost of \$4.6 million related to 66,208 shares of restricted common stock and 97,597 nonvested restricted stock units issued under share-based compensation arrangements subsequent to December 31, 2010 is expected to be recognized over a weighted-average period of 2.1 years. See Note 12 to our consolidated financial statements for additional information regarding our share-based incentive compensation plan.

Stabilized Portfolio Information

The following table reconciles the changes in the rentable square feet in our stabilized portfolio of operating properties from December 31, 2009 to December 31, 2010:

	Office Properties		Industrial Properties		Total	
	Number of Buildings	Rentable Square Feet	Number of Buildings	Rentable Square Feet	Number of Buildings	Rentable Square Feet
Total as of December 31, 2009	93	8,708,466	41	3,654,463	134	12,362,929
Acquisitions	10	2,076,064			10	2,076,064
Property moved to the redevelopment portfolio	(1)	(286,151)			(1)	(286,151)
Dispositions	(2)	(106,791)	(1)	(51,567)	(3)	(158,358)
Remeasurement		3,620				3,620
Total as of December 31, 2010	100	10,395,208	40	3,602,896	140	13,998,104

Occupancy Information

The following table sets forth certain information regarding our stabilized portfolio:

Stabilized Portfolio Occupancy by Segment

Region	Number of Buildings	Square Feet Total	Occupancy at ⁽¹⁾		
			12/31/2010	12/31/2009	12/31/2008
Office Properties:					
Los Angeles and Ventura Counties	29	3,065,626	89.3%	88.8%	92.3%
San Diego County	63	5,466,298	86.4	76.8	83.1

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Orange County	5	540,656	93.1	49.8	67.9
San Francisco	2	1,200,525	84.3		
Greater Seattle	1	122,103	100.0		
	100	10,395,208	87.5	80.6	86.2
Industrial Properties:					
Los Angeles County	1	192,053	100.0	100.0	100.0
Orange County	39	3,410,843	93.5	87.6	96.1
	40	3,602,896	93.9	88.2	96.3
Total Stabilized Portfolio	140	13,998,104	89.1%	82.8%	89.2%

	Average Occupancy			
	Stabilized Portfolio ⁽¹⁾		Core Portfolio ⁽²⁾	
	2010	2009	2010	2009
Office Properties	84.2%	83.3%	85.0%	83.5%
Industrial Properties	87.3	89.8	87.2	90.4
Total	85.1%	85.3%	85.6%	85.6%

(1) Occupancy percentages reported are based on our stabilized portfolio for the period presented.

(2) Occupancy percentages reported are based on Office Properties and Industrial Properties owned and stabilized at January 1, 2009 and still owned and stabilized as of December 31, 2010.

As of December 31, 2010, the Office Properties and Industrial Properties represented approximately 91.5% and 8.5%, respectively, of our total annualized base rental revenue and approximately 89.4% and 10.6%, respectively, of our total net operating income, as defined.

Current Regional Information

Although real estate fundamentals continue to be challenging in many of our regional submarkets, we have started to see an increase in occupancy across our portfolio, and we have generally seen a modest decrease in vacancy rates across many of our regional submarkets as well as a stabilization in rental rates and lease concession packages.

Los Angeles and Ventura Counties. Our Los Angeles and Ventura Counties stabilized office portfolio of 3.1 million rentable square feet was 89.3% occupied with approximately 328,800 vacant rentable square feet as of December 31, 2010 compared to 88.8% occupied with approximately 376,400 vacant rentable square feet as of December 31, 2009.

As of December 31, 2010, an aggregate of approximately 435,269 and 215,167 rentable square feet are scheduled to expire in this region during 2011 and 2012, respectively. The aggregate rentable square feet scheduled to expire in this region during 2011 and 2012 represents approximately 22.9% of the total occupied rentable square feet in this region and 5.1% of our annualized base rental revenues for our total stabilized portfolio.

San Diego County. Our San Diego stabilized office portfolio of 5.5 million rentable square feet was 86.4% occupied with approximately 744,300 vacant rentable square feet as of December 31, 2010 compared to 76.8% occupied with approximately 1.2 million vacant rentable square feet as of December 31, 2009. During the year ended December 31, 2010, we acquired five San Diego office buildings encompassing approximately 383,329 rentable square feet, which were 80.0% occupied as of December 31, 2010. In addition, we commenced 11 leases representing approximately 498,800 rentable square feet for space in this region that was vacant as of December 31, 2009.

As of December 31, 2010, leases representing an aggregate of approximately 76,594 and 463,179 rentable square feet are scheduled to expire during 2011 and 2012, respectively, in this region. The aggregate rentable square feet scheduled to expire in this region during 2011 and 2012 represents approximately 11.5% of the total occupied rentable square feet in this region and 5.0% of our annualized base rental revenues for our total stabilized portfolio. As of the date of this filing, we have leased approximately 155,000 rentable square feet of space in this region that was vacant at December 31, 2010. The new leases are scheduled to commence at various dates during the first three quarters of 2011.

Orange County. As of December 31, 2010, our Orange County stabilized industrial portfolio of approximately 3.4 million rentable square feet was 93.5% occupied with approximately 220,100 vacant rentable square feet compared to 87.6% occupied with approximately 429,900 vacant rentable square feet as of December 31, 2009. The increase in Orange County stabilized industrial portfolio occupancy is primarily attributable to three leases encompassing approximately 361,500 rentable square feet that commenced in 2010, partially offset by two leases encompassing approximately 139,800 rentable square feet that expired during the year. Furthermore, of the 220,100 rentable square feet that was vacant as of December 31, 2010, approximately

114,500 rentable square feet has been re-leased to two new tenants. These two new leases are expected to commence during the first half of 2011.

Our Orange County stabilized office portfolio of approximately 540,700 rentable square feet was 93.1% occupied with approximately 37,300 vacant rentable square feet as of December 31, 2010 compared to 49.8% occupied with approximately 139,100 vacant rentable square feet as of December 31, 2009. The increase in Orange County stabilized office portfolio occupancy is primarily attributable to two acquisitions and two dispositions made during the year. During the second quarter of 2010, we acquired two Orange County office buildings encompassing approximately 370,107 rentable square feet, which were 95.4% occupied as of December 31, 2010. During the fourth quarter of 2010, we disposed of two Orange County office buildings encompassing approximately 106,800 rentable square feet, which were 4.3% occupied as of the date of sale.

As of December 31, 2010, leases representing an aggregate of approximately 173,749 and 510,723 rentable square feet are scheduled to expire during 2011 and 2012, respectively, in this region. The aggregate rentable square feet scheduled to expire during 2011 and 2012 represents approximately 18.6% of the total occupied rentable square feet in this region and 2.0% of the annualized base rental revenues for our total stabilized portfolio. Of the 684,472 rentable square feet scheduled to expire during 2011 and 2012, approximately 602,409 rentable square feet is industrial space. Over the last year, the Orange County industrial market has experienced a significant decrease in rental rates.

San Francisco. During the year ended December 31, 2010, we acquired two office buildings in San Francisco encompassing approximately 1.2 million rentable square feet. These buildings were 84.3% occupied with approximately 188,900 vacant rentable square feet as of December 31, 2010. As of December 31, 2010, leases representing an aggregate of approximately 30,100 and 80,333 rentable square feet are scheduled to expire during 2011 and 2012, respectively, in this region. The aggregate rentable square feet scheduled to expire in this region during 2011 and 2012 represents approximately 11.0% of the total occupied rentable square feet in this region and less than 1.2% of our annualized base rental revenues for our total stabilized portfolio. As of the date of this filing, we have leased approximately 130,400 rentable square feet of space in this region that was vacant at December 31, 2010. The new leases are scheduled to commence at various dates during the first three quarters of 2011.

Greater Seattle. During the year ended December 31, 2010, we acquired one office building in Redmond, Washington, encompassing approximately 122,100 rentable square feet. The building was 100.0% occupied as of December 31, 2010 to a single tenant and the lease expires in 2015.

Results of Operations

Management internally evaluates the operating performance and financial results of our portfolio based on Net Operating Income for the following segments of commercial real estate property: Office Properties and Industrial Properties. We define Net Operating Income as operating revenues (rental income, tenant reimbursements, and other property income) less operating expenses (property expenses, real estate taxes, provision for bad debts, and ground leases). The Net Operating Income segment information presented within this Management's Discussion and Analysis of Financial Condition and Results of Operations consists of the same Net Operating Income segment information disclosed in Note 18 to our consolidated financial statements.

Year Ended December 31, 2010 Compared to Year Ended December 31, 2009

The following table reconciles our Net Operating Income by segment to our net income for the years ended December 31, 2010 and 2009.

	Year Ended December 31, 2010 2009 (\$ in thousands)		Dollar Change	Percentage Change
Net Operating Income, as defined				
Office Properties	\$ 193,649	\$ 178,247	\$ 15,402	8.6%
Industrial Properties	22,849	24,982	(2,133)	(8.5)
Total portfolio	216,498	203,229	13,269	6.5
Reconciliation to Net Income:				
Net Operating Income, as defined for reportable segments	216,498	203,229	13,269	6.5
Unallocated (expense) income:				
General and administrative expenses	(27,963)	(39,938)	11,975	(30.0)
Acquisition-related expenses	(2,248)		(2,248)	100.0
Depreciation and amortization	(103,809)	(87,627)	(16,182)	18.5
Interest income and other investment gains	964	1,300	(336)	(25.8)
Interest expense	(59,941)	(46,119)	(13,822)	30.0
(Loss) gain on early extinguishment of debt	(4,564)	4,909	(9,473)	(193.0)
Income from continuing operations	18,937	35,754	(16,817)	(47.0)
Income from discontinued operations	949	2,261	(1,312)	(58.0)
Net income	\$ 19,886	\$ 38,015	\$ (18,129)	(47.7)%

Rental Operations*Office Properties*

The following table compares the Net Operating Income for the Office Properties for the years ended December 31, 2010 and 2009.

Office Properties

	Total Office Portfolio				Core Office Portfolio⁽¹⁾			
	2010	2009	Dollar Change	Percentage Change	2010	2009	Dollar Change	Percentage Change
Operating revenues:								

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Rental income	\$ 249,278	\$ 220,393	\$ 28,885	13.1%	\$ 217,135	\$ 214,424	\$ 2,711	1.3%
Tenant reimbursements	20,884	24,350	(3,466)	(14.2)	19,298	22,048	(2,750)	(12.5)
Other property income	1,716	2,328	(612)	(26.3)	1,310	2,321	(1,011)	(43.6)
Total	271,878	247,071	24,807	10.0	237,743	238,793	(1,050)	(0.4)
Property and related expenses:								
Property expenses	53,904	45,970	7,934	17.3	45,097	43,900	1,197	2.7
Real estate taxes	24,355	21,181	3,174	15.0	20,077	20,215	(138)	(0.7)
Provision for bad debts	(1,014)	76	(1,090)	(1,434.2)	(1,014)	76	(1,090)	(1,434.2)
Ground leases	984	1,597	(613)	(38.4)	971	1,584	(613)	(38.7)
Total	78,229	68,824	9,405	13.7	65,131	65,775	(644)	(1.0)
Net Operating Income	\$ 193,649	\$ 178,247	\$ 15,402	8.6%	\$ 172,612	\$ 173,018	\$ (406)	(0.2)%

(1) Office Properties owned and stabilized at January 1, 2009 and still owned and stabilized as of December 31, 2010.

