

KILROY REALTY CORP  
Form 10-K  
February 11, 2010  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

(MARK ONE)

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

For the fiscal year ended December 31, 2009

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-12675

**KILROY REALTY CORPORATION**

(Exact name of registrant as specified in its charter)

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

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

**12200 W. Olympic Boulevard, Suite 200**

**Los Angeles, California**  
(Address of principal executive offices)

**90064**  
(Zip Code)

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Registrant's telephone number, including area code: (310) 481-8400

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

Title of each class	Name of each exchange on which registered
Common Stock, \$.01 par value	New York Stock Exchange
7.80% Series E Cumulative Redeemable	New York Stock Exchange
Preferred Stock, \$.01 par value	
7.50% Series F Cumulative Redeemable	New York Stock Exchange

Preferred Stock, \$.01 par value

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

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

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§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.

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). Yes  No

The aggregate market value of the voting and non-voting common shares held by non-affiliates of the registrant was approximately \$886,275,571 based on the closing price on the New York Stock Exchange for such shares on June 30, 2009.

As of February 11, 2010, 43,096,729 shares of common stock, par value \$.01 per share, were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the Company's Proxy Statement with respect to its 2010 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.

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*Unless otherwise indicated or unless the context requires otherwise, all references in this report to we, us, our, or the Company mean Kilroy Realty Corporation, including our consolidated subsidiaries.*

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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 Securities Exchange Act of 1934, as amended (the "1934 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 real estate investment trust, or REIT, which owns, operates, develops, and acquires Class A suburban office and industrial real estate in key submarkets in Southern California, which we believe have strategic advantages and strong barriers to entry.

As of December 31, 2009, our stabilized portfolio of operating properties was comprised of 93 office buildings (the "Office Properties") and 41 industrial buildings (the "Industrial Properties"), which encompassed an aggregate of approximately 8.7 million and 3.7 million rentable square feet, respectively. As of December 31, 2009, the Office Properties were approximately 80.6% leased to 286 tenants, and the Industrial Properties were approximately 88.2% leased to 58 tenants. All of our properties are located in Southern California. Our stabilized portfolio excludes undeveloped land and one industrial property that we are in the process of reentitling for residential use.

We own our interests in all of our properties through Kilroy Realty, L.P., a Delaware limited partnership (the "Operating Partnership"), and Kilroy Realty Finance Partnership, L.P., a Delaware limited partnership (the "Finance Partnership"). We conduct substantially all of our activities through the Operating Partnership in which, as of December 31, 2009, we owned an approximate 96.2% general partnership interest. The remaining 3.8% limited partnership interest in the Operating Partnership was owned by certain of our executive officers and directors, certain of their affiliates, and other outside investors. Kilroy Realty Finance, Inc., one of our wholly-owned subsidiaries, 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 of the Finance Partnership. We conduct substantially all of our development activities through Kilroy Services, LLC ("KSLLC"), a wholly-owned subsidiary of the Operating Partnership. Unless otherwise indicated, all references to we, us, our, or the Company include the Operating Partnership, the Finance Partnership, KSLLC, Kilroy Realty Finance, Inc., and all other wholly-owned subsidiaries, which include, Kilroy Realty TRS, Inc., Kilroy Realty Management, L.P., Kilroy RB, LLC, and Kilroy RB II, LLC.

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The following diagram illustrates the structure of Kilroy Realty Corporation and our subsidiaries as of December 31, 2009:

**Available Information; Website Disclosure; Corporate Governance Documents**

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports available free of charge on our website at [www.kilroyrealty.com](http://www.kilroyrealty.com) as soon as reasonably practicable after we file these 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 also 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

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### **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;
- the development of our existing development pipeline land holdings;
- our access to development, redevelopment, and leasing opportunities as a result of our extensive experience and significant working relationships with major Southern California corporate tenants, municipalities, and landowners given our over 60-year presence in the Southern California market; and
- our strong financial position that will allow us to pursue attractive acquisition opportunities.

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;

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- 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 due to our extensive experience, strong financial position, and ability to access capital. We will focus on acquiring additional high quality office and industrial properties that:
- provide attractive initial yields and significant potential for growth in cash flow from property operations;
  - present growth opportunities in our existing or other strategic markets; and

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

*Development Strategies.* We and our predecessors have developed office and industrial properties primarily located in Southern California since 1947. As of December 31, 2009, 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, 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 Southern 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 land-constrained markets since such efforts generally achieve similar returns to new development with reduced entitlement risk and shorter construction periods.

We may engage in the additional development or redevelopment of office and/or industrial properties, primarily in Southern California, 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 in Southern California 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. Our funding strategies are to:

- maintain financial flexibility, including a low secured to unsecured debt ratio, to maximize our ability to access a variety of capital sources;
- maintain a staggered debt maturity schedule 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 \$550 million unsecured line of credit (the Credit Facility), 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 Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations Factors That May Influence Future Results of Operations and Risk Factors below.

## **Significant Tenants**



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As of December 31, 2009, our fifteen largest tenants in terms of annualized base rental revenues represented approximately 48.6% of total annualized base rental revenues, defined as annualized monthly contractual rents from existing tenants as of December 31, 2009 determined on a straight-line basis over the term of the related lease in accordance with GAAP. Of this amount, our largest tenant, Intuit Inc. ( Intuit ), leased an aggregate of approximately 536,800 rentable square feet of office space under two separate leases, representing 6.7% of our total annualized base rental revenues as of December 31, 2009.

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

### **Competition**

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. For further discussion of the potential impact of competitive conditions on our business, see Item 1A: Risk Factors below.

### **Segment and Geographic Financial Information**

For financial information about our two reportable segments, Office Properties and Industrial Properties, see Note 14 to our consolidated financial statements.

All of our business is conducted in Southern California. 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, 2009, we employed 132 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 current 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 distributions to stockholders.

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*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, 2009, 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. 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 our management believes 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 distributions to stockholders.

**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.

*Global Market and Economic Conditions.* In the U.S., market and economic conditions continue to be challenging with tighter 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 depend upon the Southern California economy.* As of December 31, 2009, all of our properties and undeveloped land were located in Southern California. The continuing economic crisis has particularly affected the economy of California. The State of California began its fiscal year on July 1, 2009 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. The economic and legislative environment within the State could have an adverse impact on businesses operating in California, including us and our tenants.

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As of December 31, 2009, all of our undeveloped land and properties representing 5.1 million rentable square feet, or 56.3% of our Net Operating Income for the year ended December 31, 2009, were located in San Diego County. As a result, our operations are significantly affected by conditions in San Diego County (see additional information on San Diego County under Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations - Current Regional Information).

As a result of these factors, continued economic weakness in California and San Diego County 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 our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders.

*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 our securities, 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 distributions to stockholders.

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 spaces 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 liquidity of real estate investments;
- changing submarket demographics; and
- property damage resulting from seismic activity or other natural disasters.

*We depend on significant tenants.* As of December 31, 2009, our fifteen largest tenants represented approximately 48.6% of total annualized base rental revenues. Of this amount, our largest tenant, Intuit, leased an aggregate of approximately 536,800 rentable square feet of office space under two separate leases, representing 6.7% of our total annualized base rental revenues as of December 31, 2009. 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.

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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), renews 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, 2009, we derived approximately 98.7% 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.

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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 prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders.

*We may be unable to renew leases or re-lease available space.* As of December 31, 2009, we had office and industrial space available for lease representing approximately 17.2% of the total square footage of our properties. In addition, leases representing approximately 10.7% and 9.0% of the leased rentable square footage of our properties are scheduled to expire in 2010 and 2011, 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. Management believes that the weighted average cash rental rates for our overall portfolio are approximately 5% to 10% above the current average market rental rates, and weighted average cash rental rates for leases scheduled to expire in 2010 are up to approximately 5% above the current average quoted market 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 prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders 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 prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders.

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 prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders 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 prices of our securities, our ability to satisfy our debt service obligations and to pay distributions to stockholders. For example, the Airport Land Use Commission is currently evaluating updates to the existing airport compatibility plans for all public and military airports in San Diego County, which if adopted could adversely impact our business in this region.

*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

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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 our REIT qualification. 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 prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders could be adversely affected. In addition, foreclosures could create taxable income without accompanying cash proceeds, which could require us to pay income or excise tax notwithstanding our tax status as a REIT under the Internal Revenue Code of 1986, as amended (the Code). As of December 31, 2009, we had approximately \$1.0 billion aggregate principal amount of indebtedness, \$260.6 million of which is contractually due prior to December 31, 2010 not considering available debt maturity extension options. Our total debt and preferred equity represented 46.8% 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 our common stock and equity) at December 31, 2009. 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.

*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. 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 prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders may be adversely affected.

*Potential losses may not be covered by insurance.* 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 due to 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





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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.* As of December 31, 2009, all of our properties are located in Southern 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 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;
- 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 prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders could be adversely affected.

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*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 due to 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 prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders.

While we historically have acquired, developed, and redeveloped office properties in Southern California markets, we 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 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, 2009, 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, 2009, we had approximately 949,100 aggregate rentable square feet, or 7.7% 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 prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders.

*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 profits we derive 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 prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders.

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*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 our stockholders.* We may not withdraw from the Operating Partnership or transfer our general partnership interest without the approval of the holders of at least 60% of the units representing common limited partnership interests in the Operating Partnership, including the common units held by us in our capacity as its general partner. In addition, we 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 us in our capacity as its 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 our stockholders.

*In certain circumstances, our limited partners must approve the dissolution of the Operating Partnership and the disposition of properties they contributed.* For as long as limited partners own at least 5% of all of the partnership interests in the Operating Partnership, we must obtain the approval of limited partners holding a majority of the units representing common limited partnership interests in the Operating Partnership before we may dissolve the Operating Partnership. As of December 31, 2009, limited partners owned approximately 3.8% of the outstanding partnership interests in the Operating Partnership, of which 3.0% 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 our stockholders.

*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 the board of directors and the father of John B. Kilroy, Jr., the President and Chief Executive Officer. Each is a member of our board of directors, and together, as of December 31, 2009, they beneficially owned approximately 4.0% of the total outstanding shares of common stock as of December 31, 2009. The percentage of outstanding shares of common stock beneficially owned includes 265,614 shares of common stock, 165,475 restricted stock units that were vested and held by John B. Kilroy, Jr. at December 31, 2009, and assumes the exchange, at our option, of the 1,335,135 common units (which are redeemable in exchange for, at our option, an equal number of shares of common stock) held by Messrs. Kilroy into shares of our common stock. The beneficial ownership percentage excludes 148,478 nonvested restricted stock units held by John B. Kilroy, Jr. at December 31, 2009.

Pursuant to our charter, no other stockholder may own, actually or constructively, more than 7.0% of our outstanding 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 our outstanding common stock. Consequently, Messrs. Kilroy have substantial influence on us and could exercise their influence in a manner that is not in the best interest of our noteholders or our stockholders. Also, they may, in the future, have a substantial influence on the outcome of any matters submitted to our stockholders for approval.

*There are restrictions on the ownership of our capital stock, which limit the opportunities for a change of control at a premium to existing stockholders.* Provisions of the Maryland General Corporation Law, our charter, our 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 the stockholders from receiving a premium for their shares of stock over the then-prevailing market prices.

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The Code contains stringent ownership limits on us as a result of our decision to be taxed as a REIT, including:

- no more than 50% in value of our capital stock may be owned, actually or constructively, by five or fewer individuals, including some entities, during the last half of a taxable year;
- subject to exceptions, our 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 we, or any entity which owns 10% or more of our capital stock, actually or constructively own 10% or more of one of our tenants, or a tenant of any partnership in which we are a partner, then any rents that we receive from that tenant in question will not be qualifying income for purposes of the Code's REIT gross income tests, regardless of whether we receive the rents directly or through a partnership.

Our charter also establishes clear ownership limits to protect our 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 our common stock outstanding. Similarly, absent a waiver from the board of directors, no single holder of our 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 our preferred stock, so that their total capital stock ownership would exceed 7.0% by value of our total outstanding shares of capital stock; no single holder of our 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 our Series E Preferred Stock; and no single holder of our 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 our Series F Preferred Stock.

The board of directors may waive the ownership limits if it is satisfied that the excess ownership would not jeopardize our REIT status and if it believes that the waiver would be in our best interests. 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 our outstanding common stock. Our board of directors has also waived the ownership limits with respect to the initial purchasers of each of our 3.25% Exchangeable Notes and 4.25% Exchangeable Notes and certain of their affiliated entities to beneficially own up to 9.8%, in the aggregate, of our 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.

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

- Our charter authorizes our board of directors to issue up to 30,000,000 shares of 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 stockholders' interest. As of December 31, 2009, 5,060,000 shares of our preferred stock were issued and outstanding, consisting of 1,610,000 shares of our Series E Preferred Stock and 3,450,000 shares of our

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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 outstanding Series A Preferred Units; and

- Our 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 entitled to be cast in the election of directors.

*Loss of our REIT status would have significant adverse consequences to us and the value of our stock.* We currently operate in a manner that is intended to allow us to qualify as a REIT for federal income tax purposes under the Code. If we were to lose our REIT status, we would face serious tax consequences that would substantially reduce the funds available for distribution to stockholders for each of the years involved due to the following:

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to federal income tax at regular corporate rates;
- we could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and
- unless entitled to relief under statutory provisions, we could not elect to be taxed as a REIT for four taxable years following the year during which we were disqualified.

In addition, if we fail to qualify as a REIT, we will not be required to make distributions to stockholders and all distributions to stockholders will be subject to tax as regular corporate dividends to the extent of our current and accumulated earnings and profits. As a result of all these factors, our failure to qualify as a REIT also could impair our ability to expand our business and raise capital and could adversely affect the value of our 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 holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. For example, to qualify as a REIT, at least 95% of our gross income in any year must be derived from qualifying sources. Also, we must make distributions to stockholders aggregating annually at least 90% of our net taxable income, excluding capital gains. For distributions with respect to taxable years ending on or before December 31, 2011, recent IRS guidance allows us to satisfy up to 90% of this requirement through the distribution of shares of our common stock, if certain conditions are met. In addition, legislation, new regulations, administrative interpretations, or court decisions may adversely affect our investors or our 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 operate in a manner to qualify as a REIT, we cannot be certain that we have been or will continue to be organized or be able to operate in a manner to qualify or remain qualified as a REIT for federal income tax purposes.