Rental Income

Rental income from Office Properties increased \$28.9 million, or 13.1%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 primarily the result of:

An increase of \$28.9 million generated by the ten office buildings we acquired during 2010 (the Office Acquisition Properties);

An increase of \$2.7 million generated by a 1.5% increase in average occupancy for the Office Properties owned and stabilized as of January 1, 2009 and still owned and stabilized as of December 31, 2010 (the Core Office Portfolio) from 83.5% for the year ended December 31, 2009 to 85.0% for the year ended December 31, 2010; and

An offsetting decrease of \$2.3 million generated by one office building that was moved from the stabilized portfolio to the redevelopment portfolio during the third quarter of 2010 upon the expiration of the lease for that building (the Office Redevelopment Property).

Tenant Reimbursements

Tenant reimbursements from Office Properties decreased \$3.5 million, or 14.2%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 as the result of:

A decrease of \$2.8 million generated by the Core Office Portfolio primarily the result of the renewal of several leases, which resulted in the reset of the base year expense level;

A decrease of \$1.2 million generated by the Office Redevelopment Property; and

An offsetting increase of \$0.5 million generated by the Office Acquisition Properties.

Other Property Income

Other property income from Office Properties decreased \$0.6 million, or 26.3%, for the year ended December 31, 2010 compared to the year ended December 31, 2009. Other property income for both periods consisted primarily of lease termination fees and other miscellaneous income within the Core Office Portfolio.

Property Expenses

Property expenses from Office Properties increased \$7.9 million, or 17.3%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 as the result of:

An increase of \$7.0 million generated by the Office Acquisition Properties;

An increase of \$1.2 million generated by the Core Office Portfolio primarily the result of:

An increase of \$0.8 million attributable to a casualty loss and costs associated with the initial clean-up and repair at one of our properties in Los Angeles that sustained damage from water intrusion; and

An increase of \$0.7 million attributable to an increase in certain recurring operating costs such as repairs and maintenance, property management expenses, janitorial and other service-related costs; and

An offsetting decrease of \$0.3 million generated by the Office Redevelopment Property.

Real Estate Taxes

Real estate taxes from Office Properties increased \$3.2 million, or 15.0%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 primarily attributable to the Office Acquisition Properties.

Provision for Bad Debts

The provision for bad debts from Office Properties for the year ended December 31, 2010 included a \$1.0 million reversal of a previously recorded provision for bad debts. During 2010, we settled outstanding litigation and received cash payments related to certain premises at one of our properties that had been abandoned by its former occupants (see Note 15 to our consolidated financial statements included in this report for additional information).

Ground Leases

Ground lease expense from Office Properties decreased \$0.6 million, or 38.4%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 primarily as the result of a ground rent expense adjustment for our Kilroy Airport Center, Long Beach project. During the first quarter of 2010, we were successful in negotiating a lower rental rate under the terms of the ground lease retroactive to January 1, 2006.

Net Operating Income

Net Operating Income from Office Properties increased \$15.4 million, or 8.6%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 primarily as the result of:

An increase of \$19.4 million attributable to the Office Acquisition Properties;

An offsetting decrease of \$3.0 million primarily attributable to the Office Redevelopment Property; and

An offsetting decrease of \$0.4 million attributable to the Core Office Portfolio.

Industrial Properties

The following table compares the Net Operating Income for the Industrial Properties for the year ended December 31, 2010 and 2009.

Industrial Properties

	Total Industrial Portfolio				Core Industrial Portfolio ⁽¹⁾			
	2010	2009	Dollar Change	Percentage Change	2010	2009	Dollar Change	Percentage Change
				(\$ in thousands)				
Operating revenues:								
Rental income	\$ 25,430	\$ 27,256	\$ (1,826)	(6.7)%	\$ 24,948	\$ 26,648	\$ (1,700)	(6.4)%
Tenant reimbursements	3,442	3,725	(283)	(7.6)	3,400	3,685	(285)	(7.7)
Other property income	1,230	1,382	(152)	(11.0)	1,230	1,382	(152)	(11.0)
Total	30,102	32,363	(2,261)	(7.0)	29,578	31,715	(2,137)	(6.7)
Property and related expenses:								
Property expenses	4,163	3,739	424	11.3	3,690	3,221	469	14.6
Real estate taxes	3,139	3,149	(10)	(0.3)	2,665	2,661	4	0.2

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Provision for bad debts	(49)	493	(542)	(109.9)	(49)	493	(542)	(109.9)
Total	7,253	7,381	(128)	(1.7)	6,306	6,375	(69)	(1.1)
Net Operating Income	\$ 22,849	\$ 24,982	\$ (2,133)	(8.5)%	\$ 23,272	\$ 25,340	\$ (2,068)	(8.2)%

(1) Industrial Properties owned and stabilized at January 1, 2009 which are still owned and stabilized as of December 31, 2010.

Rental Income

Rental income from Industrial Properties decreased \$1.8 million, or 6.7%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 primarily as the result of:

A 3.2% decrease in average occupancy for the Industrial Properties owned and stabilized at January 1, 2009 and still owned and stabilized as of December 31, 2010 (the Core Industrial Portfolio) from 90.4% for the year ended December 31, 2009 to 87.2% for the year ended December 31, 2010; and

A decrease in GAAP rental income of approximately 26.5% for leases that commenced during the year ended December 31, 2010 (see additional information under the caption Factors That May Influence Results of Operations).

Tenant Reimbursements

Tenant reimbursements from Industrial Properties decreased \$0.3 million, or 7.6%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 because of a decrease in the Core Industrial Portfolio 's average occupancy, as discussed above under the caption Rental Income.

Property Expenses

Property expenses from Industrial Properties increased \$0.4 million, or 11.3%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 primarily as the result of an increase in nonreimbursable legal fees related to tenant defaults that occurred during 2009.

Provision for Bad Debts

Provision for bad debts from Industrial Properties decreased \$0.5 million, or 109.9%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 as the result of changes in our estimates of collectability of receivables from certain watchlist tenants.

Net Operating Income

Net Operating Income from Industrial Properties decreased \$2.1 million, or 8.5%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 primarily as the result of a decrease in average occupancy year over year at the Core Industrial Portfolio and a decrease in GAAP rental income of approximately 26.5% for leases that commenced during the year ended December 31, 2010.

Other Income and Expenses

General and Administrative Expense

General and administrative expenses decreased \$12.0 million, or 30.0%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 primarily resulting from \$7.0 million of separation payments in our results for the year ended December 31, 2009 and an overall decrease in incentive compensation expenses.

Acquisition Related Expenses

During the year ended December 31, 2010, we incurred third-party acquisition costs of \$2.2 million in connection with completed acquisitions and other potential acquisitions. In accordance with accounting provisions, all acquisition costs related to operating property acquisitions are expensed as incurred.

Depreciation and Amortization Expense

Depreciation and amortization increased by \$16.2 million, or 18.5% for the year ended December 31, 2010 compared to the year ended December 31, 2009 primarily as the result of:

Approximately \$12.3 million related to the Office Acquisition Properties; and

Approximately \$4.2 million related to the change in estimated useful life of the industrial property that we are currently in the process of repositioning.

Interest Income and Other Investment Gains

Total interest income and other investment gains decreased by \$0.3 million, or 25.8%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 primarily as the result of a decrease of \$0.3 million in interest income for the year ended December 31, 2010 as compared to the year ended December 31, 2009 attributable to the repayment of the note receivable in July 2010 (see Note 5 to our consolidated financial statements included in this report for additional information).

Interest Expense

The following table sets forth our gross interest expense, including debt discounts and loan cost amortization, net of capitalized interest for the years ended December 31, 2010 and 2009.

	2010	2009	Dollar Change (\$ in thousands)	Percentage Change
Gross interest expense	\$ 69,956	\$ 55,802	\$ 14,154	25.4%
Capitalized interest	(10,015)	(9,683)	(332)	3.4%
Interest expense	\$ 59,941	\$ 46,119	\$ 13,822	30.0%

Gross interest expense, before the effect of capitalized interest, increased \$14.2 million, or 25.4%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 resulting from an increase in our average outstanding debt balances during 2010. In addition, our weighted average effective interest rate increased from approximately 5.2% for the year ended December 31, 2009 to approximately 6.2% for the year ended December 31, 2010.

Capitalized interest increased \$0.3 million, or 3.4%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 attributable to an increase in our weighted average interest rate, which caused a corresponding increase in the capitalization rate applied to development and redevelopment asset balances qualifying for interest capitalization. For the years ended December 31, 2010 and 2009, we did not capitalize interest on five of our seven development pipeline properties with an aggregate cost basis of approximately \$77.8 million as of December 31, 2010. In addition, during the third quarter of 2010, we also ceased interest capitalization on another of our development pipeline properties with an aggregate cost basis of approximately \$77.3 million as of December 31, 2010. We have suspended substantially all development activities related to these projects as a result of economic conditions in our submarkets and we determined these projects did not qualify for interest capitalization under GAAP.

(Loss) Gain on Early Extinguishment of Debt

During the year ended December 31, 2010, we recorded a loss on early extinguishment of debt of approximately \$4.6 million related to the repurchase of the 3.25% Exchangeable Notes with an aggregate stated principal amount of \$150.0 million. During the year ended December 31, 2009, we recorded a gain on early extinguishment of debt of approximately \$4.9 million resulting from the repurchase of the 3.25% Exchangeable Notes with an aggregate stated principal amount of \$162.0 million. (See Note 7 to our consolidated financial statements included in this report for additional information pertaining to these exchangeable note repurchases).

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

The following table reconciles our Net Operating Income by segment to our net income for the years ended December 31, 2009 and 2008.

	Year Ended December 31, 2009 2008 (\$ in thousands)		Dollar Change	Percentage Change
Net Operating Income, as defined				
Office Properties	\$ 178,247	\$ 185,967	\$ (7,720)	(4.2)%
Industrial Properties	24,982	26,796	(1,814)	(6.8)
Total portfolio	203,229	212,763	(9,534)	(4.5)
Reconciliation to Net Income:				
Net Operating Income, as defined for reportable segments	203,229	212,763	(9,534)	(4.5)
Unallocated (expense) income:				
General and administrative expenses	(39,938)	(38,260)	(1,678)	4.4
Depreciation and amortization	(87,627)	(83,215)	(4,412)	5.3
Interest income and other investment gains (losses)	1,300	(93)	1,393	(1,497.8)
Interest expense	(46,119)	(45,346)	(773)	1.7
Gain on early extinguishment of debt	4,909		4,909	100.0
Income from continuing operations	35,754	45,849	(10,095)	(22.0)
Income from discontinued operations	2,261	1,062	1,199	112.9
Net income	\$ 38,015	\$ 46,911	\$ (8,896)	(19.0)%

Rental Operations*Office Properties*

The following table compares the Net Operating Income for the Office Properties for the year ended December 31, 2009 and 2008.