*To maintain our REIT status, we may be forced to borrow funds on a short-term basis during unfavorable market conditions.* To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our net taxable income each year, excluding capital gains, 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, we 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 capital gain net income, and 100% of our undistributed income from prior years. For distributions with respect to taxable years ending on or before December 31, 2011, recent IRS guidance allows us to satisfy up to 90% of these requirements through the distribution of shares of our common stock, if certain conditions are met. To maintain our REIT status and avoid the payment of federal income and excise taxes, we may need to borrow funds on a short-term basis to meet the

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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.

*Our growth depends on external sources of capital that are outside of our control.* We are required under the Code to distribute at least 90% of our taxable income, determined without regard to the dividends-paid deduction and excluding any net capital gain. For distributions with respect to taxable years ending on or before December 31, 2011, recent IRS guidance allows us to satisfy up to 90% of this requirement through the distribution of shares of our common stock, if certain conditions are met. Because of this distribution requirement, 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 the 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 prices of our securities. If we cannot obtain capital from third-party sources, our financial condition, results of operations, cash flows, the quoted trading prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to our stockholders may be adversely affected.

*Our board of directors may change investment and financing policies without 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 our 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, 2009, we had approximately \$1.0 billion aggregate principal amount of indebtedness outstanding, which represented 39.0% 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 46.8% as of December 31, 2009. See Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources for a calculation of our market capitalization. These ratios may be increased or decreased without the consent of our 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 make distributions to stockholders. 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 shares of capital stock without stockholder approval, which may dilute stockholder investment.* We may issue shares of our common stock, preferred stock, or other equity or debt securities without stockholder approval. Similarly, we may cause the Operating Partnership to offer its common or preferred units for contributions of cash or property without approval by the limited partners of the Operating Partnership or our stockholders. Further, under certain circumstances, we may issue shares of our common stock in exchange for the 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, collectively, the Exchangeable Notes) issued by the Operating Partnership. Existing stockholders have no preemptive rights to acquire any of these securities, and any issuance of equity securities under these circumstances may dilute a stockholder's investment.

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*We may invest in securities related to real estate which could adversely affect our ability to make distributions to stockholders.* 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 make distributions to stockholders.

*Sales of a substantial number of shares of our securities, or the perception that this could occur, could result in decreasing the quoted market price per share for our securities.* Management cannot predict whether future issuances of shares of our common stock or the availability of shares for resale in the open market will result in decreasing the market price per share of common stock. As of December 31, 2009, 43,148,762 shares of common stock and 5,060,000 shares of preferred stock, consisting of 1,610,000 shares of our Series E Preferred Stock and 3,450,000 shares of our 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 outstanding Series A Preferred Units.

As of December 31, 2009, we had reserved for future issuance the following shares of common stock: 1,723,131 shares issuable upon the exchange, at our option, of common units; 2,020,000 shares remained available for grant under our 2006 Incentive Award Plan (see Note 8 to our consolidated financial statements included in this report); 631,331 shares issuable upon settlement of restricted stock units; 24,000 shares issuable upon exercise of outstanding options; and 975,895 shares issuable under our Dividend Reinvestment and Direct Stock Purchase Plan, as well as 3,386,353 and 4,800,796 shares potentially issuable under certain circumstances, in exchange for the 3.25% Exchangeable Notes and 4.25% Exchangeable Notes, respectively. We have a currently effective registration statement registering 1,723,131 shares of common stock for possible issuance to the holders of common units. This registration statement also registered 306,808 shares of common stock held by certain stockholders for possible resale. We also have a currently effective registration statement registering the 3,386,353 shares of common stock that may potentially be issued in exchange for the 3.25% Exchangeable Notes. Consequently, if and when the shares are issued, they may be freely traded in the public markets. We are required and intend to file a registration statement for the shares of common stock that may potentially be issued in exchange for the 4.25% Exchangeable Notes by May 2010 pursuant to the terms of a registration rights agreement with the initial purchasers of the 4.25% Exchangeable Notes.

*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

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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.

### **ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

### **ITEM 2. PROPERTIES**

#### **General**

As of December 31, 2009, our stabilized portfolio of operating properties was comprised of 93 Office Properties and 41 Industrial Properties, which encompassed an aggregate of approximately 8.7 million and 3.7 million rentable square feet, respectively. As of December 31, 2009, the Office Properties were approximately 80.6% leased to 286 tenants, and the Industrial Properties were approximately 88.2% leased to 58 tenants. Our stabilized portfolio excludes undeveloped land and one industrial property that we are in the process of reentitling for residential use.

All of our properties are located in Southern California. We own all of our properties through the Operating Partnership and the Finance Partnership. The seven office buildings located at Kilroy Airport Center in Long Beach, California all 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, 2009, we managed all of our properties through internal property managers.



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The following table sets forth certain information relating to each of the stabilized Office Properties and Industrial Properties owned as of December 31, 2009.

Property Location	No. of Buildings	Year Built/Renovated	Rentable Square Feet	Percentage Occupied at 12/31/09 <sup>(1)</sup>	Annualized Base Rental Revenue (\$000 \$ <sup>2</sup> )	Average Base Rental Revenue Per Sq. Ft. (\$) <sup>(3)</sup>
<b>Office Properties:</b>						
<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	72.9%	2,657	37.36
24025 Park Sorrento, Calabasas, California	1	2000	102,264	100.0%	3,941	38.54
26541 Agoura Road Calabasas, California	1	1988	91,327	0.0%		
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	88.3%	8,072	31.41
2260 E. Imperial Highway, El Segundo, California	1	1983	286,151	100.0%	5,409	18.90
909 Sepulveda Blvd., El Segundo, California	1	1972/2005	241,607	97.2%	5,943	25.32
999 Sepulveda Blvd., El Segundo, California	1	1962/2003	127,901	100.0%	2,649	22.86
3750 Kilroy Airport Way, Long Beach, California <sup>(5)</sup>	1	1989	10,457	100.0%	137	19.85
3760 Kilroy Airport Way, Long Beach, California	1	1989	165,278	100.0%	4,411	27.76
3780 Kilroy Airport Way, Long Beach, California	1	1989	219,745	89.8%	5,239	27.72
3800 Kilroy Airport Way, Long Beach, California	1	2000	192,476	100.0%	5,436	29.08
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%	1,474	15.00
3900 Kilroy Airport Way, Long Beach, California	1	1987	126,840	66.2%	2,047	24.52
12100 W. Olympic Blvd., Los Angeles, California	1	2003	150,167	100.0%	5,214	34.72
12200 W. Olympic Blvd., Los Angeles, California	1	2000	150,302	94.7%	4,048	36.82
12312 W. Olympic Blvd, Los Angeles, California <sup>(4)</sup>	1	1950/1997	78,000	100.0%	1,782	22.85
1633 26th Street, Santa Monica, California	1	1972/1997	44,915	100.0%	1,152	25.65
2100 Colorado Avenue, Santa Monica, California <sup>(16)</sup>	3	1992/2009	94,844	0.0%		
3130 Wilshire Blvd., Santa Monica, California	1	1969/1998	88,339	80.3%	2,249	31.71
501 Santa Monica Blvd., Santa Monica, California	1	1974	73,115	86.3%	2,491	39.92
Subtotal/Weighted Average						
Los Angeles County	25		3,006,509	88.2%	72,330	28.06
<i>San Diego County</i>						
12225 El Camino Real, Del Mar, California	1	1998	60,148	24.5%	488	33.13
12235 El Camino Real, Del Mar, California <sup>(6)</sup>	1	1998	54,673	100.0%	2,042	37.35
12340 El Camino Real, Del Mar, California <sup>(6)</sup>	1	2002	87,405	100.0%	4,130	47.25
12390 El Camino Real, Del Mar, California <sup>(6)</sup>	1	2000	72,332	100.0%	3,069	42.43
12348 High Bluff Drive, Del Mar, California <sup>(6)</sup>	1	1999	38,710	100.0%	1,211	31.28
12400 High Bluff Drive, Del Mar, California <sup>(6)</sup>	1	2004	208,464	100.0%	9,897	47.48
3579 Valley Centre Drive, Del Mar, California <sup>(17)</sup>	1	1999	52,375	0.0%		
3611 Valley Centre Drive, Del Mar, California <sup>(6)</sup>	1	2000	130,178	100.0%	4,504	36.42
3661 Valley Centre Drive, Del Mar, California <sup>(6)</sup>	1	2001	129,752	100.0%	3,693	35.04
3721 Valley Centre Drive, Del Mar, California <sup>(6)</sup>	1	2003	114,780	100.0%	3,767	32.82
3811 Valley Centre Drive, Del Mar, California <sup>(7)</sup>	1	2000	112,067	100.0%	5,199	46.39
6200 Greenwich Drive, Governor Park, California <sup>(7)</sup>	1	1999	71,000	100.0%	1,637	23.06
6220 Greenwich Drive, Governor Park, California	1	1996	141,214	0.0%		
15051 Avenue of Science, I-15 Corridor, California <sup>(7)</sup>	1	2002	70,617	100.0%	2,035	28.82
15073 Avenue of Science, I-15 Corridor, California <sup>(7)</sup>	1	2002	46,759	100.0%	1,233	26.37
15231 Avenue of Science, I-15 Corridor, California <sup>(18)</sup>	1	2005	65,638	0.0%		
15253 Avenue of Science, I-15 Corridor, California <sup>(19)</sup>	1	2005	37,437	0.0%		
15333 Avenue of Science, I-15 Corridor, California	1	2006	78,880	0.0%		
15378 Avenue of Science, I-15 Corridor, California <sup>(7)</sup>	1	1990	68,910	100.0%	978	14.19
15004 Innovation Drive, I-15 Corridor, California <sup>(7)</sup>	1	2008	150,801	100.0%	7,364	48.83
15435 Innovation Drive, I-15 Corridor, California <sup>(20)</sup>	1	2000	51,500	0.0%		

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15445 Innovation Drive, I-15 Corridor, California	1	2000	51,500	0.0%		
13280 Evening Creek Drive South, I-15 Corridor, California <sup>(8)</sup>	1	2008	42,971	46.5%	520	26.03
13290 Evening Creek Drive South, I-15 Corridor, California	1	2008	61,176	0.0%		
13480 Evening Creek Drive North, I-15 Corridor, California <sup>(6)</sup>	1	2008	149,817	100.0%	7,779	51.92
13500 Evening Creek Drive North, I-15 Corridor, California <sup>(6)</sup>	1	2004	142,742	97.6%	5,595	40.16
13520 Evening Creek Drive North, I-15 Corridor, California <sup>(6)</sup>	1	2004	141,368	93.0%	4,866	37.87

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<b>Property Location</b>	<b>No. of Buildings</b>	<b>Year Built/ Renovated</b>	<b>Rentable Square Feet</b>	<b>Percentage Occupied at 12/31/09<sup>(1)</sup></b>	<b>Annualized Base Rental Revenue (\$000 \$)</b>	<b>Average Base Rental Revenue Per Sq. Ft. (\$)<sup>(3)</sup></b>
7525 Torrey Santa Fe, 56 Corridor, California <sup>(7)</sup>	1	2007	103,979	100.0%	3,012	28.97
7535 Torrey Santa Fe, 56 Corridor, California <sup>(7)</sup>	1	2007	130,243	100.0%	3,693	28.35
7545 Torrey Santa Fe, 56 Corridor, California <sup>(7)</sup>	1	2007	130,354	100.0%	3,609	27.69
7555 Torrey Santa Fe, 56 Corridor, California <sup>(7)</sup>	1	2007	101,236	100.0%	3,175	31.36
10020 Pacific Mesa Blvd, Sorrento Mesa, California <sup>(4)</sup>	1	2007	318,000	100.0%	7,683	24.16
4910 Directors Place, Sorrento Mesa, California	1	2009	50,925	0.0%		
4921 Directors Place, Sorrento Mesa, California	1	2008	55,500	0.0%		
4939 Directors Place, Sorrento Mesa, California <sup>(7)</sup>	1	2002	60,662	100.0%	2,276	37.52
4955 Directors Place, Sorrento Mesa, California <sup>(7)</sup>	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	1	2001	102,875	0.0%		
6055 Lusk Avenue, Sorrento Mesa, California <sup>(4)</sup>	1	1997	93,000	100.0%	1,554	16.71
6260 Sequence Drive, Sorrento Mesa, California <sup>(7)</sup>	1	1997	130,536	100.0%	1,717	13.15
6290 Sequence Drive, Sorrento Mesa, California <sup>(7)</sup>	1	1997	90,000	100.0%	2,098	23.31
6310 Sequence Drive, Sorrento Mesa, California <sup>(4)</sup>	1	2000	62,415	100.0%	1,200	19.23
6340 Sequence Drive, Sorrento Mesa, California <sup>(7)</sup>	1	1998	66,400	100.0%	1,246	18.77
6350 Sequence Drive, Sorrento Mesa, California	1	1998	132,600	100.0%	2,507	18.91
10390 Pacific Center Court, Sorrento Mesa, California <sup>(7)</sup>	1	2002	68,400	100.0%	2,771	40.51
10394 Pacific Center Court, Sorrento Mesa, California <sup>(7)</sup>	1	1995	59,630	100.0%	1,096	18.38
10398 Pacific Center Court, Sorrento Mesa, California	1	1995	43,645	0.0%		
10421 Pacific Center Court, Sorrento Mesa, California	1	1995/2002	79,871	0.0%		
10445 Pacific Center Court, Sorrento Mesa, California <sup>(7)</sup>	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 <sup>(6)</sup>	1	1998	38,018	100.0%	915	24.07
10120 Pacific Heights Drive, Sorrento Mesa, California <sup>(7)</sup>	1	1995	52,540	100.0%	977	18.60
5717 Pacific Center Blvd, Sorrento Mesa, California <sup>(4)</sup>	1	2001/2005	67,995	100.0%	1,503	22.10
4690 Executive Drive, UTC, California <sup>(9)</sup>	1	1999	47,212	88.3%	1,048	25.15
9455 Towne Center Drive, UTC, California	1	1998	45,195	0.0%		
9785 Towne Center Drive, UTC, California <sup>(4)</sup>	1	1999	75,534	100.0%	1,374	18.19
9791 Towne Center Drive, UTC, California <sup>(4)</sup>	1	1999	50,466	100.0%	916	18.15
<b>Subtotal/Weighted Average San Diego County</b>	<b>58</b>		<b>5,078,178</b>	<b>76.8%</b>	<b>119,201</b>	<b>30.83</b>
<b>Orange County</b>						
4175 E. La Palma Avenue, Anaheim, California	1	1985	43,263	91.7%	805	20.30
8101 Kaiser Blvd. Anaheim, California	1	1988	59,790	88.0%	1,199	22.80
601 Valencia Avenue, Brea, California	1	1982	60,891	0.0%		
603 Valencia Avenue, Brea, California	1	1983	45,900	10.1%		
111 Pacifica, Irvine Spectrum, California	1	1991	67,496	61.2%	936	25.24
<b>Subtotal/Weighted Average Orange County</b>	<b>5</b>		<b>277,340</b>	<b>49.8%</b>	<b>2,940</b>	<b>22.36</b>
<b>Other</b>						
5151 Camino Ruiz, Camarillo, California <sup>(15)</sup>	2	1982	187,861	89.4%	1,879	11.19
5153 Camino Ruiz, Camarillo, California <sup>(10)</sup>	1	1982	38,655	100.0%	626	16.19
5155 Camino Ruiz, Camarillo, California <sup>(10)</sup>	1	1982	38,856	100.0%	625	16.09
2829 Townsgate Road, Thousand Oaks, California	1	1990	81,067	98.4%	2,367	30.26
<b>Subtotal/Weighted Average Other</b>	<b>5</b>		<b>346,439</b>	<b>93.9%</b>	<b>5,497</b>	<b>16.99</b>
<b>TOTAL/WEIGHTED AVERAGE OFFICE PROPERTIES</b>	<b>93</b>		<b>8,708,466</b>	<b>80.6%</b>	<b>199,968</b>	<b>28.98</b>
<b>Industrial Properties:</b>						
<b>Los Angeles County</b>						
2031 E. Mariposa Avenue, El Segundo, California	1	1954/1990	192,053	100.0%	2,960	15.41