	Total Office Portfolio				Core Office Portfolio⁽¹⁾			
	2009	2008	Dollar Change	Percentage Change (\$ in thousands)	2009	2008	Dollar Change	Percentage Change
Operating revenues:								
Rental income	\$ 220,393	\$ 223,245	\$ (2,852)	(1.3)%	\$ 199,278	\$ 213,721	\$ (14,443)	(6.8)%
Tenant reimbursements	24,350	26,898	(2,548)	(9.5)	22,256	25,430	(3,174)	(12.5)

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Other property income	2,328	5,923	(3,595)	(60.7)	2,279	5,860	(3,581)	(61.1)
Total	247,071	256,066	(8,995)	(3.5)	223,813	245,011	(21,198)	(8.7)
Property and related expenses:								
Property expenses	45,970	45,437	533	1.2	43,028	44,093	(1,065)	(2.4)
Real estate taxes	21,181	19,169	2,012	10.5	18,385	18,155	230	1.3
Provision for bad debts	76	3,876	(3,800)	(98.0)	76	3,876	(3,800)	(98.0)
Ground leases	1,597	1,617	(20)	(1.2)	1,591	1,612	(21)	(1.3)
Total	68,824	70,099	(1,275)	(1.8)	63,080	67,736	(4,656)	(6.9)
Net Operating Income	\$ 178,247	\$ 185,967	\$ (7,720)	(4.2)%	\$ 160,733	\$ 177,275	\$ (16,542)	(9.3)%

(1) Office Properties owned and stabilized at January 1, 2008 and still owned and stabilized as of December 31, 2010.

Rental Income

Rental income from Office Properties decreased \$2.9 million, or 1.3%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily resulting from:

A decrease of \$14.4 million attributable to the Office Properties owned and stabilized at January 1, 2008 and still owned and stabilized as of December 31, 2010 (the Core Office Portfolio) primarily resulting from:

A decrease of \$11.7 million primarily attributable to a 7.9% decrease in average occupancy from 91.9% for the year ended December 31, 2008 to 84.0% for the year ended December 31, 2009; and

A decrease of \$2.7 million of noncash rental income primarily attributable to the acceleration of the amortization of the deferred revenue balance during the year ended December 31, 2008 related to tenant-funded tenant improvements associated with an early lease termination at one of our properties in San Diego (see Note 17 to our consolidated financial statements included with this report for additional information);

An offsetting increase of \$11.6 million generated by one office development property that was added to the stabilized portfolio in the third quarter of 2008 and two office development properties that were added to the stabilized portfolio in the fourth quarter of 2008 (collectively, the Office Development Properties); and

An offsetting increase of \$0.7 million generated by one office redevelopment property that was added to the stabilized portfolio in the third quarter of 2008 and one office redevelopment project consisting of two buildings that was added to the stabilized portfolio in the fourth quarter of 2008 (collectively, the 2008 Office Redevelopment Properties).

Tenant Reimbursements

Tenant reimbursements from Office Properties decreased \$2.5 million, or 9.5%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily as the result of:

A decrease of \$3.2 million attributable to the Core Office Portfolio primarily resulting from a decrease in average occupancy, as discussed above under the caption Rental Income; and

An offsetting increase of \$1.0 million generated by the Office Development Properties and 2008 Office Redevelopment Properties.

Other Property Income

Other property income from Office Properties decreased \$3.6 million, or 60.7%, for the year ended December 31, 2009 compared to the year ended December 31, 2008. Other property income for 2009 included a \$1.4 million net lease termination fee related to a settlement with a former tenant. Other property income for 2008 included a \$5.0 million net lease termination fee related to an early lease termination. Other property income for both periods consisted primarily of lease termination fees and other miscellaneous income within the Core Office Portfolio.

Property Expenses

Property expenses from Office Properties increased \$0.5 million, or 1.2%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily resulting from:

An increase of \$1.3 million attributable to the Office Development Properties;

An increase of \$0.4 million attributable to the 2008 Office Redevelopment Properties; and

An offsetting decrease of \$1.1 million attributable to the Core Office Portfolio primarily resulting from:

A decrease of \$2.4 million primarily attributable to a decrease in certain recurring operating expenses such as utilities, property management expenses, repairs and maintenance costs, and janitorial and other service-related costs primarily attributable to a decrease in average occupancy as discussed above under the caption Rental Income; and

An offsetting increase of \$1.0 million primarily attributable to nonreimbursable legal fees largely related to tenant defaults and costs associated with nonrecurring repairs at one of our San Diego properties.

Real Estate Taxes

Real estate taxes from Office Properties increased \$2.0 million, or 10.5%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily attributable to the Office Development Properties and the 2008 Office Redevelopment Properties.

Provision for Bad Debts

The provision for bad debts from Office Properties decreased \$3.8 million, or 98.0%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 as the result of changes in our estimates of collectability of receivables from certain watchlist tenants. The provision for bad debts for the year ended December 31, 2008 included a \$3.1 million charge for the deferred rent receivable related to an early termination at one of our properties in San Diego (see Note 17 to our consolidated financial statements included with this report for additional information).

Net Operating Income

Net Operating Income from Office Properties decreased \$7.7 million, or 4.2%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily attributable to:

A decrease of \$16.5 million attributable to the Core Office Portfolio primarily attributable to a decrease in average occupancy year over year; and

An offsetting increase of \$9.9 million generated by the Office Development Properties and the 2008 Office Redevelopment Properties.

Industrial Properties

The following table compares the Net Operating Income for the Industrial Properties for the year ended December 31, 2009 and 2008.

	Industrial Properties							
	Total Industrial Portfolio		Core Industrial Portfolio⁽¹⁾					
	2009	2008	Dollar Change	Percentage Change	2009	2008	Dollar Change	Percentage Change
	(\$ dollars in thousands)							
Operating revenues:								
Rental income	\$ 27,256	\$ 28,275	\$ (1,019)	(3.6)%	\$ 26,647	\$ 27,716	\$ (1,069)	(3.9)%
Tenant reimbursements	3,725	4,088	(363)	(8.9)	3,685	4,049	(364)	(9.0)
Other property income	1,382	926	456	49.2	1,382	873	509	58.3
Total	32,363	33,289	(926)	(2.8)	31,714	32,638	(924)	(2.8)
Property and related expenses:								
Property expenses	3,739	3,424	315	9.2	3,220	3,295	(75)	(2.3)
Real estate taxes	3,149	2,894	255	8.8	2,661	2,567	94	3.7
Provision for bad debts	493	175	318	181.7	493	175	318	181.7
Total	7,381	6,493	888	13.7	6,374	6,037	337	5.6
Net Operating Income	\$ 24,982	\$ 26,796	\$ (1,814)	(6.8)%	\$ 25,340	\$ 26,601	\$ (1,261)	(4.7)%

(1) Industrial Properties owned and stabilized at January 1, 2008 and still owned and stabilized as of December 31, 2010.

Rental Income

Rental income from Industrial Properties decreased \$1.0 million, or 3.6%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 as the result of a decrease in average occupancy for the Industrial Properties owned and stabilized at January 1, 2008 and still owned and stabilized as of December 31, 2010 (the Core Industrial Portfolio). Average occupancy for the Core Industrial Portfolio decreased 6.7% from 96.5% for the year ended December 31, 2008 to 89.8% for the year ended December 31, 2009.

Tenant Reimbursements

Tenant reimbursements from Industrial Properties decreased \$0.4 million, or 8.9%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily attributable to a decrease in average occupancy in the Core Industrial Portfolio as discussed above under the caption Rental Income.

Other Property Income

Other property income from Industrial Properties increased \$0.5 million, or 49.2%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily attributable to a \$0.7 million net restoration fee received during the first quarter of 2009 from a tenant that vacated one of our Industrial Properties in Orange County. Other property income for both periods consisted primarily of lease termination fees and other miscellaneous income within the Core Industrial Portfolio.

Property Expenses

Property expenses from Industrial Properties increased \$0.3 million, or 9.2%, for the year ended December 31, 2009 compared to the year ended December 31, 2008. The results for the year ended December 31, 2008 included a \$0.6 million credit recorded in June 2008 for insurance proceeds received in connection with a casualty loss at one

property, which was recently reentitled for residential use (the Industrial Reentitlement Property). Excluding the insurance proceeds credit, property expenses from Industrial Properties decreased approximately \$0.3 million for the year ended December 31, 2009 compared to December 31, 2008.

Real Estate Taxes

Real estate taxes from Industrial Properties increased \$0.3 million, or 8.8%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily attributable to one building that was moved from our stabilized portfolio to our redevelopment portfolio.

Provision for Bad Debts

The provision for bad debts from Industrial Properties increased \$0.3 million, or 181.7%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 as the result of changes in our estimates of collectability of receivables from certain watchlist tenants.

Net Operating Income

Net Operating Income from Industrial Properties decreased \$1.8 million, or 6.8%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 as the result of:

A decrease of \$1.3 million attributable to a decrease in average occupancy in the Core Industrial Portfolio primarily year over year; and

A decrease of \$0.5 million primarily resulting from a credit recorded in 2008 for insurance proceeds related to our Industrial Reentitlement Property.

Other Income and Expenses

General and Administrative Expense

General and administrative expenses increased \$1.7 million, or 4.4%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily as the result of a \$7.0 million charge for separation payments, partially offset by a decrease in incentive compensation expense year over year and severance costs paid in 2008.

Depreciation and Amortization Expense

Depreciation and amortization expense increased \$4.4 million, or 5.3%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily attributable to the Office Development Properties and the 2008 Office Redevelopment Properties.

Interest Income and Other Investment Gains (Losses)

Total interest income and other investment gains (losses) increased approximately \$1.4 million, or 1,497.8%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily as the result of an increase in the fair value of the marketable securities held in connection with the Kilroy Realty Corporation 2007 Deferred Compensation Plan during the year ended December 31, 2009.

Interest Expense

The following table sets forth our gross interest expense, including debt discount and loan cost amortization, net of capitalized interest for the years ended December 31, 2009 and 2008.

	2009	2008	Dollar Change	Percentage Change
		(\$ in thousands)		
Gross interest expense	\$ 55,802	\$ 63,478	\$ (7,676)	(12.1)%
Capitalized interest	(9,683)	(18,132)	8,449	(46.6)%
Interest expense	\$ 46,119	\$ 45,346	\$ 773	1.7%

Gross interest expense, before the effect of capitalized interest, decreased \$7.7 million, or 12.1%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily as the result of a decrease in our average debt balance during the year ended December 31, 2009 compared to the year ended December 31, 2008 and, to a lesser extent, a decrease in our weighted-average effective interest rate from approximately 5.4% during the year ended December 31, 2008 to approximately 5.2% during the year ended December 31, 2009.

Capitalized interest decreased \$8.4 million, or 46.6% for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily as the result of a decrease in our average development and redevelopment asset balances qualifying for interest capitalization during the year ended December 31, 2009 compared to the year ended December 31, 2008 and, to a lesser extent, a decrease in our weighted-average effective interest rate which caused a corresponding decrease in the capitalization rate applied to our development and redevelopment asset balances qualifying for interest capitalization. During the year ended December 31, 2009, we did not capitalize interest for certain development properties because we suspended substantially all development activities related to these projects as a result of economic conditions in our submarkets.

Gain on Early Extinguishment of Debt

Gain on early extinguishment of debt was approximately \$4.9 million for the year ended December 31, 2009 and represents the net gain from the repurchase of the 3.25% Exchangeable Notes with an aggregate stated principal amount of \$162.0 million (see Note 7 to our consolidated financial statements included with this report for additional information).

Liquidity and Capital Resources of the Company

In this Liquidity and Capital Resources of the Company section, the term the Company refers only to Kilroy Realty Corporation on an unconsolidated basis, and excludes the Operating Partnership and all other subsidiaries. For further discussion of the liquidity and capital resources of the Company on a consolidated basis see the section entitled Liquidity and Capital Resources of the Operating Partnership below.

The Company's business is operated primarily through the Operating Partnership. The Company issues equity from time to time, but does not otherwise generate any capital itself or conduct any business itself, other than incurring certain expenses in operating as a public company which are fully reimbursed by the Operating Partnership. The Company itself does not hold any indebtedness, and its only material asset is its ownership of partnership interests of

the Operating Partnership. The Company's principal funding requirement is the payment of dividends on its common and preferred stock. The Company's source of funding for its dividend payments is distributions it receives from the Operating Partnership.

As of December 31, 2010, the Company owned a 96.8%, general partnership interest in the Operating Partnership excluding preferred units. The remaining 3.2% common limited partnership interest as of December 31, 2010 was owned by non-affiliate investors and certain of our executive officers and directors. Through its ownership as the sole general partner of the Operating Partnership, the Company has the full, exclusive and complete responsibility for the Operating Partnership's day-to-day management and control. The Company causes the Operating Partnership to distribute all, or such portion as the Company may in its discretion determine, of its available cash in the manner provided in the Operating Partnership's partnership agreement. Distributions from the Operating Partnership are the Company's source of capital.

The Company is a well-known seasoned issuer with an effective shelf registration statement that allows the Company to register unspecified various classes of debt and equity securities and the Operating Partnership to register unspecified and various classes of debt securities. As circumstances warrant, the Company may issue securities from time to time on an opportunistic basis, dependent upon market conditions and available pricing. When the Company receives proceeds from preferred or common equity issuances, it is required by the Operating Partnership's partnership agreement to contribute the proceeds from its equity issuances to the Operating Partnership in exchange for preferred or common partnership units of the Operating Partnership. The Operating Partnership may use the proceeds to repay debt, including borrowings under its line of credit, develop new or existing properties, to make acquisitions of properties, portfolios of properties, or for general corporate purposes.

The liquidity of the Company is dependent on the Operating Partnership's ability to make sufficient distributions to the Company. The Company also guarantees some of the Operating Partnership's debt, as discussed further in Note 6 to the consolidated financial statements. If the Operating Partnership fails to fulfill certain of its debt requirements, which trigger Company guarantee obligations, then the Company would be required to fulfill its cash payment commitments under such guarantees. However, the Company's only significant asset and source of liquidity is its investment in the Operating Partnership.

The Company believes the Operating Partnership's sources of working capital, specifically its cash flow from operations, and borrowings available under its credit facility, are adequate for it to make its distribution payments to the Company and, in turn, for the Company to make its dividend payments to its preferred and common shareholders. Cash flows from operating activities generated by the Operating Partnership for the year ended December 31, 2010 were sufficient to cover the Company's payment of cash dividends to its shareholders. However, there can be no assurance that the Operating Partnership's sources of capital will continue to be available at all or in amounts sufficient to meet its needs, including its ability to make distributions to the Company. The unavailability of capital could adversely affect the Operating Partnership's ability to make distributions to the Company, which would in turn, adversely affect the Company's ability to pay cash dividends to its shareholders.

As the sole general partner with control of the Operating Partnership, the Company consolidates the Operating Partnership for financial reporting purposes, and the Company does not have significant assets other than its investment in the Operating Partnership. Therefore, the assets and liabilities and the revenues and expenses of the Company and the Operating Partnership are substantially the same on their respective financial statements. Because the Company consolidates the Operating Partnership for financial reporting purposes, the section entitled "Liquidity and Capital Resources of the Operating Partnership" should be read in conjunction with this section to understand the liquidity and capital resources of the Company on a consolidated basis and how the Company is operated as a whole.

Distribution Requirements

The Company is required to distribute 90% of its taxable income (subject to certain adjustments and excluding net capital gain) on an annual basis to maintain qualification as a REIT for federal income tax purposes. As a result of this distribution requirement, the Operating Partnership cannot rely on retained earnings to fund its on-going operations to the same extent as other companies whose parent companies are not REITs. In addition, the Company may be required to use borrowings under the Operating Partnership's Credit Facility, if necessary, to meet REIT distribution requirements and maintain its REIT status. The Company may also need to continue to raise capital in the equity markets to fund the Operating Partnership's working capital needs, as well as potential developments of new or existing properties or acquisitions.

While historically the Company has satisfied its distribution requirement by making cash distributions to its shareholders, for distributions with respect to our 2008 through 2011 taxable years, IRS guidance allows the Company to satisfy up to 90% of this requirement through the distribution of shares of the Company's common stock, if certain

conditions are met. The Company intends to continue to make, but has not committed to make, regular quarterly cash distributions to common stockholders and common unitholders from cash flow from operating activities. All such distributions are at the discretion of the board of directors. The Company has historically distributed amounts in excess of our taxable income resulting in a return of capital to its stockholders

and the Company currently believes it has the ability to maintain distributions at the 2010 levels to meet its REIT requirements for 2011. The Company considers market factors and its performance in addition to REIT requirements in determining our distribution levels. Amounts accumulated for distribution to stockholders are invested primarily in interest-bearing accounts and short-term interest-bearing securities, which are consistent with the Company's intention to maintain its qualification as a REIT. Such investments may include, for example, obligations of the Government National Mortgage Association, other governmental agency securities, certificates of deposit, and interest-bearing bank deposits.

On December 9, 2010, the Board of Directors declared a regular quarterly cash dividend of \$0.350 per common share payable on January 18, 2011 to stockholders of record on December 31, 2010 and caused a \$0.35 per Operating Partnership unit cash distribution to be paid in respect of the Operating Partnership's common limited partnership interests, including those owned by the Company. These dividends and distributions are equivalent to an annual rate of \$1.40 per share, which in aggregate totals approximately \$76.7 million of annualized common dividends and distributions per year based on common shares, restricted stock units, and common units outstanding at December 31, 2010.

On December 9, 2010, the Board of Directors declared a dividend of \$0.4875 per share on the Company's Series E Preferred Stock and a dividend of \$0.46875 per share on the Company's Series F Preferred Stock for the period commencing on and including November 15, 2010 and ending on and including February 14, 2011. The Company is also required to make quarterly cash distributions to the 7.45% Series A Preferred unitholders of \$0.7 million, payable on February 15, 2011. Dividends and distributions payable to the Series E and Series F Preferred stockholders and the Series A Preferred unitholders, total approximately \$15.2 million of annualized preferred dividends and distributions per year.

Debt Covenants

One of the covenants contained within the Credit Facility prohibits the Company from paying dividends in excess of 95% of FFO.

Capitalization

As of December 31, 2010, our total debt as a percentage of total market capitalization was 40.2% and our total debt and liquidation value of our preferred equity as a percentage of total market capitalization was 45.8%, which was calculated based on the closing price per share of the Company's common stock of \$36.47 on December 31, 2010 as shown in the table below.

	Shares/Units at December 31, 2010	Aggregate Principal Amount or \$ Value Equivalent (\$ in thousands)	% of Total Market Capitalization
Debt:			
Credit Facility		\$ 159,000	4.4%
3.25% Exchangeable Notes due 2012 ⁽¹⁾		148,000	4.1
4.25% Exchangeable Notes due 2014 ⁽¹⁾		172,500	4.8
Unsecured Senior Notes due 2014		83,000	2.3
Unsecured Senior Notes due 2015 ⁽¹⁾		325,000	9.0
Unsecured Senior Notes due 2020 ⁽¹⁾		250,000	6.9
Secured debt ⁽¹⁾		313,652	8.7
Total debt		\$ 1,451,152	40.2%
Equity and Noncontrolling Interest:			
7.450% Series A Cumulative Redeemable Preferred Units ⁽²⁾	1,500,000	\$ 75,000	2.1%
7.800% Series E Cumulative Redeemable Preferred Stock ⁽³⁾	1,610,000	40,250	1.1
7.500% Series F Cumulative Redeemable Preferred Stock ⁽³⁾	3,450,000	86,250	2.4
Common Units Outstanding ⁽⁴⁾	1,723,131	62,843	1.7
Common Shares Outstanding ⁽⁴⁾	52,349,670	1,909,192	52.5
Total equity and noncontrolling interests		2,173,535	59.8
Total Market Capitalization		\$ 3,624,687	100.0%

(1) Represents gross aggregate principal amount due at maturity, before the effect of the unamortized discounts as of December 31, 2010.

(2) Value based on \$50.00 per share liquidation preference.

(3) Value based on \$25.00 per share liquidation preference.

(4) Value based on closing price per share of the Company's common stock of \$36.47 as of December 31, 2010.

Liquidity and Capital Resources of the Operating Partnership

In this Liquidity and Capital Resources of the Operating Partnership section, the terms we, our, and us refer to the Operating Partnership or the Operating Partnership and the Company together, as the context requires.

General

Our primary liquidity sources and uses are as follows:

Liquidity Sources

Net cash flow from operations;

Borrowings under the Credit Facility;

Proceeds from additional secured or unsecured debt financings;

Proceeds from public or private issuance of debt or equity securities; and

Proceeds from the disposition of nonstrategic assets.

Liquidity Uses

Property or undeveloped land acquisitions;

Property operating and corporate expenses;

Capital expenditures, tenant improvement and leasing costs;

Debt service and principal payments, including debt maturities;

Distributions to common and preferred security holders; and

Development and redevelopment costs;

Repurchasing outstanding debt.

General Strategy

Our general strategy is to maintain a conservative balance sheet with a top credit profile and to maintain a capital structure that allows for financial flexibility and diversification of capital resources. We manage our capital structure to reflect a long -term investment approach and utilize multiple sources of capital to meet our long-term capital requirements. We believe that our current projected liquidity requirements for the next twelve month period, as set forth above under the caption *Liquidity Uses*, will be satisfied using a combination of the liquidity sources listed above. We believe our conservative leverage and staggered debt maturities provide us with financial flexibility and enhances our ability to obtain additional sources of liquidity if necessary, and, therefore, we are well-positioned to refinance or repay maturing debt and to pursue our strategy of seeking attractive acquisition opportunities, which we may finance, as necessary, with future public and private issuances of debt and equity securities.

2010 Financing Activities

During 2010, we completed a variety of capital raising activities which significantly extended our debt maturities and enabled us to fund ten building acquisitions in eight separate transactions. This financing and acquisition activity increased our consolidated total assets by approximately 35% as compared to December 31, 2009, without significantly increasing our total debt as a percentage of total market capitalization. The following activities occurred during the period (see Notes 7 and 10 to our consolidated financial statements included in this report for additional information):

In November 2010, the Operating Partnership issued \$325.0 million in aggregate stated principal amount of 5.00% unsecured senior notes due 2015;

In September 2010, the Operating Partnership became a registered public entity with the SEC allowing more flexible access to the public debt and capital markets;

In August 2010, the Operating Partnership entered into a new \$500.0 million Credit Facility with a term of three years plus a one year extension option. We used borrowings under the Credit Facility to repay, and then terminate, our previous \$550.0 million unsecured line of credit (the *Prior Credit Facility*);

In August 2010, the Operating Partnership used borrowings under our Prior Credit Facility to repay a portion of our unsecured senior notes, with a principal balance of \$61.0 million that was maturing;

In June 2010, the Operating Partnership completed a tender offer for the repurchase of \$150 million in aggregate stated principal value of the 3.25% Exchangeable Notes;

In June 2010, the Operating Partnership assumed secured debt with a principal balance of \$52.0 million in conjunction with the acquisition of Mission City Corporate Center in San Diego, CA;

In May 2010, the Operating Partnership issued \$250.0 million in aggregate stated principal amount of 6.625% unsecured senior notes due 2020;

In April 2010, the Company completed an underwritten public offering of 9,200,000 shares of our common stock. The net offering proceeds, after deducting underwriting discounts and commissions and offering expenses, of approximately \$299.8 million were contributed to the Operating Partnership in exchange for common units issued to the Company;

In April 2010, the Operating Partnership was assigned initial investment grade credit ratings by two major rating agencies, which we believe enhances our access to the capital markets by allowing the Operating Partnership to raise long-term unsecured debt financing in the bond market.