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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	0.0%		
3130/3150 Miraloma, Anaheim, California <sup>(11)</sup>	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 <sup>(21)</sup>	1	1966	153,320	0.0%		
3355 E. La Palma Avenue, Anaheim, California	1	1999	98,200	100.0%	923	9.40
4123 E. La Palma Avenue, Anaheim, California <sup>(13)</sup>	1	1985	70,863	100.0%	764	10.79

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Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/09 <sup>(1)</sup>	Annualized Base Rental Revenue (\$000 \$ <sup>3</sup> )	Average Base Rental Revenue Per Sq. Ft. (\$) <sup>(3)</sup>
4155 E. La Palma Avenue, Anaheim, California <sup>(12)</sup>	1	1985	74,618	88.8%	788	11.89
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	1	1999	65,447	100.0%	495	7.56
1201 N. Miller Street, Anaheim, California	1	1999	119,612	100.0%	881	7.37
1211 N. Miller Street, Anaheim, California	1	1999	200,646	100.0%	1,349	6.72
1231 N. Miller Street, Anaheim, California	1	1999	113,242	0.0%		
660 N. Puente Street, Brea, California	1	1981	51,567	100.0%	402	7.80
950 W. Central Avenue, Brea, California	1	1983	24,000	75.0%	188	10.44
1050 W. Central Avenue, Brea, California <sup>(6)</sup>	1	1984	30,000	100.0%	298	9.93
1150 W. Central Avenue, Brea, California	1	1984	30,000	100.0%	284	9.47
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%	219	5.78
1125 Beacon Street, Brea, California	1	1988	49,178	100.0%	420	8.54
925 Lambert Road, Brea, California <sup>(14)</sup>	1	1999	80,000	100.0%	533	6.66
1075 Lambert Road, Brea, California <sup>(14)</sup>	1	1999	98,811	100.0%	743	7.52
1675 MacArthur Blvd, Costa Mesa, California	1	1986	50,842	100.0%	625	12.29
25902 Towne Center Drive, Foothill Ranch, California	1	1998	309,685	100.0%	2,459	7.94
12681/12691 Pala Drive, Garden Grove, California <sup>(7)</sup>	1	1970	84,700	100.0%	680	8.03
7421 Orangewood Avenue, Garden Grove, California <sup>(7)</sup>	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 <sup>(6)</sup>	1	1972	20,000	75.0%	137	9.13
12311 Industry Street, Garden Grove, California <sup>(6)</sup>	1	1972	25,000	100.0%	200	8.00
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%	546	9.36
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	40		3,462,410	87.6%	22,864	7.54
<b>TOTAL/WEIGHTED AVERAGE INDUSTRIAL PROPERTIES</b>	41		3,654,463	88.2%	25,824	8.01
<b>TOTAL/WEIGHTED AVERAGE ALL PROPERTIES</b>	134		12,362,929	82.8%	\$ 225,792	\$ 22.30

(1) Based on all leases at the respective properties in effect as of December 31, 2009. Includes month-to-month leases as of December 31, 2009.

(2) Calculated as contractual base rental revenues as of December 31, 2009, 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, 2009.

(3) Calculated as annualized base rent divided by net rentable square feet leased as of December 31, 2009. Excludes month-to-month leases and vacant space as of December 31, 2009.

(4) For this property, the lease is written on a triple net basis.

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- (5) For this property, leases of approximately 4,000 rentable square feet are written on a modified gross basis, and leases of approximately 6,000 rentable square feet are written on a full service gross basis.
  
- (6) For this property, the leases are written on a modified gross basis.
  
- (7) For this property, the lease is 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. The remaining 23,000 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.

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- (12) For this property, leases of approximately 17,000 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 56,000 rentable square feet was executed with one tenant during the third quarter of 2009. The new lease is expected to commence during the second quarter of 2010.
- (17) For this property, a lease of approximately 34,000 rentable square feet was executed with one tenant during the fourth quarter of 2009. The new lease is expected to commence during the first quarter of 2010.
- (18) For this property, a lease of approximately 47,000 rentable square feet was executed with one tenant during the fourth quarter of 2009. The new lease is expected to commence during the first quarter of 2010.
- (19) For this property, a lease for the entire building was executed with one tenant during the fourth quarter of 2009. The new lease is expected to commence during the first quarter of 2010.
- (20) For this property, a lease of approximately 33,000 rentable square feet was executed with one tenant during the fourth quarter of 2009. The new lease is expected to commence during the third quarter of 2010.
- (21) A lease of approximately 153,000 rentable square feet was executed with one tenant during the fourth quarter of 2009. The new lease is expected to commence during the third quarter of 2010.

**Reentitlement Property**

As of December 31, 2009, we were in the process of reentitling the following property for residential use:

Property Location	No. of Buildings	Year Acquired	Net Rentable Square Feet	Percentage Occupied at 12/31/09
17150 Von Karman Irvine, California	1	1997	157,458	0.0%

**Future Development Pipeline**

The following table sets forth certain information relating to our undeveloped land located in San Diego, California as of December 31, 2009.

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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
San Diego Corporate Center Phase I and II	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



**Table of Contents****Significant Tenants**

The following table sets forth information about our fifteen largest tenants based upon annualized rental revenues as of December 31, 2009.

Tenant Name	Property Segment	Annualized Base Rental Revenues <sup>(1)</sup> (in thousands)	Percentage of Total Annualized Base Rental Revenues <sup>(1)</sup>	Lease Expiration Date
Intuit Inc.	Office	\$ 15,126	6.7%	Various <sup>(2)</sup>
Bridgepoint Education, Inc.	Office	14,257	6.3	Various <sup>(3)</sup>
Scripps Health	Office	12,562	5.6	Various <sup>(4)</sup>
CareFusion Corporation	Office	10,087	4.5	Various <sup>(5)</sup>
DIRECTV, Inc.	Office	8,540	3.8	July 2014
AMN Healthcare, Inc.	Office	8,341	3.7	July 2018
Fish & Richardson P.C.	Office	6,071	2.7	October 2018
The Boeing Company	Office/Industrial	5,905	2.6	Various <sup>(6)</sup>
Verenum Corporation	Office	5,158	2.3	Various <sup>(7)</sup>
Epson America, Inc.	Office	4,915	2.2	October 2019
Hewlett-Packard Company	Office	4,348	1.9	April 2012
Scan Health Plan	Office	3,810	1.7	June 2015
Avnet, Inc.	Office	3,768	1.7	February 2013
Comcast Corporation	Office	3,308	1.5	Various <sup>(8)</sup>
Northrup Grumman Corporation	Office	3,268	1.4	Various <sup>(9)</sup>
Total		\$ 109,464	48.6%	

- (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, 2009.
- (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 \$0.8 million, \$5.7 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 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.
- (6) The Boeing Company leases, which contribute \$5.4 million and \$0.5 million of annualized base rental revenues, expire in July 2010 and October 2010, respectively. The Boeing Company is expected to vacate the premises when the leases expire.
- (7) The Verenum Corporation leases, which contribute \$2.9 million and \$2.3 million of annualized base rental revenues, expire in November 2015 and March 2017, respectively.

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- (8) The Comcast Corporation leases, which contribute \$1.2 million and \$2.1 million of annualized base rental revenues, expire in July 2010 and December 2012, respectively.
  
- (9) The Northrup Grumman Corporation leases, which contribute \$2.0 million and \$1.3 million of annualized base rental revenues, expire in February 2012 and April 2012, respectively.

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The following table sets forth the composition of our tenant base by industry based on Standard Industrial Classifications as of December 31, 2009.

<b>Industry</b>	<b>Percentage of Total Annualized Base Rental Revenues at December 31, 2009</b>
Professional, business, and other services	32.8%
Education and health services	21.1%
Manufacturing	18.3%
Finance, insurance, and real estate	12.3%
Information technology	11.1%
Wholesale and retail trade	2.0%
Construction	1.4%
Government	0.5%
Leisure and hospitality	0.4%
Transportation, warehousing, and public utilities	0.1%
<b>Total</b>	<b>100.0%</b>

**Table of Contents****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 2010, 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 Type<sup>(1)</sup>**

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	Annualized Base Rental Revenue Under Expiring Leases (000 \$)	Percentage of Annualized Base Rental Revenue Represented by Expiring Leases <sup>(2)</sup>	Average Annualized Base Rental Revenue Per Square Foot Under Expiring Leases (000 \$)
<b>Office Properties:</b>						
2010	70	843,916	12.2%	\$ 20,301	10.2%	\$ 24.06
2011	58	537,893	7.8	11,485	5.7	21.35
2012	58	758,736	11.0	19,973	10.0	26.32
2013	45	579,059	8.4	14,426	7.2	24.91
2014	41	1,019,348	14.8	25,918	13.0	25.43
2015	30	616,477	8.9	18,308	9.2	29.70
2016	7	159,552	2.3	3,709	1.9	23.25
2017	17	1,186,858	17.2	33,527	16.8	28.25
2018	13	639,502	9.3	28,982	14.5	45.32
2019	4	215,375	3.1	7,987	4.0	37.08
2020 and beyond	4	342,868	5.0	15,352	7.5	44.78
	347	6,899,584	100.0%	\$ 199,968	100.0%	\$ 28.98
<b>Industrial Properties:</b>						
2010	10	243,060	7.5%	\$ 1,941	7.5%	\$ 7.99
2011	12	376,658	11.7	3,345	13.0	8.88
2012	12	511,805	15.9	3,224	12.5	6.30
2013	7	602,455	18.7	4,410	17.1	7.32
2014	9	466,578	14.5	3,743	14.5	8.02
2015	9	539,864	16.7	3,777	14.6	7.00
2016	2	233,278	7.3	3,274	12.7	14.03
2017						
2018	1	82,602	2.6	643	2.5	7.78
2019	2	168,200	5.1	1,467	5.6	8.72
2020 and beyond						
	64	3,224,500	100.0%	\$ 25,824	100.0%	\$ 8.01
<b>Total Portfolio</b>	<b>411</b>	<b>10,124,084</b>	<b>100.0%</b>	<b>\$ 225,792</b>	<b>100.0%</b>	<b>\$ 22.30</b>

(1) The information presented reflects leasing activity through December 31, 2009. 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, 2009.

(2) Reflects annualized contractual base rental revenue calculated on a straight-line basis.

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**Secured Debt**

As of December 31, 2009, the Operating Partnership had six outstanding mortgage notes payable and one secured line of credit, which were secured by certain of our properties. Our secured debt represents an aggregate indebtedness of approximately \$294.6 million. 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, Note 4 to our consolidated financial statements, and Schedule III—Real Estate and Accumulated Depreciation included with this report. Management believes that, as of December 31, 2009, 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**

Other than routine litigation incidental to the 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. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of stockholders during the fourth quarter of the year ended December 31, 2009.

**Table of Contents****PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is traded on the New York Stock Exchange ( NYSE ) under the symbol KRC. The following table illustrates the high, low, and closing prices by quarter during 2009 and 2008 as reported on the NYSE. As of the date this report was filed, there were approximately 124 registered holders of our common stock.

				<b>Per Share Common Stock Dividends Declared</b>
<b>2009</b>	<b>High</b>	<b>Low</b>	<b>Close</b>	
First quarter	\$ 32.83	\$ 15.40	\$ 17.19	\$ 0.5800
Second quarter	23.35	16.16	20.54	0.3500
Third quarter	30.75	18.67	27.74	0.3500
Fourth quarter	31.99	26.00	30.67	0.3500
				<b>Per Share Common Stock Dividends Declared</b>
<b>2008</b>	<b>High</b>	<b>Low</b>	<b>Close</b>	
First quarter	\$ 53.64	\$ 44.81	\$ 49.11	\$ 0.5800
Second quarter	55.54	46.52	47.03	0.5800
Third quarter	52.30	42.37	47.79	0.5800
Fourth quarter	45.97	21.71	33.46	0.5800

We pay 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.

During the years ended December 31, 2009 and 2008, we issued 30,598 and 435,596 shares of common stock, respectively, in redemption of 30,598 and 435,596 common units by limited partners. The issuances were not dilutive to capitalization or distributions as the common shares were issued on a one-for-one basis pursuant to the terms of the partnership agreement of the Operating Partnership, and the common units share in distributions with the common stock.

During the years ended December 31, 2009 and 2008, we accepted the return, at the current quoted market price, of 86,482 and 61,111 shares of our common stock, respectively, from certain key employees in accordance with the provisions of our incentive award plan to satisfy minimum statutory tax-withholding requirements related to shares that vested during these periods.

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**PERFORMANCE GRAPH**

The following line graph compares the change in cumulative stockholder return on our shares of 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, 2009. 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, 2004 and, as required by the SEC, the reinvestment of all distributions. The return shown on the graph is not necessarily indicative of future performance.