In March 2010, the Operating Partnership used borrowings under our Prior Credit Facility to repay a secured line of credit with an outstanding principal balance of \$33.5 million that was scheduled to mature in April 2010.

In January 2010, the Operating Partnership used the proceeds from the issuance of a \$71.0 million mortgage loan to repay an outstanding mortgage loan with a principal balance of \$63.2 million that was scheduled to mature in April 2010. The mortgage loan is secured by five properties, bears interest at an annual rate of 6.51%, requires monthly interest and principal payments based on a 30-year amortization period, and is scheduled to mature on February 1, 2017.

Liquidity Sources

Exchangeable Notes, Unsecured Senior Notes, and Secured Debt

The aggregate principal amount of Exchangeable Notes, unsecured senior notes, and secured debt of the Operating Partnership outstanding as of December 31, 2010 was as follows:

	Aggregate Principal Amount Outstanding (\$ in thousands)
3.25% Exchangeable Notes due 2012 ⁽¹⁾	\$ 148,000
4.25% Exchangeable Notes due 2014 ⁽¹⁾	172,500
Unsecured Senior Notes due 2014	83,000
Unsecured Senior Notes due 2015 ⁽¹⁾	325,000
Unsecured Senior Notes due 2020 ⁽¹⁾	250,000
Secured Debt ⁽¹⁾	313,652
Total Exchangeable Notes, Unsecured Senior Notes, and Secured Debt	\$ 1,292,152

(1) Represents gross aggregate principal amount before the effect of the unamortized discounts as of December 31, 2010.

Debt Composition

The composition of our aggregate debt balances between fixed- and variable-rate debt as of December 31, 2010 and 2009 were as follows:

	Percentage of Total Debt		Weighted Average Interest Rate	
	2010	2009	2010	2009
<i>Secured vs. unsecured:</i>				
Unsecured ⁽¹⁾	78.4%	70.7%	4.8%	3.8%
Secured	21.6	29.3	6.0	5.7
<i>Variable-rate vs. fixed-rate:</i>				
Variable-rate	11.0	13.0	2.9	1.1
Fixed-rate ⁽¹⁾	89.0	87.0	5.3	4.8
Stated interest rate ⁽¹⁾			5.1	4.3
Interest rate including loan costs ⁽¹⁾			5.7	4.8
GAAP Effective Rate ⁽²⁾			6.3%	5.9%

- (1) Excludes the impact of the amortization of the noncash debt discount related to the accounting required for our Exchangeable Notes.
- (2) Includes the impact of the amortization of the noncash debt discounts related to the accounting required for our Exchangeable Notes.

Credit Facility

As discussed above under the caption 2010 Financing Activities, the Operating Partnership entered into the Credit Facility in August 2010 and used borrowings under the Credit Facility to repay, and then terminate, the Prior Credit Facility. The following table summarizes the balance and significant terms of the Credit Facility and Prior Credit Facility as of December 31, 2010 and December 31, 2009, respectively:

	Credit Facility December 31, 2010	Prior Credit Facility December 31, 2009
	(in thousands)	
Outstanding borrowings	\$ 159,000	\$ 97,000
Remaining borrowing capacity	341,000	453,000
Total borrowing capacity ⁽¹⁾	\$ 500,000	\$ 550,000
Maturity date ⁽²⁾⁽³⁾	August 2013	April 2010
Interest rate ⁽⁴⁾	2.99%	1.11%
Fees ⁽⁵⁾	0.575%	0.200%

- (1) We may elect to borrow, subject to bank approval, up to an additional \$200 million under an accordion feature under the terms of the Credit Facility.
- (2) Under the terms of the Credit Facility, we may exercise an option to extend the maturity date by one year.
- (3) In April 2010, we exercised an option to extend the maturity date of the Prior Credit Facility by one year.
- (4) As of December 31, 2010, the Credit Facility bore interest at an annual rate of LIBOR plus 2.675%. As of December 31, 2009, the Prior Credit Facility bore interest at an annual rate of LIBOR plus 0.85% to 1.35% depending upon our leverage ratio at the time of borrowing.
- (5) As of December 31, 2010, the facility fee for the Credit Facility was at an annual rate of 0.575%. In addition, we also incurred debt origination and legal costs of approximately \$5 million, which will be amortized as additional interest expense through the contractual maturity date. As of December 31, 2009, the fee for unused funds for the Prior Credit Facility was at an annual rate of 0.15% to 0.20%, depending on the balance of our daily average undrawn balance.

Liquidity Uses

Contractual Obligations

The following table provides information with respect to the Operating Partnership's contractual obligations as of December 31, 2010. The table (i) indicates the maturities and scheduled principal repayments of our secured debt,

Exchangeable Notes, unsecured senior notes, and Credit Facility; (ii) indicates the scheduled interest payments of our fixed-rate and variable-rate debt as of December 31, 2010; (iii) provides information about the minimum commitments due in connection with our ground lease obligations and other lease and contractual commitments; and (iv) provides estimated redevelopment commitments as of December 31, 2010. Note that the

table does not reflect our available debt maturity extension options and reflects gross aggregate principal amounts before the effect of unamortized discounts.

	Payment Due by Period				Total
	Less than 1 Year (2011)	1-3 Years (2012-2013)	3-5 Years (2014-2015) (in thousands)	More than 5 Years (After 2015)	
Principal payments secured debt ⁽¹⁾	\$ 75,017	\$ 159,528	\$ 7,185	\$ 71,922	\$ 313,652
Principal payments Exchangeable Notes ⁽²⁾		148,000	172,500		320,500
Principal payments unsecured senior notes ⁽³⁾			408,000	250,000	658,000
Principal payments Credit Facility		159,000			159,000
Interest payments fixed-rate debt ⁽⁴⁾	69,214	107,255	84,048	81,795	342,312
Interest payments variable-rate debt ⁽⁵⁾	5,883	9,805			15,688
Ground lease obligations ⁽⁶⁾	1,329	2,192	2,040	68,542	74,103
Lease and contractual commitments ⁽⁷⁾	42,229	4,183	3,791		50,203
Redevelopment commitments ⁽⁸⁾	15,000				15,000
Total	\$ 208,672	\$ 589,963	\$ 677,564	\$ 472,259	\$ 1,948,458

- (1) Includes the \$52.0 million gross aggregate principal amount of the loan due in April 2012 before the effect of the unamortized discount of approximately \$0.6 million as of December 31, 2010.
- (2) Represents gross aggregate principal amount before the effect of the unamortized discount of approximately \$20.5 million as of December 31, 2010.
- (3) Represents gross aggregate principal amount before the effect of the unamortized discount of approximately \$2.2 million as of December 31, 2010.
- (4) As of December 31, 2010, 89.0% of our debt was contractually fixed. The information in the table above reflects our projected interest rate obligations for these fixed-rate payments based on the contractual interest rates, interest payment dates, and scheduled maturity dates.
- (5) As of December 31, 2010, 11.0% of our debt bore interest at variable rates. The variable interest rate payments are based on LIBOR plus a spread of 2.675% as of December 31, 2010. The information in the table above reflects our projected interest rate obligations for these variable-rate payments based on outstanding principal balances as of December 31, 2010, the scheduled interest payment dates, and the contractual maturity dates.
- (6) One of our ground lease obligations is subject to a fair market value adjustment every five years; however, the lease includes ground rent subprotection and infrastructure rent credits which currently limit our annual rental obligations to \$1.0 million. The contractual obligations for this ground lease included above assumes the \$1.0 million annual ground lease rental obligation in effect as of December 31, 2010.
- (7) Amounts represent commitments under signed leases and contracts for operating properties, excluding tenant-funded tenant improvements. The timing of these expenditures may fluctuate.
- (8) Amounts represent contractual commitments for redevelopment contracts and projects under construction at December 31, 2010. Costs include the remaining total estimated investment, excluding capitalized interest,

development overhead, potential future leasing costs, and tenant improvements for these projects. The timing of these expenditures may fluctuate based on the ultimate progress of construction.

Potential Future Capital Requirements

Potential Future Acquisitions

During the year ended December 31, 2010, we spent approximately \$637.6 million in cash to acquire ten properties in eight transactions. We expect that in 2011 we will continue to pursue and evaluate strategic opportunities to acquire additional properties that provide attractive yields, significant potential for growth in cash flow from operations, present growth opportunities in strategic markets, or demonstrate the potential for improved performance through strategic management. We expect that any material acquisitions will be funded with borrowings under our Credit Facility or the public issuance of new debt or equity securities.

Redevelopment and Development Opportunities

As of December 31, 2010, we had one redevelopment project under construction. This project has a total estimated investment of approximately \$50 million of which we have incurred approximately \$15 million as of December 31, 2010. Of the remaining \$35 million yet to be incurred, we are currently contractually obligated to approximately \$15 million over the next year as shown in our contractual obligations table above. We expect we also may incur up to approximately \$20 million of the \$50 million in leasing related costs for this project, depending

on leasing activity. Ultimate timing of these expenditures may fluctuate given the ultimate progress and leasing status of the redevelopment project.

Over the next year, we may also redevelop certain other properties that have been occupied by long-term tenants and thus require significant capital expenditures to update and modernize the buildings. We are also focusing on enhancing the entitlements for our existing development land pipeline and are evaluating strategic alternatives for the one property that was recently re-entitled for residential use. We estimate that we could spend up to an additional \$20 million on these efforts during 2011.

In addition, we continually evaluate the size, timing, costs, and scope of our development program and, as necessary, scale activity to reflect the market conditions and the real estate fundamentals that exist in our strategic submarkets. Therefore, depending on future market conditions, we anticipate that we may have additional spending for our future development pipeline projects during 2011 and beyond.

Potential Future Leasing Costs and Capital Improvements

Given the current economic conditions, the amounts we are required to spend on tenant improvements and leasing costs are expected to remain above historical levels for us to be able to execute leases at current market terms, as evidenced in the table below. The amounts we ultimately incur for tenant improvements and leasing costs will depend on actual leasing activity. Tenant improvements and leasing costs generally fluctuate in any given period depending on factors such as the type of property, the term of the lease, the type of the lease, the involvement of external leasing agents, and overall market conditions. Capital expenditures may fluctuate in any given period subject to the nature, extent, and timing of improvements required to maintain our properties.

We currently project we could spend up to \$25 million in capital improvements, tenant improvements, and leasing costs in 2011 for properties within our stabilized portfolio, depending on leasing activity, in addition to the \$42 million of lease and contractual commitments discussed in our capital commitments table above.

The following tables set forth our historical capital expenditures, tenant improvements, and leasing costs, excluding tenant-funded tenant improvements, for renewed and re-tenanted space within our stabilized portfolio for each of the three years during the period ended December 31, 2010 on a per square foot basis.