**Table of Contents****ITEM 6. SELECTED FINANCIAL DATA****Kilroy Realty Corporation Consolidated****(in thousands, except per share, square footage and occupancy data)**

	Year Ended December 31,				
	2009	2008	2007	2006	2005
<b>Statements of Operations Data:</b>					
Rental income	\$ 247,649	\$ 251,520	\$ 229,126	\$ 216,389	\$ 204,714
Tenant reimbursements	28,075	30,986	25,272	22,393	20,223
Other property income	3,710	6,849	3,478	2,356	771
<b>Total revenues</b>	<b>279,434</b>	<b>289,355</b>	<b>257,876</b>	<b>241,138</b>	<b>225,708</b>
Property expenses	49,709	48,861	43,276	39,692	36,053
Real estate taxes	24,330	22,063	19,495	18,107	16,293
Provision for bad debts	569	4,051	473	744	(667)
Ground leases	1,597	1,617	1,582	1,583	1,207
General and administrative expenses	39,938	38,260	36,580	22,800	66,456
Interest expense	46,119	45,346	40,762	43,541	38,956
Depreciation and amortization	87,627	83,215	72,754	68,756	64,199
<b>Total expenses</b>	<b>249,889</b>	<b>243,413</b>	<b>214,922</b>	<b>195,223</b>	<b>222,497</b>
Interest income and other net investment gains (losses)	1,300	(93)	1,606	1,653	604
Gain on early extinguishment of debt	4,909				
Net settlement receipts on interest rate swaps				991	364
(Loss) gain on derivative instruments				(818)	378
<b>Total other income (loss)</b>	<b>6,209</b>	<b>(93)</b>	<b>1,606</b>	<b>1,826</b>	<b>1,346</b>
<b>Income from continuing operations</b>	<b>35,754</b>	<b>45,849</b>	<b>44,560</b>	<b>47,741</b>	<b>4,557</b>
Discontinued operations:					
Revenues from discontinued operations		812	10,908	23,191	17,137
Expenses from discontinued operations	(224)	16	(6,656)	(8,749)	(9,902)
Net gain on dispositions of discontinued operations	2,485	234	74,505	31,259	30,764
<b>Total income from discontinued operations</b>	<b>2,261</b>	<b>1,062</b>	<b>78,757</b>	<b>45,701</b>	<b>37,999</b>
<b>Net income</b>	<b>38,015</b>	<b>46,911</b>	<b>123,317</b>	<b>93,442</b>	<b>42,556</b>
Net income attributable to noncontrolling common units of the Operating Partnership	(1,025)	(1,886)	(6,957)	(5,990)	(3,149)
<b>NET INCOME ATTRIBUTABLE TO KILROY REALTY CORPORATION</b>	<b>36,990</b>	<b>45,025</b>	<b>116,360</b>	<b>87,452</b>	<b>39,407</b>
<b>PREFERRED DISTRIBUTIONS AND DIVIDENDS</b>					
Distributions to noncontrolling cumulative redeemable preferred units of the Operating Partnership	(5,588)	(5,588)	(5,588)	(5,588)	(5,588)
Preferred dividends	(9,608)	(9,608)	(9,608)	(9,608)	(9,608)
<b>Total preferred distributions and dividends</b>	<b>(15,196)</b>	<b>(15,196)</b>	<b>(15,196)</b>	<b>(15,196)</b>	<b>(15,196)</b>
<b>Net income available for common stockholders</b>	<b>\$ 21,794</b>	<b>\$ 29,829</b>	<b>\$ 101,164</b>	<b>\$ 72,256</b>	<b>\$ 24,211</b>
<b>Share Data:</b>					
Weighted average common shares outstanding basic	38,705,101	32,466,591	32,379,997	31,244,062	28,710,726

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Weighted average common shares outstanding	38,732,126	32,540,872	32,408,966	31,292,628	28,710,726
Income (loss) from continuing operations available to common stockholders per common share - basic	\$ 0.47	\$ 0.88	\$ 0.82	\$ 0.96	\$ (0.33)
Income (loss) from continuing operations available to common stockholders per common share - diluted	\$ 0.47	\$ 0.88	\$ 0.82	\$ 0.96	\$ (0.33)
Net income available to common stockholders per share - basic	\$ 0.53	\$ 0.91	\$ 3.09	\$ 2.30	\$ 0.84
Net income available to common stockholders per share - diluted	\$ 0.53	\$ 0.91	\$ 3.09	\$ 2.30	\$ 0.84
Dividends declared per common share	\$ 1.63	\$ 2.32	\$ 2.22	\$ 2.12	\$ 2.04

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	<b>Kilroy Realty Corporation Consolidated</b>				
	<b>December 31,</b>				
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
<b>Balance Sheet Data:</b>					
Total real estate held for investment, before accumulated depreciation and amortization	\$ 2,520,083	\$ 2,475,596	\$ 2,370,004	\$ 2,040,761	\$ 1,953,971
Total assets	2,084,281	2,102,918	2,069,810	1,799,352	1,674,474
Total debt	972,016	1,142,348	1,072,659	879,198	842,282
Total liabilities	1,126,805	1,314,394	1,229,138	1,011,790	1,031,106
Noncontrolling interest <sup>(1)</sup>	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 <sup>(2)</sup>	883,838	714,886	767,034	713,924	569,730
<b>Other Data:</b>					
Funds From Operations <sup>(3)</sup>	\$ 107,159	\$ 113,972	\$ 107,324	\$ 118,184	\$ 63,603
<b>Cash flows provided by (used in):</b>					
Operating activities	124,965	144,481	147,500	61,570	116,002
Investing activities	(50,474)	(93,825)	(244,802)	(136,193)	(75,682)
Financing activities	(74,161)	(52,835)	97,086	82,690	(41,292)
<b>Office Properties:</b>					
Rentable square footage	8,708,466	8,650,126	8,088,769	7,835,040	7,948,152
Occupancy	80.6%	86.2%	93.7%	95.8%	92.5%
<b>Industrial Properties:</b>					
Rentable square footage	3,654,463	3,718,663	3,869,969	3,869,969	4,587,491
Occupancy	88.2%	96.3%	94.7%	95.8%	99.3%

(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.

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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 years ended December 31, 2009, 2008, 2007, 2006, and 2005.

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**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. Statements contained in this Management's Discussion and Analysis of Financial Condition and Results of Operations 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 investment amounts. Although the information is based on our current expectations, actual results could vary from expectations stated in this report. Numerous factors will affect our actual results, some of which are beyond our control. These include the breadth and duration of the current economic recession and its impact on our tenants, the strength of commercial and industrial real estate markets, market conditions affecting tenants, competitive market conditions, interest rate levels, volatility in our stock price, 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, the forward-looking events discussed in this report might not occur.

**Overview and Background**

We own, operate, develop, and acquire office and industrial real estate in Southern California. We operate as a self-administered REIT. 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 96.2% and 95.0% general partnership interest in the Operating Partnership as of December 31, 2009 and 2008, respectively.

**Critical Accounting Policies**

The preparation of financial statements in conformity with GAAP requires management 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 management to make significant estimates and/or assumptions about matters that are uncertain at the time the estimates and/or assumptions are made or where management is required to make significant judgments and assumptions with respect to the practical application of accounting principles in its 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 our consolidated financial statements included in this report.

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### *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, 2009, 2008, and 2007, we recorded \$2.0 million, \$28.1 million, and \$41.1 million, respectively, of tenant-funded tenant improvements. The decreasing trend corresponds to the decrease 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 \$9.8 million, \$11.3 million, and \$4.3 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 judgment 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, therefore, on our results of operations. Our judgment as to whether we are, or the tenant is, the owner of the tenant improvements for accounting purposes can also have a significant effect on the timing of our overall revenue recognition and therefore on our results of operations.

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### *Tenant Reimbursement Revenue*

Reimbursements from tenants consist of amounts due from tenants for common area maintenance, real estate taxes, and other recoverable costs. Calculating tenant reimbursement revenue requires an in-depth analysis of the complex terms of each applicable 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 reimbursable expenses are incurred and thus recoverable from the tenant 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, 2008, 2007, and 2006 has been that our final reconciliation and billing process resulted in final amounts that approximated the total annual tenant reimbursement revenues recognized. We are currently in the process of performing our 2009 final reconciliations.

### *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 expenses 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, 2009 and 2008, current receivables were carried net of an allowance for uncollectible amount of \$3.1 million and \$4.0 million, respectively, and deferred rent receivables were carried net of an allowance for uncollectible accounts of \$6.4 million and \$7.3 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

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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, 2009, 2008, and 2007, we recorded a total provision for bad debts for both current tenant receivables and deferred rent receivables of approximately 0.2%, 1.4%, and 0.2%, respectively, of recurring rental revenue. 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 properties in San Diego (see Note 13 to our consolidated financial statements included in this report). 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. 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, 2009, 2008, and 2007. 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 available to common stockholders would be approximately \$2.8 million, \$2.8 million, and \$2.6 million for the years ended December 31, 2009, 2008, and 2007, respectively.

### *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 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 market capitalization rates, continuous increases in market capitalization rates 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;
- instances of physical damage to the property; and
- default by a significant tenant when other indicators are present.

When evaluating real estate assets to be held and used for potential impairment, 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



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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

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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 due to 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.

During the years ended December 31, 2009, 2008, and 2007, we did not record any impairment losses.

### *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**

*Leasing Activity and 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 2009.

**Table of Contents****Lease Commencement Information by Segment****For Leases that Commenced During the Year Ended December 31, 2009**

	1st & 2nd Generation				Changes in Rents <sup>(2)</sup>	2nd Generation		Weighted Average Lease Term (in months)
	Number of Leases <sup>(1)</sup>		Rentable Square Feet <sup>(1)</sup>			Changes in Cash Rents <sup>(3)</sup>	Retention Rates <sup>(4)</sup>	
	New	Renewal	New	Renewal				
Office Properties	37	45	221,229	680,977	15.1%	6.5%	59.5%	66
Industrial Properties	6	9	248,380	545,143	9.1%	(5.4)%	60.5%	74
<b>Total portfolio</b>	<b>43</b>	<b>54</b>	<b>469,609</b>	<b>1,226,120</b>	<b>13.8%</b>	<b>3.8%</b>	<b>60.0%</b>	<b>70</b>

(1) Represents leasing activity for leases commenced during the period shown, including first and second generation space, net of month-to-month leases. Excludes leasing on new construction.

(2) 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.

(3) 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.

(4) Calculated as the percentage of space either renewed or expanded into by existing tenants or subtenants at lease expiration. The increase in rental rates for office leases that commenced during the year ended December 31, 2009 was largely due to two lease renewals totaling approximately 268,600 rentable square feet. The increase in rental rates for industrial leases that commenced during the year ended December 31, 2009 was largely due to two lease renewals totaling approximately 298,800 rentable square feet.

While changes in rents were positive for leases that commenced during the year ended December 31, 2009, we cannot give any assurance that future leases will be renewed or that available space will be re-leased at rental rates equal to or above expiring stated rates for the same space. Leasing activity statistics for any given period are impacted by the number and mix of leases commencing, the terms of the individual leases, and the submarkets in which leasing activity is located. Therefore, current period lease commencement activity may not be indicative of leasing trends in the future. An extended economic slowdown and continued tightening of the credit markets could have an adverse effect on our tenants and could impact our ability to maintain or increase rental rates in our submarkets.

In general, we have been experiencing decreases in rental rates in many of our submarkets due to recent recessionary conditions and other related factors. During the fourth quarter of 2009, we executed 53 leases for an aggregate of 1.1 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 14.7% decrease in cash rents and a 4.0% decrease in GAAP rents. As of December 31, 2009, we believe that the weighted average cash rental rates for our overall portfolio are approximately 5% to 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 a result of the continuing economic conditions, we are also experiencing decreased occupancy rates and protracted lease negotiations. 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 economy on 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.

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*Scheduled Lease Expirations.* In addition to the 2.1 million rentable square feet, or 17.2%, of currently available space in our stabilized portfolio, leases representing approximately 10.7% and 9.0% of the occupied

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square footage of our stabilized portfolio are scheduled to expire during 2010 and in 2011, respectively. The leases scheduled to expire during 2010 and in 2011 represent approximately 1.4 million rentable square feet of office space, or 14.1% of our total annualized base rental revenue, and 0.6 million rentable square feet of industrial space, or 2.3% of our total annualized base rental revenue, respectively. We believe that the weighted average cash rental rates are up to approximately 5% above the current average quoted market rates for leases scheduled to expire during 2010, 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 the market conditions in the specific regions in which our properties are located and general market conditions.

*Sublease Space.* Of our leased space as of December 31, 2009, approximately 297,100 rentable square feet, or 2.4% of the square footage in our stabilized portfolio, was available for sublease, compared to 485,600 rentable square feet, or 3.9%, at December 31, 2008. Of the 2.4% of available sublease space in our stabilized portfolio as of December 31, 2009, approximately 2.0% was vacant space, and the remaining 0.4% was occupied. Approximately 38.8%, 34.1%, and 27.1% of the available sublease space as of December 31, 2009 is located in the San Diego, Orange County, and Los Angeles regions, respectively. Of the approximately 297,100 rentable square feet available for sublease as of December 31, 2009, approximately 18,000 rentable square feet representing two leases are scheduled to expire in 2010, and approximately 106,700 rentable square feet representing five leases are scheduled to expire in 2011.

Negative trends or other unforeseeable events that impair our ability to renew or re-lease space and our ability to maintain or increase rental rates in our submarkets could have an adverse effect on our future financial condition, results of operations, and cash flow.

*Real Estate Asset Valuation.* General economic conditions and the resulting impact on market conditions such as the downturn in tenants businesses, declining demand for office or industrial properties, or decreases in market rental rates or market values of real estate assets may adversely affect the value of our assets, including the value of our properties and related tenant improvements and the value of our undeveloped land. Although our strategy is to hold our properties and our undeveloped land for long-term use, if our strategy and/or market conditions change or we decide to dispose of an asset, we may be required to recognize an impairment loss to reduce the property or undeveloped land to the lower of the carrying amount or fair value, and such a loss could potentially be material and could adversely affect our results of operations. Likewise, if as a result of an early lease termination we were required to remove and write off material amounts of tenant improvements that were not reusable to another tenant, our results of operations could be adversely affected.

*Development and Redevelopment Programs.* Historically, a significant portion of our growth has come from our development and redevelopment efforts. We have a proactive planning process by which we continually evaluate the size, timing, costs, and scope of our development and redevelopment programs and, as necessary, scale activity to reflect the economic conditions and the real estate fundamentals that exist in our strategic submarkets.

We believe that a portion of our future potential growth will continue to come from our newly developed or redeveloped properties and our development pipeline. However, while we continue to evaluate development opportunities throughout Southern California and specifically in our core markets, we have currently delayed the timing and reduced the scope of our development program as a result of the present economic conditions in our submarkets. As of December 31, 2009, we had no development projects under, or committed for, construction. We are focusing on enhancing the entitlements for our existing development land pipeline and performing other activities to prepare for the time when development will again be economically attractive.