	Year Ended December 31,		
	2010	2009	2008
Office Properties:			
Capital Expenditures:			
Capital expenditures per square foot	\$ 1.36	\$ 0.86	\$ 0.91
Tenant Improvement and Leasing Costs ⁽¹⁾			
Replacement tenant square feet	637,155	221,229	180,696
Tenant improvements per square foot leased	\$ 28.03	\$ 27.47	\$ 24.21
Leasing commissions per square foot leased	\$ 9.30	\$ 9.64	\$ 11.52
Total per square foot	\$ 37.33	\$ 37.11	\$ 35.73
Renewal tenant square feet	691,531	680,977	349,009
Tenant improvements per square foot leased	\$ 12.67	\$ 10.38	\$ 5.74
Leasing commissions per square foot leased	\$ 8.31	\$ 8.00	\$ 4.55
Total per square foot	\$ 20.98	\$ 18.38	\$ 10.29
Total per square foot per year	\$ 5.49	\$ 4.18	\$ 4.30
Average remaining lease term (in years)	5.3	5.5	4.4
Industrial Properties:			
Capital Expenditures:			
Capital expenditures per square foot	\$ 0.41	\$ 0.85	\$ 0.28
Tenant Improvement and Leasing Costs ⁽¹⁾			
Replacement tenant square feet	508,105	248,380	212,698
Tenant improvements per square foot leased	\$ 5.02	\$ 2.54	\$ 2.52
Leasing commissions per square foot leased	\$ 2.55	\$ 2.19	\$ 2.31
Total per square foot	\$ 7.57	\$ 4.73	\$ 4.83
Renewal tenant square feet	278,700	545,143	728,363
Tenant improvements per square foot leased	\$ 2.15	\$ 1.49	\$ 2.55
Leasing commissions per square foot leased	\$ 2.32	\$ 3.02	\$ 1.37
Total per square foot	\$ 4.46	\$ 4.50	\$ 3.91
Total per square foot per year	\$ 0.96	\$ 0.74	\$ 0.79
Average remaining lease term (in years)	6.8	6.2	5.3

(1) Includes only tenants with lease terms of 12 months or longer. Excludes leases for month-to-month and first generation expenditures. First generation expenditures are those expenditures that ultimately result in additional revenue generated when the space is re-leased.

As a result of the volume of leases that commenced in 2010, office capital expenditures trended higher than in past years. We believe that all of our properties are well maintained and do not require significant capital improvements, and do not anticipate this trend to continue.

Distribution Requirements

For a discussion of our dividend and distribution requirements, please see the Distribution Requirements discussion under Liquidity and Capital Resources of the Company.

Other Potential Future Liquidity Uses

We may seek to repurchase additional debt securities depending on prevailing market conditions, our liquidity requirements, and other factors.

We have the ability to repurchase preferred stock in open market transactions. We may repurchase our outstanding preferred stock in the future depending upon market conditions and our liquidity and financial position.

An aggregate of 988,025 common shares currently remain eligible for repurchase under a share-repurchase program approved by our board of directors. We did not repurchase shares of common stock under this program during the year ended December 31, 2010. We may repurchase additional shares of our common stock in the future depending upon market conditions.

Factors That May Influence Future Sources of Capital and Liquidity

We continue to evaluate sources of financing for our business activities, including borrowings under the Credit Facility, issuance of public and private unsecured debt, fixed-rate secured mortgage financing, and offerings of the Company's common stock. However, the Operating Partnership's ability to obtain new financing or refinance existing borrowings on favorable terms could be impacted by various factors including the state of economic conditions, significant tenant defaults, a further decline in the demand for office or industrial properties, a further decrease in market rental rates or market values of real estate assets in our submarkets, and the amount of future borrowings. These events could result in the following:

decreases in our cash flows from operations, which could create further dependence on our Credit Facility;

an increase in the proportion of variable-rate debt, which could increase our sensitivity to interest rate fluctuations in the future; and

a decrease in the value of our properties, which could have an adverse effect on the Operating Partnership's ability to incur additional debt, refinance existing debt at competitive rates, or comply with its existing debt obligations.

In addition to the factors noted above, the Operating Partnership's credit ratings are subject to ongoing evaluation by credit rating agencies and may be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. In the event that the Operating Partnership's credit ratings are downgraded, we may incur higher borrowing costs and may experience difficulty in obtaining additional financing or refinancing existing indebtedness.

Debt Covenants

The Credit Facility, unsecured senior notes, and certain other secured debt arrangements contain covenants and restrictions requiring us to meet certain financial ratios and reporting requirements. Key existing financial covenants and their covenant levels include:

	Covenant Level	Actual Performance at December 31, 2010
Unsecured Line of Credit (as defined in the Credit Agreement):		
Total debt to total asset value	less than 60%	37%
Fixed charge coverage ratio	greater than 1.5x	2.8x
Unsecured debt ratio	greater than 1.67x	2.48x
Unencumbered asset pool debt service coverage	greater than 2.0x	4.9x
Unencumbered debt yield	greater than 12%	16%
Unsecured Senior Notes due 2015 and 2020 (as defined in the Indenture):		
Total debt/total asset value	less than 60%	43%
Interest coverage	greater than 1.5x	3.4x
Secured debt/total asset value	less than 40%	9%
Unencumbered asset pool value to unsecured debt		248%

greater than
150%

We believe that the Operating Partnership was in compliance with all its debt covenants as of December 31, 2010. Our current expectation is that the Operating Partnership will continue to meet the requirements of its debt covenants in both the short and long term. However, in the event of a continued economic slow down and continued volatility in the credit markets, there is no certainty that the Operating Partnership will be able to continue to satisfy all the covenant requirements.

Historical Cash Flow Summary

Our historical cash flow activity for the year ended December 31, 2010 as compared to the year ended December 31, 2009 was as follows:

	Year Ended December 31,			Percentage
	2010	2009	Dollar Change (\$ in thousands)	Change
Net cash provided by operating activities	\$ 119,827	\$ 124,965	\$ (5,138)	(4.1)%
Net cash used in investing activities	(701,774)	(50,474)	(651,300)	(1,290.4)
Net cash provided by (used in) financing activities	586,904	(74,161)	661,065	891.4

Operating Activities

Our cash flows from operations depends on numerous factors including the occupancy level of our portfolio, the rental rates achieved on our leases, the collectability of rent and recoveries from our tenants, the level of operating expenses, the impact of property acquisitions and related financing activities, and other general and administrative costs. Our net cash provided by operating activities decreased by \$5.1 million, or 4.1%, for the year ended December 31, 2010 compared to the year ended December 31, 2009 primarily as the result of an increase in expenditures for severance costs and acquisition related costs.

Investing Activities

Our net cash used in investing activities is generally used to fund property acquisitions, recurring and nonrecurring capital expenditures for our operating properties, and development and redevelopment projects. Our net cash used in investing activities increased \$651.3 million, or 1,290.4%, for the year ended December 31, 2010 compared to the year ended December 31, 2009. This net increase was primarily attributable to the following:

Approximately \$637.6 million in cash paid to acquire ten operating properties in eight transactions during 2010;

An increase of \$35.6 million in expenditures for our operating properties in 2010 primarily for tenant improvement projects and leasing commissions related to increased leasing activity;

An offsetting decrease primarily as the result of \$10.7 million in cash received for the repayment of the note receivable balance and \$10.0 million in proceeds received from the sale of properties.

Financing Activities

Our net cash provided by or used in financing activities is generally impacted by our capital raising activities net of dividends and distributions paid to common and preferred security holders. Net cash provided by financing activities increased by \$661.1 million, or 891.4%, for the year ended December 31, 2010 compared to the year ended December 31, 2009, and was primarily attributable to an increase in our capital raising activities during 2010 to fund our 2010 property acquisitions (see 2010 Financing Activities discussion under the heading Liquidity and Capital Resources of the Operating Partnerships for additional information).

Off-Balance Sheet Arrangements

As of December 31, 2010 and as of the date this report was filed, we did not have any off-balance sheet transactions, arrangements, or obligations, including contingent obligations.

Non-GAAP Supplemental Financial Measure: Funds From Operations

We calculate FFO in accordance with the White Paper on FFO approved by the Board of Governors of NAREIT. The White Paper defines FFO as net income or loss calculated in accordance with GAAP, excluding extraordinary items, as defined by GAAP, and gains and losses from sales of depreciable operating property, plus real estate-related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets), and after adjustment for unconsolidated partnerships and joint ventures.

We believe that FFO is a useful supplemental measure of our operating performance. The exclusion from FFO of gains and losses from the sale of operating real estate assets allows investors and analysts to readily identify the operating results of the assets that form the core of our activity and assists in comparing those operating results between periods. Also, because FFO is generally recognized as the industry standard for reporting the operations of REITs, it facilitates comparisons of operating performance to other REITs. However, other REITs may use different methodologies to calculate FFO, and accordingly, our FFO may not be comparable to all other REITs.

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

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

The following table presents our FFO for the years ended December 31, 2010, 2009, 2008, 2007, and 2006:

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(in thousands)				
Net income available to common stockholders	\$ 4,512	\$ 21,794	\$ 29,829	\$ 101,164	\$ 72,256
Adjustments:					
Net income attributable to noncontrolling common units of the Operating Partnership	178	1,025	1,886	6,957	5,990
Depreciation and amortization of real estate assets	102,898	86,825	82,491	73,708	71,197
Net gain on dispositions of discontinued operations	(949)	(2,485)	(234)	(74,505)	(31,259)
Funds From Operations ⁽¹⁾	\$ 106,639	\$ 107,159	\$ 113,972	\$ 107,324	\$ 118,184

(1) Reported amounts are attributable to common stockholders and common unitholders.

The following table presents our weighted average common shares and common units outstanding for the years ended December 31, 2010, 2009, 2008, 2007, and 2006:

	Year Ended December 31,				
	2010	2009	2008	2007	2006
Weighted average common shares outstanding	49,497,487	38,705,101	32,466,591	32,379,997	31,244,062
Weighted average common units outstanding	1,723,131	1,731,095	2,065,188	2,235,772	2,598,313
Effect of participating securities nonvested shares and restricted stock units	812,865	785,582	372,444	312,552	154,079
Total basic weighted average shares/units outstanding	52,033,483	41,221,778	34,904,223	34,928,321	33,996,454
Effect of dilutive securities stock options and contingently issuable shares	15,708	27,025	74,281	28,969	48,566
Total diluted weighted average shares/units outstanding	52,049,191	41,248,803	34,978,504	34,957,290	34,045,020

Inflation

Since the majority of our leases require tenants to pay most operating expenses, including real estate taxes, utilities, insurance, and increases in common area maintenance expenses, we do not believe our exposure to increases in costs and operating expenses resulting from inflation is material.

New Accounting Pronouncements

There are currently no recently issued accounting pronouncements that are expected to have a material effect on our financial condition and results of operations in future periods.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary market risk we face is interest rate risk. We mitigate this risk by following established risk management policies and procedures. These policies include maintaining prudent amounts of debt, including a greater amount of fixed-rate debt as compared to variable-rate debt in our portfolio, and may include the periodic use of derivative instruments. As of December 31, 2010 and 2009, we did not have any interest-rate sensitive derivative assets or liabilities.

Information about our changes in interest rate risk exposures from December 31, 2009 to December 31, 2010 is incorporated herein by reference from Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources of the Operating Partnership.

Market Risk

As of December 31, 2010, approximately 11% of our total outstanding debt of \$1.5 billion was subject to variable interest rates. The remaining 89.0% bore interest at fixed rates. All of our interest rate sensitive financial instruments are held for purposes other than trading purposes.

In general, interest rate fluctuations applied to our variable-rate debt will impact our future earnings and cash flows. Conversely, interest rate fluctuations applied to our fixed-rate debt will generally not impact our future earnings and cash flows, unless such instruments mature or are otherwise terminated and need to be refinanced. However, interest rate fluctuations will impact the fair value of the fixed-rate debt instruments.

With the exception of the Exchangeable Notes and our publicly traded unsecured senior notes, we generally determine the fair value of our fixed-rate debt by performing discounted cash flow analyses using an appropriate market rate. We calculate the market rate by obtaining period-end treasury rates for maturities that correspond to the

maturities of our fixed-rate debt and then adding an appropriate credit spread based on information obtained from third-party financial institutions. These credit spreads take into account factors, including but not limited to, our credit profile, the tenure of the debt, amortization period, whether the debt is secured or unsecured, and the loan-to-value ratio of the debt. We determine the fair value of the liability component of our Exchangeable Notes by performing discounted cash flow analysis using an appropriate market interest rate for similar non-convertible conventional debt instruments. We determine the fair value of each of our publicly traded unsecured senior notes based on their quoted trading price at the end of the reporting period. See Note 16 to our consolidated financial statements included in this report for additional information on the fair value of our financial assets and liabilities as of December 31, 2010 and 2009.

As of December 31, 2010, the total outstanding balance of our variable-rate debt included borrowings on our Credit Facility of \$159.0 million and was indexed to LIBOR plus a spread of 2.675% (weighted average interest rate was 2.99%). As of December 31, 2009, the total outstanding balance of our variable-rate debt included borrowings of \$97.0 million on our Prior Credit Facility, which was indexed to LIBOR plus a spread of 0.85%, and borrowings of \$33.5 million on our secured line of credit, which was indexed to LIBOR plus a spread of 0.75% (weighted average interest rate was 1.1%). Assuming no changes in the outstanding balance of our existing variable-rate debt as of December 31, 2010, a 100 basis point increase in the LIBOR rate would increase our projected annual interest expense, before the effect of capitalization, by approximately \$1.6 million. Comparatively, if interest rates were 100 basis points higher as of December 31, 2009, our projected annual interest expense, before the effect of capitalization, would have been \$1.3 million higher.

The total carrying value of our fixed-rate debt, including our Exchangeable Notes, was approximately \$1.3 billion and \$841.5 million as of December 31, 2010 and 2009, respectively. The total estimated fair value of our fixed-rate debt was approximately \$1.3 billion and \$842.1 million as of December 31, 2010 and 2009, respectively. For sensitivity purposes, a 100 basis point increase in the discount rate equates to a decrease in the total fair value of our fixed-rate debt of approximately \$47.2 million, or 3.6%, as of December 31, 2010. Comparatively, a 100 basis point increase in the discount rate equates to a decrease in the total fair value of our fixed-rate debt of approximately \$20.2 million, or 2.4%, as of December 31, 2009.

The above sensitivity analyses do not consider interrelationships between different market movements, which could result in additional changes in the fair value of our debt and Exchangeable Notes, beyond the amounts calculated.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the index included at Item 15: Exhibits, Financial Statement Schedules.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

Kilroy Realty Corporation

The Company maintains disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in our reports under the Exchange Act, is processed, recorded, summarized, and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer

and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of management including the Chief Executive Officer and Chief Financial Officer, of the effectiveness

of the design and operation of the disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, our Chief Executive Officer and Chief Financial Officer concluded, as of that time, that our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There have been no changes that occurred during the fourth quarter of the year covered by this report in the Company's internal control over financial reporting identified in connection with the evaluation referenced above that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Internal control over financial reporting is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer and effected by our board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the consolidated financial statements.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is supported by written policies and procedures and by an appropriate segregation of responsibilities and duties. The Company has used the criteria set forth in the *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission to assess our internal control over financial reporting. Based upon this assessment, management concluded that internal control over financial reporting operated effectively as of December 31, 2010.

Deloitte & Touche LLP, the Company's independent registered public accounting firm, has audited the Company's financial statements and has issued a report on the effectiveness of the Company's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Kilroy Realty Corporation
Los Angeles, California

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

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

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2010, of the Company and our report dated February 10, 2011, expressed an unqualified opinion on those financial statements and financial statement schedules.

/s/ DELOITTE & TOUCHE LLP
Los Angeles, California
February 10, 2011

Kilroy Realty, L.P.

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

As required by SEC Rule 13a-15(b), 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 our general partner, of the effectiveness of the design and operation of the disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, the Chief Executive Officer and Chief Financial Officer of our general partner concluded, as of that time, that our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There have been no changes that occurred during the fourth quarter of the year covered by this report in the Operating Partnership's internal control over financial reporting identified in connection with the evaluation referenced above that has materially affected, or is reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and Chief Financial Officer of our general partner and effected by the board of directors, management, and other personnel of our general partner to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the consolidated financial statements.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is supported by written policies and procedures and by an appropriate segregation of responsibilities and duties. The Operating Partnership has used the criteria set forth in the *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission to assess our internal control over financial reporting. Based upon this assessment, management concluded that internal control over financial reporting operated effectively as of December 31, 2010.

Deloitte & Touche LLP, the Operating Partnership's independent registered public accounting firm, has audited the Operating Partnership's financial statements and has issued a report on the effectiveness of the Operating Partnership's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Partners of
Kilroy Realty, L.P.
Los Angeles, California

We have audited the internal control over financial reporting of Kilroy Realty, L.P. (the Operating Partnership) as of December 31, 2010, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Operating Partnership's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Operating Partnership's internal control over financial reporting based on our audit.

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

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

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Operating Partnership maintained, in all material respects, effective internal control over financial reporting as of December 31, 2010, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2010, of the Operating Partnership and our report dated February 10, 2011, expressed an unqualified opinion on those financial statements and financial statement schedules.

/s/ DELOITTE & TOUCHE LLP
Los Angeles, California
February 10, 2011

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is incorporated by reference from our definitive proxy statement for our annual stockholders meeting presently scheduled to be held in May 2011.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference from our definitive proxy statement for our annual stockholders meeting presently scheduled to be held in May 2011.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 is incorporated by reference from our definitive proxy statement for our annual stockholders meeting presently scheduled to be held in May 2011.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated by reference from our definitive proxy statement for our annual stockholders meeting presently scheduled to be held in May 2011.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated by reference from our definitive proxy statement for our annual stockholders meeting presently scheduled to be held in May 2011.

PART IV**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES****(a)(1) and (2) *Financial Statements and Schedules***

The following consolidated financial information is included as a separate section of this annual report on Form 10-K:

Report of Independent Registered Public Accounting Firm Kilroy Realty Corporation	F - 2
Consolidated Balance Sheets as of December 31, 2010 and 2009 Kilroy Realty Corporation	F - 3
Consolidated Statements of Operations for the Years ended December 31, 2010, 2009, and 2008 Kilroy Realty Corporation	F - 4
Consolidated Statements of Equity for the Years ended December 31, 2010, 2009, and 2008 Kilroy Realty Corporation	F - 5
Consolidated Statements of Cash Flows for the Years ended December 31, 2010, 2009, and 2008 Kilroy Realty Corporation	F - 6
Report of Independent Registered Public Accounting Firm Kilroy Realty, L.P.	F - 8
Consolidated Balance Sheets as of December 31, 2010 and 2009 Kilroy Realty, L.P.	F - 9
Consolidated Statements of Operations for the Years ended December 31, 2010, 2009, and 2008 Kilroy Realty, L.P.	F - 10
Consolidated Statements of Capital for the Years ended December 31, 2010, 2009, and 2008 Kilroy Realty, L.P.	F - 11
Consolidated Statements of Cash Flows for the Years ended December 31, 2010, 2009, and 2008 Kilroy Realty, L.P.	F - 12
Notes to Consolidated Financial Statements	F - 14
Schedule II Valuation and Qualifying Accounts	F - 56
Schedule III Real Estate and Accumulated Depreciation	F - 57

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

(3) *Exhibits*

Exhibit Number	Description
3.(i)1	Kilroy Realty Corporation Articles of Restatement ⁽⁴¹⁾
3.(i)2	Certificate of Limited Partnership of Kilroy Realty, L.P. ⁽⁴²⁾
3.(i)3	Amendment to the Certificate of Limited Partnership of Kilroy Realty, L.P. ⁽⁴²⁾
3.(ii).1	Second Amended and Restated Bylaws of the Registrant ⁽³¹⁾
3.(ii).2	Amendment No. 1 to Second Amended and Restated Bylaws ⁽³⁵⁾
4.1	Form of Certificate for Common Stock of the Registrant ⁽¹⁾
4.2	Registration Rights Agreement dated January 31, 1997 ⁽¹⁾
4.3	Registration Rights Agreement dated February 6, 1998 ⁽³⁾

- 4.4 Second Amended and Restated Registration Rights Agreement dated as of March 5, 2004⁽²⁾
- 4.5 Registration Rights Agreement dated as of October 31, 1997⁽⁴⁾
- 4.6 Registration Rights Agreement dated as of October 6, 2000⁽⁶⁾
- 4.7 The Company is party to agreements in connection with long-term debt obligations, none of which individually exceeds ten percent of the total assets of the Company on a consolidated basis. Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the Company agrees to furnish copies of these agreements to the Commission upon request
- 4.8 Note and Guarantee Agreement dated August 4, 2004 by and between Kilroy Realty, L.P. and Kilroy Realty Corporation and the purchasers whose names appear in the acceptance form at the end of the Note and Guarantee Agreement⁽⁷⁾