We believe that other possible sources of potential future growth are redevelopment opportunities within our existing portfolio and/or targeted acquisitions. Redevelopment efforts can achieve similar returns to new

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development with reduced entitlement risk and shorter construction periods. Depending on market conditions, we will continue to evaluate redevelopment opportunities within our portfolio when there is limited land for development in our strategic submarkets. We had no redevelopment properties in process as of December 31, 2009. Over the next two years we are planning to redevelop certain properties, which have been occupied by long-term tenants and require significant capital expenditures to upgrade and modernize the buildings.

In light of current economic conditions, we may be unable to lease completed development or redevelopment properties at expected rental rates or within projected timeframes, which could adversely affect our financial condition, results of operations, and cash flows. During the year ended December 31, 2009, we added one development property, which encompasses approximately 51,000 rentable square feet of new medical office space, to our stabilized portfolio since one year had passed since the cessation of major construction activities. This property is currently 25% leased. During the year ended December 31, 2008, we added three properties to the stabilized portfolio encompassing approximately 159,000 rentable square feet, which had not yet reached stabilized occupancy of 95%. These properties are currently 31% leased.

Delays and scope reductions in our development program impact the average development and redevelopment asset balances qualifying for interest and other carry cost capitalization. As of December 31, 2009, our development pipeline included 116.7 gross acres of land with an aggregate cost basis of approximately \$254 million. During the year ended December 31, 2009, we did not capitalize interest and carry costs on five of our seven development pipeline properties with an aggregate cost basis of approximately \$82 million, as we determined these projects did not qualify for interest and other carry cost capitalization under GAAP. Additional delays and scope reductions could further impact the average development and redevelopment asset balances qualifying for interest and other carry cost capitalization and thus could further impact our results from operations.

*City of San Diego.* Given the geographic concentration of our development program in San Diego County, our operating results may be affected by (i) the city of San Diego's current financial difficulties and ongoing investigations with respect to the city's finances, (ii) the city of San Diego's General Plan and Land Use update and future updates, (iii) the city of San Diego's zoning ordinance updates, (iv) the city of San Diego, state, and federal agencies' future adoption of potential impact fees to address water supply infrastructure, climate change legislation, and mandatory energy and sustainable building code requirements, and (v) recent storm water runoff regulations and other pending ordinances currently under consideration by the city, county, and state water agencies and other agencies. Any of these factors and others may affect the city of San Diego's ability to finance capital projects and may impact real estate development, entitlements, costs of development, and market conditions in this important submarket. As of the date this report was filed, we have not experienced any material adverse effects arising from these factors.

*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.

In the first quarter of 2010, our Executive Compensation Committee approved the 2010 Annual Bonus Program for executive management that will allow for executive management to receive bonus compensation for achieving certain specified corporate performance measures for the fiscal year ending December 31, 2010. The provisions of the 2010 program were reported on Form 8-K filed with the SEC on February 3, 2010. As a result of the structure of these programs and other such programs that the Executive Compensation Committee may adopt in the future, accrued incentive compensation and compensation expense for these programs will be affected by our operating and development performance, financial results, the performance of our common stock, and market conditions. Consequently, we cannot predict the amounts that will be recorded in future periods related to compensation programs.

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*Share-Based Compensation.* As of December 31, 2009, there was \$7.7 million of total unrecognized compensation cost related to outstanding nonvested shares and nonvested restricted stock units 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 \$3.3 million related to 146,650 nonvested restricted stock units issued under share-based compensation arrangements subsequent to December 31, 2009 is expected to be recognized over a weighted-average period of 2.0 years. See Note 8 to our consolidated financial statements included with this report for additional information regarding our share-based incentive compensation plan.

As of December 31, 2009, we were still in the performance period for the development leasing component of the 2007 Development Performance Plan (the DPP). The incentive award that may be earned under the development leasing component of the DPP will be based on whether certain future leasing targets are achieved by the first quarter of 2011 for development and redevelopment properties on which we commenced construction during 2007. If the performance measures are not ultimately achieved, we would reverse the cumulative compensation expense recorded to date, which was \$0.8 million as of December 31, 2009.

**Stabilized Portfolio Information**

The following table reconciles the changes in the rentable square feet in our stabilized portfolio of operating properties from December 31, 2008 to December 31, 2009:

	Quarter of Activity	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, 2008		92	8,650,126	42	3,718,663	134	12,368,789
Property added from the Development Portfolio	Q4	1	50,925			1	50,925
Disposition <sup>(1)</sup>	Q2			(1)	(64,200)	(1)	(64,200)
Remeasurement			7,415				7,415
Total as of December 31, 2009		93	8,708,466	41	3,654,463	134	12,362,929

(1) Operating results and gains (losses) on dispositions of operating properties are included in discontinued operations in the consolidated statement of operations.

**2009 Stabilized Development Property**

The following table sets forth certain information regarding the development property that was added to the stabilized portfolio during 2009:

Property Name / Address	Completion Date	Stabilization Date <sup>(1)</sup>	Number of Buildings	Rentable Square Feet	Percentage Leased
Sorrento Gateway Lot 1 4910 Directors Place San Diego, CA	2008	2009	1	50,925	25.0% <sup>(2)</sup>

(1) The earlier of stabilized occupancy of 95% or one year from the date of cessation of major construction activities.

(2) Represents one lease that is scheduled to commence in the third quarter of 2010.

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

**Stabilized Portfolio Occupancy by Segment Type**

Region	Number of Buildings	Square Feet Total	12/31/2009	Occupancy at <sup>(1)</sup> 12/31/2008	12/31/2007
<b>Office Properties:</b>					
Los Angeles County	25	3,006,509	88.2%	92.1%	96.1%
San Diego County	58	5,078,178	76.8	83.1	91.4
Orange County	5	277,340	49.8	67.9	99.1
Other	5	346,439	93.9	94.2	99.6
	93	8,708,466	80.6	86.2	93.7
<b>Industrial Properties:</b>					
Los Angeles County	1	192,053	100.0	100.0	100.0
Orange County	40	3,462,410	87.6	96.1	94.4
	41	3,654,463	88.2	96.3	94.7
Total stabilized portfolio	134	12,362,929	82.8%	89.2%	94.0%

	Average Occupancy			
	Stabilized Portfolio <sup>(1)</sup>		Core Portfolio <sup>(2)</sup>	
	2009	2008	2009	2008
Office Properties	83.3%	92.0%	84.0%	91.9%
Industrial Properties	89.8	93.0	89.8	96.5
Total	85.3%	92.3%	85.8%	93.3%

(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, 2008 and still owned and stabilized as of December 31, 2009.

As of December 31, 2009, the Office Properties and Industrial Properties represented approximately 88.6% and 11.4%, respectively, of our total annualized base rental revenue.

**Current Regional Information**

Over the last two years, fundamentals in the real estate market have deteriorated. We have generally seen an increase in vacancy rates across many of our regional submarkets, a decrease in occupancy within our regional portfolios as discussed below, as well as a downward trend in rental rates. Generally, we believe that there may continue to be increasing vacancy rates, downward trends in market rates, and continuing pressure on landlords for concession packages throughout 2010. See additional information regarding rental rates under the captions *Leasing Activity and Rental Rates* and *Scheduled Lease Expirations*.

*Los Angeles County.* Our Los Angeles County stabilized office portfolio of 3.0 million rentable square feet was 88.2% occupied with approximately 355,200 vacant rentable square feet as of December 31, 2009 compared to 92.1% occupied with approximately 236,800 vacant rentable square feet as of December 31, 2008. The decrease in Los Angeles County stabilized office portfolio occupancy is primarily attributable



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to one lease with one tenant that expired during the first quarter of 2009, which represented approximately 94,800 rentable square feet. Approximately 55,900 rentable square feet of the 94,800 rentable square feet has been re-leased to a new tenant. The new lease is expected to commence during the second quarter of 2010.

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As of December 31, 2009, an aggregate of approximately 602,500 and 240,300 rentable square feet are scheduled to expire in this region during 2010 and 2011, respectively. The aggregate rentable square feet scheduled to expire in this region during 2010 and 2011 represents approximately 30.5% of the total occupied rentable square feet in this region and 9.1% of our annualized base rental revenues for our total stabilized portfolio. Of the 842,800 rentable square feet scheduled to expire during 2010 and 2011, approximately 427,200 rentable square feet is located in the El Segundo submarket. Over the last two years, the El Segundo Class A office market has experienced an increase in total vacancy from 11.3% to 14.0%. Of the approximately 427,200 rentable square feet scheduled to expire in the El Segundo submarket, approximately 286,200 rentable square feet is occupied by The Boeing Company. We expect that The Boeing Company will move out of our building into space it currently owns. Since The Boeing Company and its predecessors have occupied the building for more than 25 years, we are planning to redevelop this property to upgrade and modernize the asset and to ensure it is well positioned as the El Segundo tenant base is currently diversifying from an aerospace industry concentration.

*San Diego County.* Our San Diego County stabilized office portfolio of 5.1 million rentable square feet was 76.8% occupied with approximately 1.2 million vacant rentable square feet as of December 31, 2009 compared to 83.1% occupied with approximately 849,800 vacant rentable square feet as of December 31, 2008. The decrease in occupancy from 2008 was primarily attributable to the following:

- termination of one lease with Accredited Home Lenders, Inc. for approximately 182,000 rentable square feet;
- expiration of one lease with Epicor Software Corporation for approximately 172,800 rentable square feet; and
- stabilization of one development property encompassing approximately 50,900 rentable square feet, which was not occupied as of December 31, 2009.

During 2009, demand in Central San Diego, where all our properties in this region are located, increased slightly, and leasing activity increased moderately although vacancy rates continued to increase. Lease negotiations continue to be protracted, and it is taking significantly longer for us to lease vacant space in San Diego County than in prior years. However, as of the date of this filing, the Company has leased approximately 288,500 rentable square feet of space that was vacant at December 31, 2009. The new leases are scheduled to commence at various dates during the first three quarters of 2010.

As of December 31, 2009, leases representing an aggregate of approximately 191,000 and 68,700 rentable square feet are scheduled to expire during 2010 and 2011, respectively, in this region. The aggregate rentable square feet scheduled to expire in this region during 2010 and 2011 represents approximately 6.7% of the total occupied rentable square feet in this region and 3.2% of our annualized base rental revenues for our total stabilized portfolio. Of the 259,700 rentable square feet scheduled to expire during 2010 and 2011, approximately 122,000 and 73,700 rentable square feet are located in the Sorrento Mesa and Del Mar submarkets, respectively. Over the last two years, the Sorrento Mesa two- and three-story office and Del Mar office markets have experienced an increase in total vacancy from 7.5% to 15.4% and 12.8% to 21.6%, respectively.

*Orange County.* As of December 31, 2009, our Orange County stabilized industrial portfolio was 87.6% occupied with approximately 429,900 vacant rentable square feet compared to 96.1% occupied with approximately 137,100 vacant rentable square feet as of December 31, 2008. The decrease in Orange County stabilized industrial portfolio occupancy is primarily attributable to two leases totaling approximately 175,800 rentable square feet that expired during the year ended December 31, 2009. Additionally, one tenant ceased paying rent and vacated an industrial building encompassing approximately 144,000 rentable square feet in this region during the third quarter of 2009. Approximately 153,300 rentable square feet of the 429,900 rentable square feet that was vacant at December 31, 2009 has been re-leased to a new tenant. The new lease is expected to commence during the third quarter of 2010. Our Orange County stabilized office portfolio of approximately

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277,300 rentable square feet was 49.8% occupied with approximately 139,100 vacant rentable square feet as of December 31, 2009 compared to 67.9% occupied with approximately 89,000 vacant rentable square feet as of December 31, 2008. The decrease in Orange County stabilized office portfolio occupancy is primarily attributable to one lease that expired during the third quarter.

As of December 31, 2009, leases representing an aggregate of approximately 259,700 and 393,800 rentable square feet are scheduled to expire during 2010 and 2011, respectively, in this region. The aggregate rentable square feet scheduled to expire during 2010 and 2011 represents approximately 20.6% of the total occupied rentable square feet in this region and 2.7% of the annualized base rental revenues for our total stabilized portfolio. Of the 653,500 rentable square feet scheduled to expire during 2010 and 2011, approximately 619,700 rentable square feet is industrial space. Within the overall Orange County market, direct vacancy for industrial space is currently 5.8% compared to 3.8% at December 31, 2008.

## **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 14 to our consolidated financial statements.

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*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 available for common stockholders for the years ended December 31, 2009 and 2008.

	Year Ended December 31,		Dollar	Percentage
	2009	2008	Change	Change
	(\$ in thousands)			
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 Available to Common Stockholders:				
Net Operating Income, as defined for reportable segments	203,229	212,763	(9,534)	(4.5)
Unallocated other income (loss):				
Interest income and other net investment gains (losses)	1,300	(93)	1,393	1,497.8
Gain on early extinguishment of debt	4,909		4,909	100.0
Other unallocated expenses:				
General and administrative expenses	39,938	38,260	1,678	4.4
Interest expense	46,119	45,346	773	1.7
Depreciation and amortization	87,627	83,215	4,412	5.3
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)
Net income attributable to noncontrolling common units of the Operating Partnership	(1,025)	(1,886)	861	45.7
Net income attributable to Kilroy Realty Corporation	36,990	45,025	(8,035)	(17.8)
Total preferred dividends and distributions	(15,196)	(15,196)		0.0
Net income available to common stockholders	\$ 21,794	\$ 29,829	\$ (8,035)	(26.9)%

**Table of Contents****Rental Operations***Office Properties*

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

**Office Properties**

	Total Office Portfolio				Core Office Portfolio <sup>(1)</sup>			
	2009	2008	Dollar Change	Percentage Change	2009	2008	Dollar Change	Percentage Change
<b>Operating revenues:</b>								
Rental income	\$ 220,393	\$ 223,245	\$ (2,852)	(1.3)%	\$ 199,825	\$ 215,038	\$ (15,213)	(7.1)%
Tenant reimbursements	24,350	26,898	(2,548)	(9.5)	22,286	25,776	(3,490)	(13.5)
Other property income	2,328	5,923	(3,595)	(60.7)	2,286	5,922	(3,636)	(61.4)
<b>Total</b>	<b>247,071</b>	<b>256,066</b>	<b>(8,995)</b>	<b>(3.5)</b>	<b>224,397</b>	<b>246,736</b>	<b>(22,339)</b>	<b>(9.1)</b>
<b>Property and related expenses:</b>								
Property expenses	45,970	45,437	533	1.2	43,561	44,727	(1,166)	(2.6)
Real estate taxes	21,181	19,169	2,012	10.5	18,571	18,334	237	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)
<b>Total</b>	<b>68,824</b>	<b>70,099</b>	<b>(1,275)</b>	<b>(1.8)</b>	<b>63,799</b>	<b>68,549</b>	<b>(4,750)</b>	<b>(6.9)</b>
<b>Net Operating Income</b>	<b>\$ 178,247</b>	<b>\$ 185,967</b>	<b>\$ (7,720)</b>	<b>(4.2)%</b>	<b>\$ 160,598</b>	<b>\$ 178,187</b>	<b>\$ (17,589)</b>	<b>(9.9)%</b>

(1) Office Properties owned and stabilized at January 1, 2008 and still owned and stabilized as of December 31, 2009.

**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 due to:

- A decrease of \$15.2 million attributable to the Office Properties owned and stabilized at January 1, 2008 and still owned and stabilized as of December 31, 2009 (the Core Office Portfolio ) due to:
  - A decrease of \$12.5 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 13 to our consolidated financial statements included with this report for additional information);

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- 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

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of two buildings that was added to the stabilized portfolio in the fourth quarter of 2008 (collectively, the 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 due to:

- A decrease of \$3.5 million attributable to the Core Office Portfolio primarily due to 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 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 due to:

- An increase of \$1.3 million attributable to the Office Development Properties;
- An increase of \$0.4 million attributable to the Office Redevelopment Properties; and
- An offsetting decrease of \$1.2 million attributable to the Core Office Portfolio primarily due to:
  - 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 due to a decrease in average occupancy as discussed above under the caption Rental Income; and
  - An offsetting increase of \$1.0 million primarily due 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 due to the Office Development Properties and the 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 due to changes in our estimates of collectability of receivables from certain watchlist tenants. The provision for

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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



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at one of our properties in San Diego (see Note 13 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 due to:

- A decrease of \$17.6 million attributable to the Core Office Portfolio primarily due 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 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 <sup>(1)</sup>			
	2009	2008	Dollar Change	Percentage Change	2009	2008	Dollar Change	Percentage Change
	(\$ in thousands)							
<b>Operating revenues:</b>								
Rental income	\$ 27,256	\$ 28,275	\$ (1,019)	(3.6)%	\$ 27,037	\$ 28,119	\$ (1,082)	(3.8)%
Tenant reimbursements	3,725	4,088	(363)	(8.9)	3,725	4,088	(363)	(8.9)
Other property income	1,382	926	456	49.2	1,382	873	509	58.3
<b>Total</b>	<b>32,363</b>	<b>33,289</b>	<b>(926)</b>	<b>(2.8)</b>	<b>32,144</b>	<b>33,080</b>	<b>(936)</b>	<b>(2.8)</b>
<b>Property and related expenses:</b>								
Property expenses	3,739	3,424	315	9.2	3,229	3,301	(72)	(2.2)
Real estate taxes	3,149	2,894	255	8.8	2,702	2,606	96	3.7
Provision for bad debts	493	175	318	181.7	493	175	318	181.7
<b>Total</b>	<b>7,381</b>	<b>6,493</b>	<b>888</b>	<b>13.7</b>	<b>6,424</b>	<b>6,082</b>	<b>342</b>	<b>5.6</b>
<b>Net Operating Income</b>	<b>\$ 24,982</b>	<b>\$ 26,796</b>	<b>\$ (1,814)</b>	<b>(6.8)%</b>	<b>\$ 25,720</b>	<b>\$ 26,998</b>	<b>\$ (1,278)</b>	<b>(4.7)%</b>

(1) Industrial Properties owned and stabilized at January 1, 2008 which are still owned and stabilized as of December 31, 2009.

**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 primarily due to 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, 2009 (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**

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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 due to the Core Industrial Portfolio primarily due to a decrease in average occupancy as discussed above under the caption Rental Income.

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### **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 due 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 is in the process of being 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 due to one building that was moved from our stabilized portfolio to the 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 due to 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 due to:

- A decrease of \$1.3 million attributable to the Core Industrial Portfolio primarily due to a decrease in average occupancy year over year; and
- A decrease of \$0.5 million attributable to our Industrial Reentitlement Property and one building that was moved from our stabilized portfolio to the redevelopment portfolio.

### **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 due to a \$7.0 million charge for separation payments (see Note 13 to our consolidated financial statements included in this report for additional information), partially offset by a decrease in incentive compensation expense year over year and severance costs paid in 2008.

**Table of Contents***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 due to 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 due to 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 and redevelopment properties (see additional information under the caption *Development and Redevelopment Programs*). We expect that average development asset balances qualifying for interest capitalization may continue to decrease over the next year as a result of a decrease in the level of our development activities.

*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 due to the Office Development Properties and the 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 due to an increase in the fair value of the marketable securities held in connection with the Kilroy Realty Corporation 2007 Deferred Compensation Plan (the *Deferred Compensation Plan*) during the year ended December 31, 2009.

*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 4 to our consolidated financial statements included in this report for additional information).

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*Year Ended December 31, 2008 Compared to Year Ended December 31, 2007*

The following table reconciles our Net Operating Income by segment to our net income available for common stockholders for the years ended December 31, 2008 and 2007.

	Year Ended December 31,		Dollar	Percentage
	2008	2007	Change	Change
	(\$ in thousands)			
Net Operating Income, as defined				
Office Properties	\$ 185,967	\$ 168,575	\$ 17,392	10.3%
Industrial Properties	26,796	24,475	2,321	9.5
Total portfolio	212,763	193,050	19,713	10.2
Reconciliation to Net Income Available to Common Stockholders:				
Net Operating Income, as defined for reportable segments	212,763	193,050	19,713	10.2
Unallocated other income (loss):				
Interest income and other net investment (losses) gains	(93)	1,606	(1,699)	(105.8)
Other unallocated expenses:				
General and administrative expenses	38,260	36,580	1,680	4.6
Interest expense	45,346	40,762	4,584	11.2
Depreciation and amortization	83,215	72,754	10,461	14.4
Income from continuing operations	45,849	44,560	1,289	2.9
Income from discontinued operations	1,062	78,757	(77,695)	(98.7)
Net income	46,911	123,317	(76,406)	(62.0)
Net income attributable to noncontrolling common units of the Operating Partnership	(1,886)	(6,957)	5,071	72.9
Net income attributable to Kilroy Realty Corporation	45,025	116,360	(71,335)	(61.3)
Total preferred dividends and distributions	(15,196)	(15,196)		0.0
Net income available to common stockholders	\$ 29,829	\$ 101,164	\$ (71,335)	(70.5)%

**Table of Contents****Rental Operations***Office Properties*

The following table compares the Net Operating Income for the Office Properties for the year ended December 31, 2008 and 2007.

	Total Office Portfolio				Core Office Portfolio <sup>(1)</sup>			
	2008	2007	Dollar Change	Percentage Change	2008	2007	Dollar Change	Percentage Change
	(\$ in thousands)							
<b>Operating revenues:</b>								
Rental income	\$ 223,245	\$ 202,601	\$ 20,644	10.2%	\$ 191,126	\$ 190,715	\$ 411	0.2%
Tenant reimbursements	26,898	21,804	5,094	23.4	21,879	20,068	1,811	9.0
Other property income	5,923	3,406	2,517	73.9	5,918	3,405	2,513	73.8
<b>Total</b>	<b>256,066</b>	<b>227,811</b>	<b>28,255</b>	<b>12.4</b>	<b>218,923</b>	<b>214,188</b>	<b>4,735</b>	<b>2.2</b>
<b>Property and related expenses:</b>								
Property expenses	45,437	40,675	4,762	11.7	43,750	40,009	3,741	9.4
Real estate taxes	19,169	16,825	2,344	13.9	15,674	15,560	114	0.7
Provision for bad debts	3,876	154	3,722	2,416.9	3,876	154	3,722	2,416.9
Ground leases	1,617	1,582	35	2.2	1,612	1,576	36	2.3
<b>Total</b>	<b>70,099</b>	<b>59,236</b>	<b>10,863</b>	<b>18.3</b>	<b>64,912</b>	<b>57,299</b>	<b>7,613</b>	<b>13.3</b>
<b>Net Operating Income</b>	<b>\$ 185,967</b>	<b>\$ 168,575</b>	<b>\$ 17,392</b>	<b>10.3%</b>	<b>\$ 154,011</b>	<b>\$ 156,889</b>	<b>\$ (2,878)</b>	<b>(1.8)%</b>

(1) Office Properties owned and stabilized at January 1, 2007 and still owned and stabilized as of December 31, 2009.

**Rental Income**

Rental income from Office Properties increased \$20.6 million, or 10.2%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 due to:

- An increase of \$18.4 million generated by the five office development properties that were added to the stabilized portfolio in the third quarter of 2007, the one office development property that was added to the stabilized portfolio in the third quarter of 2008, and one office development property that was added to the stabilized portfolio in the fourth quarter of 2008 (the 2008 Office Development Properties );
- An increase of \$1.8 million generated by the Office Redevelopment Properties; and
- An increase of \$0.4 million generated by the Core Office Portfolio which was primarily due to:
  - An increase of \$2.7 million of noncash revenue 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 13 to our consolidated financial statements included in

this report for additional information); and

- An offsetting net decrease of \$2.1 million attributable to the following changes in occupancy:
  - A decrease of \$4.0 million in rental income from our San Diego office portfolio primarily due to a decrease in average occupancy of 4.3% in the San Diego office portfolio to 89.0% for the year ended December 31, 2008 from 93.3% for the year ended December 31, 2007. The decrease in average occupancy is primarily attributable to six vacant buildings representing approximately 475,400 rentable square feet;

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- A decrease of \$0.8 million in rental income from our Orange County office portfolio primarily due to a decrease in average occupancy of 21.2% in the Orange County office portfolio to 77.5% for the year ended December 31, 2008 from 98.7% for the year ended December 31, 2007. The decrease in average occupancy is primarily attributable to one vacant building representing approximately 60,900 rentable square feet; and
- An offsetting increase of \$2.7 million in our Los Angeles office portfolio primarily due to an increase in rental rates and a modest increase in average occupancy of 0.4% in the Los Angeles office portfolio to 94.7% for the year ended December 31, 2008 from 94.3% for the year ended December 31, 2007.

### **Tenant Reimbursements**

Tenant reimbursements from Office Properties increased \$5.1 million, or 23.4%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 due to:

- An increase of \$3.3 million generated by the 2008 Office Development Properties and the Office Redevelopment Properties; and
- An increase of \$1.8 million generated by the Core Office Portfolio due to an increase in reimbursable property expenses as discussed below under the caption Property Expenses.

### **Other Property Income**

Other property income from Office Properties increased \$2.5 million, or 73.9%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. This increase was primarily due to a net lease termination fee related to an early lease termination at one of our Office Properties in Los Angeles County, of which \$5.0 million was recognized during the year ended December 31, 2008 (see Note 13 to our consolidated financial statements included in this report for additional information). During the year ended December 31, 2007, we recognized \$2.8 million in net lease termination fees from two early lease terminations at two of our Office Properties in San Diego. 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 \$4.8 million, or 11.7%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily due to:

- An increase of \$3.7 million generated by the Core Office Portfolio primarily due to:
  - A \$1.8 million increase attributable to general increases in certain recurring operating costs such as utilities, property management expenses, repairs and maintenance costs, and janitorial and other service-related costs;
  - A \$0.9 million increase due to nonreimbursable legal fees primarily related to tenant defaults; and
  - A \$0.8 million increase due to costs associated with nonrecurring repairs at three of our properties in San Diego; and
- An increase of \$0.9 million attributable to the 2008 Office Development Properties and the Office Redevelopment Properties.

### **Real Estate Taxes**



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Real estate taxes from Office Properties increased \$2.3 million, or 13.9%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily due to the 2008 Office Development Properties and Office Redevelopment Properties.

**Table of Contents****Provision for Bad Debts**

The provision for bad debts from Office Properties increased \$3.7 million, or 2,416.9%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 due to 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 balance related to an early termination at one of our properties in San Diego (see Note 13 to our consolidated financial statements included with this report for additional information).

**Net Operating Income**

Net Operating Income from Office Properties increased \$17.4 million, or 10.3%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 due to:

- An increase of \$18.2 million generated by the 2008 Office Development Properties;
- An increase of \$2.1 million generated by the Office Redevelopment Properties; and
- An offsetting decrease of \$2.9 million attributable to the Core Office Portfolio as discussed above.

*Industrial Properties*

The following table compares the Net Operating Income for the Industrial Properties for the year ended December 31, 2008 and 2007.

**Industrial Properties**

	Total Industrial Portfolio				Core Industrial Portfolio <sup>(1)</sup>			
	2008	2007	Dollar Change	Percentage Change	2008	2007	Dollar Change	Percentage Change
	(\$ dollars in thousands)							
<b>Operating revenues:</b>								
Rental income	\$ 28,275	\$ 26,525	\$ 1,750	6.6%	\$ 28,119	\$ 26,525	\$ 1,594	6.0%
Tenant reimbursements	4,088	3,468	620	17.9	4,088	3,468	620	17.9
Other property income	926	72	854	1,186.1	873	72	801	1,112.5
<b>Total</b>	<b>33,289</b>	<b>30,065</b>	<b>3,224</b>	<b>10.7</b>	<b>33,080</b>	<b>30,065</b>	<b>3,015</b>	<b>10.0</b>
<b>Property and related expenses:</b>								
Property expenses	3,424	2,601	823	31.6	3,301	2,294	1,007	43.9
Real estate taxes	2,894	2,670	224	8.4	2,606	2,523	83	3.3
Provision for bad debts	175	319	(144)	(45.1)	175	319	(144)	(45.1)
<b>Total</b>	<b>6,493</b>	<b>5,590</b>	<b>903</b>	<b>16.2</b>	<b>6,082</b>	<b>5,136</b>	<b>946</b>	<b>18.4</b>
<b>Net Operating Income</b>	<b>\$ 26,796</b>	<b>\$ 24,475</b>	<b>\$ 2,321</b>	<b>9.5%</b>	<b>\$ 26,998</b>	<b>\$ 24,929</b>	<b>\$ 2,069</b>	<b>8.3%</b>

(1) Industrial Properties owned and stabilized at January 1, 2007 and still owned and stabilized as of December 31, 2009.

**Rental Income**

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Rental income from Industrial Properties increased \$1.8 million, or 6.6%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. This increase was primarily attributable to an increase in rental rates in connection with new leases at two of our Orange County Industrial Properties and an increase in occupancy. Average occupancy in the Industrial Portfolio increased 0.7% to 93.0% for the year ended December 31, 2008 compared to 92.1% for the year ended December 31, 2007.

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### **Tenant Reimbursements**

Tenant reimbursements from Industrial Properties increased \$0.6 million, or 17.9%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. The increase in tenant reimbursements was primarily attributable to three leases where our operating expense agreements were either new or restructured at two of our Orange County Industrial Properties and a slight increase in reimbursable operating expenses.