Exhibit Number	Description
4.9	Form of 5.72% Series A Guaranteed Senior Note due 2010 ⁽⁷⁾
4.10	Form of 6.45% Series B Guaranteed Senior Note due 2014 ⁽⁷⁾
4.11	Kilroy Realty 2006 Incentive Award Plan ⁽²⁴⁾
4.12	Amendment to Kilroy Realty 2006 Incentive Award Plan ⁽²⁶⁾
4.13	Second Amendment to Kilroy Realty 2006 Incentive Award Plan ⁽³⁰⁾
4.14	Third Amendment to Kilroy Realty 2006 Incentive Award Plan ⁽³⁵⁾
4.15	Form of Restricted Stock Award Agreement ⁽²⁵⁾
4.16	Indenture, dated as of April 2, 2007, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, including the form of 3.250% Exchangeable Senior Notes due 2012 ⁽²⁸⁾
4.17	Registration Rights Agreement, dated April 2, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation, and J.P. Morgan Securities Inc., Banc of America Securities LLC and Lehman Brothers Inc. ⁽²⁸⁾
4.18	Indenture, dated as of November 20, 2009, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, including the form of 4.250% Exchangeable Senior Notes due 2014 and the form of related guarantee ⁽³⁹⁾
4.19	Registration Rights Agreement, dated November 20, 2009, among Kilroy Realty, L.P., Kilroy Realty Corporation, J.P. Morgan Securities Inc., and Merrill Lynch, Pierce, Fenner & Smith Incorporated ⁽³⁹⁾
4.20	Form of Certificate for Partnership Units of Kilroy Realty, L.P. ⁽⁴²⁾
4.21	Indenture, dated May 24, 2010, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, including the form of 6.625% Senior Notes due 2020 and the form of the related guarantee ⁽⁴³⁾
4.22	Registration Rights Agreement, dated May 24, 2010, among Kilroy Realty, L.P., Kilroy Realty Corporation, J.P. Morgan Securities Inc., Banc of America Securities LLC and Barclays Capital Inc. ⁽⁴³⁾
4.23	Fourth Amendment to Kilroy Realty 2006 Incentive Award Plan ⁽⁴⁴⁾
4.24	Indenture, dated November 3, 2010, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, including the form of 5.000% Senior Notes due 2015 and the form of related guarantee ⁽⁴⁵⁾
10.1	Fifth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P. dated as of March 5, 2004 ⁽²⁾
10.2	First Amendment to Fifth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P., dated as of December 7, 2004 ⁽⁸⁾
10.3	Second Amendment to Fifth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P., dated as of October 2, 2008 ⁽³⁴⁾
10.4	Third Amendment to Fifth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P. ⁽³⁶⁾
10.5	Omnibus Agreement dated as of October 30, 1996 by and among Kilroy Realty, L.P. and the parties named therein ⁽¹⁾
10.6	Supplemental Representations, Warranties and Indemnity Agreement by and among Kilroy Realty, L.P. and the parties named therein ⁽¹⁾
10.7	Pledge Agreement by and among Kilroy Realty, L.P., John B. Kilroy, Sr., John B. Kilroy, Jr. and Kilroy Industries ⁽¹⁾
10.8	1997 Stock Option and Incentive Plan of the Registrant and Kilroy Realty, L.P. ⁽¹⁾
10.9	Lease Agreement dated January 24, 1989 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase I ⁽⁹⁾

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- 10.10 First Amendment to Lease Agreement dated December 28, 1990 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase I⁽⁹⁾
- 10.11 Lease Agreement dated July 17, 1985 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III⁽¹⁰⁾
- 10.12 Lease Agreement dated April 21, 1988 by and between Kilroy Long Beach Associates and the Board of Water Commissioners of the City of Long Beach, acting for and on behalf of the City of Long Beach, for Long Beach Phase IV⁽¹⁰⁾
- 10.13 Lease Agreement dated December 30, 1988 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase II⁽¹⁰⁾

Exhibit Number	Description
10.14	First Amendment to Lease dated January 24, 1989 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III ⁽¹⁰⁾
10.15	Second Amendment to Lease Agreement dated December 28, 1990 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III ⁽¹⁰⁾
10.16	First Amendment to Lease Agreement dated December 28, 1990 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase II ⁽¹⁰⁾
10.17	Third Amendment to Lease Agreement dated October 10, 1994 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III ⁽¹⁰⁾
10.18	Development Agreement by and between Kilroy Long Beach Associates and the City of Long Beach ⁽¹⁰⁾
10.19	Amendment No. 1 to Development Agreement by and between Kilroy Long Beach Associates and the City of Long Beach ⁽¹⁰⁾
10.20	Property Management Agreement between Kilroy Realty Finance Partnership, L.P. and Kilroy Realty, L.P. ⁽¹¹⁾
10.21	Form of Environmental Indemnity Agreement ⁽¹¹⁾
10.22	Option Agreement by and between Kilroy Realty, L.P. and Kilroy Airport Imperial Co. ⁽¹²⁾
10.23	Option Agreement by and between Kilroy Realty, L.P. and Kilroy Calabasas Associates ⁽¹²⁾
10.24	Noncompetition Agreement by and between the Registrant and John B. Kilroy, Sr. ⁽¹⁾
10.25	Noncompetition Agreement by and between the Registrant and John B. Kilroy, Jr. ⁽¹⁾
10.26	License Agreement by and among the Registrant and the other persons named therein ⁽¹²⁾
10.27	Purchase and Sale Agreement and Joint Escrow Instructions dated April 30, 1997 by and between Mission Land Company, Mission-Vacaville, L.P. and Kilroy Realty, L.P. ⁽¹³⁾
10.28	Agreement of Purchase and Sale and Joint Escrow Instructions dated April 30, 1997 by and between Camarillo Partners and Kilroy Realty, L.P. ⁽¹³⁾
10.29	Purchase and Sale Agreement and Escrow Instructions dated May 5, 1997 by and between Kilroy Realty L.P. and Pullman Carnegie Associates ⁽¹⁴⁾
10.30	Amendment to Purchase and Sale Agreement and Escrow Instructions dated June 27, 1997 by and between Pullman Carnegie Associates and Kilroy Realty, L.P. ⁽¹⁴⁾
10.31	Purchase and Sale Agreement, Contribution Agreement and Joint Escrow Instructions dated May 12, 1997 by and between Shidler West Acquisition Company, LLC and Kilroy Realty, L.P. ⁽¹⁵⁾
10.32	First Amendment to Purchase and Sale Agreement, Contribution Agreement and Joint Escrow Instructions dated June 6, 1997 by and between Shidler West Acquisition Company, L.L.C. and Kilroy Realty, L.P. ⁽¹⁵⁾
10.33	Second Amendment to Purchase and Sale Agreement, Contribution Agreement and Joint Escrow Instructions dated June 12, 1997 by and between Shidler West Acquisition Company, LLC and Kilroy Realty, L.P. ⁽¹⁵⁾
10.34	Agreement of Purchase and Sale and Joint Escrow Instructions dated June 12, 1997 by and between Mazda Motor of America, Inc. and Kilroy Realty, L.P. ⁽¹⁴⁾
10.35	First Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions dated June 30, 1997 by and between Mazda Motor of America, Inc. and Kilroy Realty, L.P. ⁽¹⁴⁾
10.36	Agreement for Purchase and Sale of 2100 Colorado Avenue, Santa Monica, California dated June 16, 1997 by and between Santa Monica Number Seven Associates L.P. and Kilroy Realty, L.P. ⁽¹⁴⁾
10.37	Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners ⁽¹⁶⁾
10.38	

- First Amendment to Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated August 22, 1997⁽¹⁶⁾
- 10.39 Second Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 5, 1997⁽¹⁶⁾
- 10.40 Third Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 19, 1997⁽¹⁶⁾
- 10.41 Fourth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 22, 1997⁽¹⁶⁾
- 10.42 Fifth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 23, 1997⁽¹⁶⁾
- 10.43 Sixth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1998 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 25, 1997⁽¹⁶⁾
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Exhibit Number	Description
10.44	Seventh Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 29, 1997 ⁽¹⁶⁾
10.45	Eighth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated October 2, 1997 ⁽¹⁶⁾
10.46	Ninth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated October 24, 1997 ⁽¹⁶⁾
10.47	Contribution Agreement dated October 21, 1997 by and between Kilroy Realty, L.P. and Kilroy Realty Corporation and The Allen Group and the Allens ⁽¹⁷⁾
10.48	Purchase and Sale Agreement and Escrow Instructions dated December 11, 1997 by and between Kilroy Realty, L.P. and Swede-Cal Properties, Inc., Viking Investors of Southern California, L.P. and Viking Investors of Southern California II, L.P. ⁽¹⁸⁾
10.49	Amendment to the Contribution Agreement dated October 14, 1998 by and between Kilroy Realty, L.P. and Kilroy Realty Corporation and The Allen Group and the Allens dated October 21, 1997 ⁽¹⁹⁾
10.50	Secured Promissory Notes and Deeds of Trusts Aggregating \$80.0 Million payable to Metropolitan Life Insurance Company dated January 10, 2002 ⁽²⁰⁾
10.51	Secured Promissory Notes and Deeds of Trust Aggregating \$115 million payable to Teachers Insurance and Annuity Association of America ⁽²¹⁾
10.52	Fourth Amended and Restated Revolving Credit Agreement dated October 22, 2004 ⁽²²⁾
10.53	Fourth Amended and Restated Guaranty of Payment dated October 22, 2004 ⁽²²⁾
10.54	Amendment No. 1 to Fourth Amended and Restated Credit Agreement dated June 30, 2005 ⁽³⁸⁾
10.55	Amendment No. 2 to Fourth Amended and Restated Credit Agreement dated April 26, 2006 ⁽²³⁾
10.56	Amendment No. 3 to Fourth Amended and Restated Credit Agreement ⁽³⁷⁾
10.57	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and John B. Kilroy, Jr. effective as of January 1, 2007 ⁽²⁷⁾
10.58	Addendum No. 1 to Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and John B. Kilroy, Jr. effective as of February 12, 2008 ⁽⁴⁰⁾
10.59	Amendment No. 2 to Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and John B. Kilroy, Jr. effective as of December 31, 2009 ⁽⁴⁰⁾
10.60	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Jeffrey C. Hawken effective as of January 1, 2007 ⁽²⁷⁾
10.61	Amendment No. 1 to Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Jeffrey C. Hawken effective as of December 31, 2009 ⁽⁴⁰⁾
10.62	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Richard E. Moran Jr. effective as of January 1, 2007 ⁽²⁷⁾
10.63	Amendment No. 1 to Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Richard E. Moran Jr. effective as of December 31, 2009 ⁽⁴⁰⁾
10.64	Letter confirmation dated March 27, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and JPMorgan Chase Bank, National Association, London Branch ⁽²⁸⁾
10.65	Letter confirmation dated March 27, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and Bank of America, N.A. ⁽²⁸⁾
10.66	Letter confirmation dated March 27, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and Lehman Brothers OTC Derivatives Inc. ⁽²⁸⁾
10.67	Amendment to letter confirmation dated April 4, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and JPMorgan Chase Bank, National Association, London Branch ⁽²⁹⁾
10.68	

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- Amendment to letter confirmation dated April 4, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and Bank of America, N.A.⁽²⁹⁾
- 10.69 Amendment to letter confirmation dated April 4, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and Lehman Brothers OTC Derivatives Inc.⁽²⁹⁾
- 10.70 Kilroy Realty Corporation 2007 Deferred Compensation Plan⁽³²⁾
- 10.71 Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Steven R. Scott effective as of January 1, 2007⁽³²⁾
- 10.72 Amendment No. 1 to Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Steven R. Scott effective as of December 31, 2009⁽⁴⁰⁾
- 10.73 Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Tyler H. Rose effective as of January 1, 2007⁽³²⁾
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Exhibit Number	Description
10.74	Amendment No. 1 to Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Tyler H. Rose effective as of December 31, 2009 ⁽⁴⁰⁾
10.75	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Heidi Roth effective as of January 1, 2007 ⁽³²⁾
10.76	Amendment No. 1 to Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Heidi Roth effective as of December 31, 2009 ⁽⁴⁰⁾
10.77	Kilroy Realty Corporation Stock Award Deferral Program ⁽³³⁾
10.78	Letter confirmation dated November 16, 2009, among Kilroy Realty, L.P., Kilroy Realty Corporation and JPMorgan Chase Bank, National Association, London Branch ⁽³⁹⁾
10.79	Letter confirmation dated November 16, 2009, among Kilroy Realty, L.P., Kilroy Realty Corporation and Bank of America, N.A. ⁽³⁹⁾
10.80	Letter confirmation dated November 20, 2009, among Kilroy Realty, L.P., Kilroy Realty Corporation and JPMorgan Chase Bank, National Association, London Branch ⁽³⁹⁾
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