### **Other Property Income**

Other property income from Industrial Properties increased \$0.9 million, or 1,186.1%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 due to an increase in lease termination fees and other miscellaneous income within the industrial portfolio.

### **Property Expenses**

Property expenses from Industrial Properties increased by \$0.8 million, or 31.6%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 due to:

- An increase of \$1.0 million generated by the Core Industrial Portfolio primarily due to:
  - A one-time credit of \$0.7 million during the year ended December 31, 2007 relating to a gain recognized for insurance proceeds received in excess of expenses incurred for one of our Industrial Properties that sustained damage due to a fire sprinkler rupture; and
  - An increase of \$0.2 million in repairs and maintenance, other service-related costs, and legal fees primarily related to tenant defaults; and
- An increase of \$0.5 million generated by one industrial building that was moved from our stabilized portfolio to the redevelopment portfolio; and
- An offsetting decrease of \$0.7 million attributable to the Industrial Reentitlement Property primarily due to a one-time credit in 2008 for insurance proceeds received in connection with a theft, which was previously recognized as a reduction of property expenses when the loss occurred.

### **Provision for Bad Debts**

The provision for bad debts from Industrial Properties decreased by \$0.1 million, or 45.1%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily due to changes in our estimates of the collectibility of receivables from certain watchlist tenants.

### **Net Operating Income**

Net Operating Income from Industrial Properties increased \$2.3 million, or 9.5%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily due to an increase in occupancy in the Core Industrial Portfolio as discussed above.

### **Other Income and Expenses**

*General and Administrative Expense*

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General and administrative expenses increased \$1.7 million, or 4.6%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily due to an increase in compensation-related expenses, including approximately \$1.0 million of severance costs for the year ended December 31, 2008.

**Table of Contents***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, 2008 and 2007.

	2008	2007	Dollar Change	Percentage Change
	(\$ in thousands)			
Gross interest expense	\$ 63,478	\$ 60,278	\$ 3,200	5.3%
Capitalized interest	(18,132)	(19,516)	1,384	(7.1)%
Interest expense	\$ 45,346	\$ 40,762	\$ 4,584	11.2%

Gross interest expense, before the effect of capitalized interest, increased \$3.2 million, or 5.3%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily due to an increase in our average debt balance due to our development activities during the period, offset by a decrease in our weighted-average interest rate from approximately 6.0% for the year ended December 31, 2007 to approximately 5.4% for the year ended December 31, 2008.

Capitalized interest decreased \$1.4 million, or 7.1%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 due to a decrease in our weighted average interest rate, which caused a corresponding decrease in the capitalization rate applied to our development and redevelopment asset balances qualifying for interest capitalization. In addition, our average development and redevelopment asset balances qualifying for interest capitalization decreased since, in the third and fourth quarters of 2008, we determined that certain development properties did not continue to qualify for interest capitalization under GAAP.

*Depreciation and Amortization Expense*

Depreciation and amortization expense increased \$10.5 million, or 14.4%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily due to:

- An increase of \$6.3 million from the 2008 Office Development Properties;
- An increase of \$2.8 million from the Core Office Portfolio and Core Industrial Portfolio, which was due primarily to changes in the estimated useful lives for certain unamortized leasing commissions; and
- An increase of \$0.8 million from the Office Redevelopment Properties.

*Interest Income and Other Investment Gains (Losses)*

Total interest income and other investment gains (losses) decreased approximately \$1.7 million, or 105.8%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily due to:

- A decrease of \$1.0 million in the fair value of the marketable securities held in connection with our Deferred Compensation Plan during the year ended December 31, 2008; and
- A decrease of \$0.5 million due to lower average cash balances and lower interest rates ended December 31, 2008 compared to the year ended December 31, 2007.



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### **Liquidity and Capital Resources**

#### ***General***

Our primary liquidity sources and uses are as follows:

#### ***Liquidity Sources***

- Net cash flow from operations;
- Borrowings under the Credit Facility;
- Proceeds from the disposition of nonstrategic assets;
- Proceeds from additional secured or unsecured debt financings; and
- Proceeds from public or private issuance of debt or equity securities.

#### ***Liquidity Uses***

- Operating and corporate expenses;
- Capital expenditures, tenant improvement, and leasing costs;
- Development and redevelopment costs;
- Debt service and principal payment, including debt maturities;
- Distributions to common and preferred stockholders and unitholders; and
- Property or undeveloped land acquisitions.

#### ***General Strategy***

Our general strategy is to maintain a conservative balance sheet and to seek to create 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 2010, as discussed further below under the caption *Liquidity Uses*, will be satisfied using cash flows generated from operating activities, availability under the Credit Facility (approximately \$453 million as of December 31, 2009), and, depending on market conditions, proceeds from dispositions of nonstrategic assets. We believe our conservative leverage provides 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 attractive acquisition



opportunities.

*2009 Financing Activities*

The following is a summary of our financing activities in 2009:

- In April 2009, we extended the term of one of our fixed-rate mortgage notes payable that was scheduled to mature in April 2009 by one year. In connection with the extension, we repaid \$10.0 million of the \$74.8 million principal balance outstanding at March 31, 2009.
- In the second quarter of 2009, our board of directors decreased our quarterly cash dividend to \$0.35 per common share. This represented an approximately 40% reduction from our quarterly cash dividend of \$0.58 per common share for stockholders of record for the prior quarter and is equivalent to an annual rate of \$1.40 per share.
- In June 2009, we completed an underwritten public offering of 10,062,500 shares of common stock. The net offering proceeds, after deducting underwriting discounts and commissions and offering expenses, were approximately \$191.7 million.

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- In November 2009, we issued \$172.5 million in aggregate stated principal amount of the 4.25% Exchangeable Notes.
- During the second half of 2009, we repurchased 3.25% Exchangeable Notes with an aggregate stated principal amount of \$162.0 million for approximately \$150.4 million in cash.

See Notes to our consolidated financial statements included in this report for additional information regarding these transactions.

*Capitalization*

As of December 31, 2009, our total debt as a percentage of total market capitalization was 39.0%, and our total debt and liquidation value of our preferred equity as a percentage of total market capitalization was 46.8%, which was calculated based on our closing price per share of our common stock of \$30.67 on December 31, 2009 as follows:

	Shares/Units at December 31, 2009	Aggregate Principal Amount or \$ Value Equivalent (\$ in thousands)	% of Total Market Capitalization
<b>Debt:</b>			
Credit Facility		\$ 97,000	3.8%
3.25% Exchangeable Notes <sup>(1)</sup>		298,000	11.5
4.25% Exchangeable Notes <sup>(2)</sup>		172,500	6.7
Unsecured Senior Notes due 2010		61,000	2.4
Unsecured Senior Notes due 2014		83,000	3.2
Secured debt		294,574	11.4
<b>Total debt</b>		<b>\$ 1,006,074</b>	<b>39.0</b>
<b>Equity and Noncontrolling Interest:</b>			
7.450% Series A Cumulative Redeemable Preferred Units <sup>(3)</sup>	1,500,000	\$ 75,000	2.9
7.800% Series E Cumulative Redeemable Preferred Stock <sup>(4)</sup>	1,610,000	40,250	1.6
7.500% Series F Cumulative Redeemable Preferred Stock <sup>(4)</sup>	3,450,000	86,250	3.3
Common Units Outstanding <sup>(5)</sup>	1,723,131	52,848	2.0
Common Shares Outstanding <sup>(5)</sup>	43,148,762	1,323,373	51.2
<b>Total equity and noncontrolling interests</b>		<b>1,577,721</b>	<b>61.0</b>
<b>Total Market Capitalization</b>		<b>\$ 2,583,795</b>	<b>100.0%</b>

(1) Represents gross aggregate principal amount before the effect of the unamortized discount of approximately \$13.9 million as of December 31, 2009.

(2) Represents gross aggregate principal amount before the effect of the unamortized discount of approximately \$20.1 million as of December 31, 2009

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

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

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(5) Value based on closing price per share of our common stock of \$30.67 as of December 31, 2009.

**Table of Contents***Debt Composition*

The composition of our aggregate debt balances between fixed- and variable-rate debt as of December 31, 2009 and 2008 were as follows:

	Percentage of Total Debt		Weighted Average Interest Rate	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Secured vs. unsecured:				
Unsecured <sup>(1)</sup>	70.7%	73.1%	3.8%	3.4%
Secured	29.3	26.9	5.7	5.9
Variable-rate vs. fixed-rate:				
Variable-rate	13.0	24.5	1.1	2.1
Fixed-rate <sup>(1)</sup>	87.0	75.5	4.8	4.7
Total debt interest rate <sup>(1)</sup>			4.3	4.1
Total debt interest rate including loan costs <sup>(1)</sup>			4.8	4.4
GAAP Effective Rate <sup>(2)</sup>			5.9%	5.2%

(1) Excludes the impact of the noncash debt discount on our Exchangeable Notes (see Notes 1 and 4 to our consolidated financial statements included in this report for additional information on the debt discount).

(2) Represents the GAAP effective interest rate for total debt, which includes the impact of the amortization of the noncash debt discount related to the accounting for the Exchangeable Notes.

*Credit Facility*

As of December 31, 2009, we had borrowings of \$97 million outstanding under our Credit Facility and a borrowing capacity of approximately \$453 million. In addition to the current borrowing capacity, we may also elect to borrow, subject to bank group approval, up to an additional \$100 million under an accordion feature. The Credit Facility bears interest at an annual rate between LIBOR plus 0.85% and LIBOR plus 1.35% depending upon our leverage ratio at the time of borrowing (1.11% and 2.12% as of December 31, 2009 and 2008, respectively). The fee for unused funds under the Credit Facility ranges from an annual rate of 0.15% to 0.20% depending on our leverage ratio.

The Credit Facility is scheduled to expire in April 2010. We have notified the lenders that we intend to exercise the option to extend the maturity date of the Credit Facility by one year for a one time extension fee of 0.15% of the total \$550 million Credit Facility. We have had preliminary discussions with lenders regarding a new line of credit. Based on these preliminary discussions, management believes it will be successful in securing a new line of credit, however, most likely with reduced borrowing capacity and at greater interest rate spreads due to current market conditions. The credit markets remain volatile, and there are no assurances that a replacement line of credit will be available at terms acceptable to us. If we are not successful in achieving the anticipated refinancing on favorable terms, there are options available to generate additional sources of liquidity, including equity offerings, dispositions of operating properties, joint venture investments, securing mortgages on assets currently unencumbered, modifying the nature and amount of dividends to be paid, and decreasing the amount of nonessential capital expenditures.

*Debt Maturities*

We had two secured loans, with a combined principal balance of \$96.7 million as of December 31, 2009, that were scheduled to mature in April 2010. One of these loans, with a principal balance of \$63.2 million, was repaid in January 2010 with funds from a new \$71.0 million mortgage loan scheduled to mature in 2017. In addition, one of our unsecured senior notes, with a principal balance of \$61.0 million, is scheduled to mature in August 2010. We are currently evaluating refinancing options and may use the borrowings under a new line of credit or our extended Credit Facility to repay the remaining principal amounts of the maturing loans.

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### *Factors That May Influence Future Sources of Capital and Liquidity*

The cost and availability of credit have been adversely affected by the continuing state of the capital and commercial lending markets. We continue to evaluate sources of financing for our business activities, including borrowings under the Credit Facility, fixed-rate secured mortgage financing, and public and private unsecured debt. However, our ability to obtain new financing or refinance existing borrowings on favorable terms could be impacted by various factors including the continuing recessionary conditions, significant tenant defaults, a further decline in the demand for office or industrial properties, and a decrease in market rental rates or market values of real estate assets in our submarkets. These events could result in the following:

- further 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 our ability to incur additional debt or refinance existing debt at competitive rates.

### *Debt Covenants*

Our 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 financial covenants and their covenant levels include:

<b>Covenant</b>	<b>Covenant Level</b>	<b>Actual Performance at December 31, 2009</b>
Total debt to total asset value <sup>(1)</sup>	< 60%	36%
Fixed charge coverage ratio	> 1.5X	2.4X
Minimum consolidated tangible net worth	> \$700 million + 75% of	
	all Net Offering Proceeds <sup>(2)</sup>	\$1.8 billion
Dividend coverage ratio	< 95% of FFO	63% of FFO
Unsecured debt ratio <sup>(1)(3)</sup>	> 1.67X	3.09X
Unencumbered asset pool debt service coverage <sup>(4)</sup>	<sup>3</sup> 2.0X	5.7X

(1) In the event of an acquisition of one or more properties for \$150 million or more, the total debt to total asset value may exceed 60% for up to two consecutive quarters but in no event exceed 65%, and the unsecured debt ratio may be less than 1.67X for up to two consecutive quarters but in no event be less than 1.54X.

(2) This covenant level was calculated at \$974 million as of December 31, 2009.

(3) The unsecured debt ratio is calculated by dividing the total unsecured asset pool value by the amount of unsecured senior debt.

(4) The unencumbered asset pool debt service coverage is calculated by dividing the unencumbered asset pool net operating cash flows by the unsecured debt service.

We were in compliance with all our debt covenants as of December 31, 2009. Our current expectation is that we will continue to meet requirements of our debt covenants in both the short and long term. However, in the event of a continued economic slow down and a continued crisis in the credit markets, there is no certainty that we will be able to continue to satisfy all the covenant requirements.



**Table of Contents****Liquidity Uses****Contractual Obligations**

The following table provides information with respect to our contractual obligations as of December 31, 2009. The table indicates: (i) the maturities and scheduled principal repayments of our secured debt, Exchangeable Notes, unsecured senior notes, and Credit Facility; (ii) scheduled interest payments of our fixed-rate and variable-rate debt as of December 31, 2009; and (iii) provides information about the minimum commitments due in connection with our ground lease obligations and other lease and contractual commitments as of December 31, 2009. Note that the table does not reflect our available debt maturity extension options.

	Payment Due by Period				Total
	Less than 1 Year (2010)	1 3 Years (2011-2012)	3 5 Years (2013-2014) (in thousands)	More than 5 Years (After 2014)	
Principal payments secured debt	\$ 102,587	\$ 177,602	\$ 4,759	\$ 9,626	\$ 294,574
Principal payments Exchangeable Notes <sup>(1)</sup>		298,000	172,500		470,500
Principal payments unsecured senior notes	61,000		83,000		144,000
Principal payments Credit Facility <sup>(2)</sup>	97,000				97,000
Interest payments fixed-rate debt <sup>(3)</sup>	39,006	56,315	23,375	3,473	122,169
Interest payments variable-rate debt <sup>(4)</sup>	618				618
Ground lease obligations <sup>(5)</sup>	1,115	1,861	1,582	50,260	54,818
Lease and contractual commitments <sup>(6)</sup>	55,037				55,037
Separation payments <sup>(7)</sup>	5,650				5,650
Total	\$ 362,013	\$ 533,778	\$ 285,216	\$ 63,359	\$ 1,244,366

- (1) Represents gross aggregate principal amount before the effect of the unamortized discount of approximately \$34.1 million as of December 31, 2009.
- (2) These amounts do not reflect our option to extend the maturity of the Credit Facility by one year. We have notified the lenders that we intend to exercise the extension option.
- (3) As of December 31, 2009, 87.0% 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.
- (4) As of December 31, 2009, 13.0% of our debt bore interest at variable rates. The variable interest rate payments are based on LIBOR plus a spread that ranged from 0.75% to 0.85% as of December 31, 2009. 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, 2009, the scheduled interest payment dates, projected LIBOR rates, and the contractual maturity dates.
- (5) We have noncancelable ground lease obligations for the Kilroy Airport Center in Long Beach, California with a lease period for Phases I, II, and III expiring in July 2084. See Note 11 to our consolidated financial statements included with this report.
- (6) Amounts represent commitments under signed leases and contracts for operating properties, excluding tenant-funded tenant improvements.

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(7) Represents the portion of the \$7.0 million charge to be paid in 2010 related to separation payments. See Note 13 in our consolidated financial statements included in this report for additional information.

### *Potential Future Capital Requirements*

Given the current economic conditions, the amounts we are required to spend on tenant improvements and leasing costs are expected to continue to increase in the near future from 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.



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The following tables set forth the capital expenditures, tenant improvements, and leasing costs, excluding tenant-funded tenant improvements, for renewed and retented space within our stabilized portfolio for each of the three years during the period ended December 31, 2009 on a per square foot basis.

	Year Ended December 31,		
	2009	2008	2007
<b>Office Properties:</b>			
Capital Expenditures:			
Capital expenditures per square foot	\$ 0.86	\$ 0.91	\$ 0.82
Tenant Improvement and Leasing Costs <sup>(1)</sup> :			
Replacement tenant square feet	221,229	180,696	405,868
Tenant improvements per square foot leased	\$ 27.47	\$ 24.21	\$ 20.94
Leasing commissions per square foot leased	\$ 9.64	\$ 11.52	\$ 10.99
Total per square foot	37.11	\$ 35.73	\$ 31.93
Renewal tenant square feet	680,977	349,009	658,276
Tenant improvements per square foot leased	\$ 10.38	\$ 5.74	\$ 6.15
Leasing commissions per square foot leased	\$ 8.00	\$ 4.55	\$ 3.63
Total per square foot	\$ 18.38	\$ 10.29	\$ 9.77
Total per square foot per year	\$ 4.18	\$ 4.30	\$ 2.88
Average remaining lease term (in years)	5.5	4.4	6.3
<b>Industrial Properties:</b>			
Capital Expenditures:			
Capital expenditures per square foot	\$ 0.85	\$ 0.28	\$ 0.23
Tenant Improvement and Leasing Costs <sup>(1)</sup> :			
Replacement tenant square feet	\$ 248,380	212,698	283,879
Tenant improvements per square foot leased	\$ 2.54	\$ 2.52	\$ 3.08
Leasing commissions per square foot leased	\$ 2.19	\$ 2.31	\$ 2.26
Total per square foot	\$ 4.73	\$ 4.83	\$ 5.35
Renewal tenant square feet	545,143	728,363	243,823
Tenant improvements per square foot leased	\$ 1.49	\$ 2.55	\$ 1.29
Leasing commissions per square foot leased	\$ 3.02	\$ 1.37	\$ 0.64
Total per square foot	\$ 4.50	\$ 3.91	\$ 1.94
Total per square foot per year	\$ 0.74	\$ 0.79	\$ 0.82
Average remaining lease term (in years)	6.2	5.3	4.6

(1) Includes only tenants with lease terms of 12 months or longer. Excludes leases for month-to-month and first generation tenants.

We currently project we could spend up to \$20 million in capital improvements, tenant improvements, and leasing costs for properties within our stabilized portfolio in 2010, depending on leasing activity, in addition to the \$55 million of commitments discussed under capital commitments.

As of December 31, 2009, we did not have any development or redevelopment projects under construction and have not committed to start construction on any development projects in 2010. Over the next two years, we are planning to redevelop certain properties that have been occupied by long-term tenants and require significant capital expenditures to upgrade and modernize the buildings. We currently project we could spend up to \$10 million in 2010 on redevelopment activities. We are also focusing on enhancing the entitlements for our existing development land pipeline and the one property we are in the process of reentitling for residential use. We currently estimate we could spend approximately \$4 million related to the entitlement processes and other development activities in 2010. Depending upon market conditions, we may have additional spending for our future development pipeline during 2010 and beyond.

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We continually evaluate the size, timing, costs, and scope of our development and redevelopment programs and, as necessary, scale activity to reflect the market conditions and the real estate fundamentals that exist in our strategic submarkets. See additional information under the caption

Factors That May Influence Future Results of Operations Development and Redevelopment Programs and information regarding our sources of capital under the caption Liquidity and Capital Resources Liquidity Sources above.

### *Distribution Requirements*

We are required to distribute 90% of our REIT taxable income (excluding capital gains) on an annual basis to maintain our qualification as a REIT for federal income tax purposes. For distributions with respect to taxable years ending on or before December 31, 2011, IRS guidance allows us to satisfy up to 90% of this requirement through the distribution of shares of our common stock, if certain conditions are met. We intend to continue to make, but have not committed ourselves 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. We may be required to use borrowings under the Credit Facility, if necessary, to meet REIT distribution requirements and maintain our REIT status. We have historically distributed amounts in excess of our taxable income resulting in a return of capital to our stockholders and currently believe we have the ability to maintain our distributions at the 2009 levels to meet our REIT requirements for 2010. We consider market factors and our 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 our intention to maintain our 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 January 15, 2010, we paid a regular quarterly cash dividend of \$0.350 per common share to stockholders of record on December 31, 2009. This dividend is equivalent to an annual rate of \$1.40 per share.

In addition, we are required to make quarterly distributions to our Series A Preferred unitholders and Series E and Series F Preferred stockholders, which in aggregate total approximately \$15 million of annualized preferred dividends and distributions.

### *Other Potential Liquidity Uses*

We continue to position ourselves to take advantage of attractive acquisition opportunities to expand our portfolio and, under the right conditions, may act on such opportunities.

We may seek to repurchase additional Exchangeable Notes 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 opt to repurchase the 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, 2009. We may opt to repurchase additional shares of our common stock in the future depending upon market conditions.

**Table of Contents****Historical Cash Flow Summary**

Our historical cash flow activity for the year ended December 31, 2009 as compared to the year ended December 31, 2008 is as follows:

	Year Ended December 31,			Percentage Change
	2009	2008	Dollar Change (\$ in thousands)	
Net cash provided by operating activities	\$ 124,965	\$ 144,481	\$ (19,516)	(13.5)%
Net cash used in investing activities	(50,474)	(93,825)	43,351	(46.2)
Net cash used in financing activities	(74,161)	(52,835)	(21,326)	40.4

*Operating Activities*

Our cash flows from operations is primarily dependent on the occupancy level of our portfolio, the rental rates achieved on our leases, the collectability of rent and recoveries from our tenants and the level of operating expenses, and other general and administrative costs. Our net cash provided by operating activities decreased by \$19.5 million, or 13.5%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily attributable to decreases in average occupancy and cash received for lease termination fees. In addition, we received less cash for tenant-funded tenant improvements during the period due to a decrease in our development activity. While our portfolio has historically generated positive cash flows, in the event of a continued economic slow-down, our occupancy rates or rental rates may decline further, which could result in a further decrease in net cash flows provided by operating activities. At December 31, 2009, our portfolio was 82.8% occupied. See additional information under the captions *Current Regional Information* and *Rental Operations*.

*Investing Activities*

Our net cash used in investing activities is generally used to fund development and redevelopment projects and recurring and nonrecurring capital expenditures for our operating properties. Our net cash used in investing activities decreased \$43.4 million, or 46.2%, for the year ended December 31, 2009 compared to the year ended December 31, 2008. This net decrease was primarily comprised of the following:

- A decrease of \$51.1 million in development expenditures. Given the current economic environment and market conditions, we currently expect that our development spending will continue to be lower in 2010 as compared to our historical development spending levels. See additional information under the caption *Development and Redevelopment Programs*;
- An increase of \$4.9 million in net proceeds from the disposition of operating properties related to the sale of 12400 Industry Street in 2009; and
- An offsetting increase of \$10.6 million in capital expenditures for operating properties primarily due to capital expenditure projects at our Office Properties (see additional information under the caption *Potential Future Capital Requirements* ).

*Financing Activities*

Our net cash for financing activities is generally impacted by our capital raising activities net of dividends and distributions paid to common and preferred stockholders and unitholders. Net cash used in financing activities increased by \$21.3 million, or 40.4%, for the year ended December 31, 2009 compared to the year ended December 31, 2008. This overall net change in financing activities was primarily due to a decrease in development expenditures, which required us to borrow less from our Credit Facility during 2009. See additional information under the caption *Liquidity and Capital Resources 2009 Financing Activities*.

**Table of Contents****Off-Balance Sheet Arrangements**

As of December 31, 2009 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, 2009, 2008, 2007, 2006, and 2005:

	2009	2008	Year ended December 31,		2005
			2007	2006	
			(in thousands)		
Net income available for common stockholders	\$ 21,794	\$ 29,829	\$ 101,164	\$ 72,256	\$ 24,211
Adjustments:					
Net income attributable to noncontrolling common units of the Operating Partnership	1,025	1,886	6,957	5,990	3,149
Depreciation and amortization of real estate assets	86,825	82,491	73,708	71,197	67,007
Net gain on dispositions of discontinued operations	(2,485)	(234)	(74,505)	(31,259)	(30,764)
Funds From Operations <sup>(1)</sup>	\$ 107,159	\$ 113,972	\$ 107,324	\$ 118,184	\$ 63,603

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

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The following table presents our weighted average common shares and common units outstanding for the years ended December 31, 2009, 2008, 2007, 2006, and 2005:

	<b>Year Ended December 31,</b>				
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>
Weighted average common shares outstanding	38,705,101	32,466,591	32,379,997	31,244,062	28,710,726
Weighted average common units outstanding	1,731,095	2,065,188	2,235,772	2,598,313	3,749,627
Effect of participating securities nonvested shares and restricted stock units	785,582	372,444	312,552	154,079	168,117
Total basic weighted average shares / units outstanding	41,221,778	34,904,223	34,928,321	33,996,454	32,628,470
Effect of dilutive securities stock options and contingently issuable shares	27,025	74,281	28,969	48,566	51,864
Total diluted weighted average shares / units outstanding	41,248,803	34,978,504	34,957,290	34,045,020	32,680,334

**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.

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**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, 2009 and 2008, we did not have any derivative instruments.

Information about our changes in interest rate risk exposures from December 31, 2008 to December 31, 2009 is incorporated herein by reference from Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources.

**Market Risk**

As of December 31, 2009, approximately 13.0% of our total outstanding debt of \$1.0 billion was subject to variable interest rates. The remaining 87.0% 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, 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 standing, the maturity of the debt, 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. See Note 12 to our consolidated financial statements included in this report for additional information on the fair value of our financial instruments as of December 31, 2009 and 2008.

The total outstanding balance of our variable-rate debt, which includes our Credit Facility and one secured line of credit, was approximately \$130.5 million and \$287.5 million as of December 31, 2009 and 2008, respectively. The interest rates on our variable-rate debt are indexed to LIBOR plus spreads of 0.75% to 0.85% (weighted average interest rate was 1.1% and 2.1% as of December 31, 2009 and 2008, respectively). Assuming no changes in the outstanding balance of our existing variable-rate debt as of December 31, 2009, a 100 basis point increase in the LIBOR rate would increase our projected annual interest expense, before the effect of capitalization, by approximately \$1.3 million. Comparatively, if interest rates were 100 basis points higher as of December 31, 2008, our projected annual interest expense, before the effect of capitalization, would have been \$2.9 million higher. Our total variable-rate debt is currently scheduled to mature in April 2010. Our Credit Facility, which had a principal balance of \$97.0 million as of December 31, 2009, has a one year extension option. We have notified the lenders that we intend to exercise this option and extend the maturity of the Credit Facility through April 2011. For additional information, see Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations – Liquidity and Capital Resources.

The total carrying value of our fixed-rate debt, including our Exchangeable Notes, was approximately \$841.5 million and \$854.8 million as of December 31, 2009 and 2008, respectively. The total estimated fair value of our fixed-rate debt was approximately \$842.1 million and \$680.7 million as of December 31, 2009 and 2008, 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 \$20.2 million, or 2.4%, as of December 31, 2009. 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 \$16.8 million, or 2.5%, as of December 31, 2008.

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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**

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the 1934 Act) that are designed to ensure that information required to be disclosed in our reports under the 1934 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, the 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 our internal control over financial reporting identified in connection with the evaluation referenced above that has materially affected, or is reasonably likely to materially affect, our 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 and effected by the 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

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appropriate segregation of responsibilities and duties. We have 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 our internal control over financial reporting operated effectively as of December 31, 2009.

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

February 11, 2010



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**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, 2009, 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, 2009, 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, 2009, of the Company and our report dated February 11, 2010, expressed an unqualified opinion on those financial statements and financial statement schedules and included an explanatory paragraph regarding the Company's adoption of new accounting provisions.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California

February 11, 2010

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**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 2010.

**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 2010.

**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 2010.

**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 2010.

**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 2010.

**Table of Contents****PART IV****ITEM 15. EXHIBITS AND 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:

<u>Report of Independent Registered Public Accounting Firm</u>	F-2
<u>Consolidated Balance Sheets as of December 31, 2009 and 2008</u>	F-3
<u>Consolidated Statements of Operations for the Years Ended December 31, 2009, 2008, and 2007</u>	F-4
<u>Consolidated Statements of Equity for the Years Ended December 31, 2009, 2008, and 2007</u>	F-5
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2009, 2008, and 2007</u>	F-6
<u>Notes to Consolidated Financial Statements</u>	F-8
<u>Schedule II Valuation and Qualifying Accounts</u>	F-46
<u>Schedule III Real Estate and Accumulated Depreciation</u>	F-47

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*

<b>Exhibit Number</b>	<b>Description</b>
3.(i)1*	Kilroy Realty Corporation Articles of Restatement
3.(ii).1	Second Amended and Restated Bylaws of the Registrant <sup>(31)</sup>
3.(ii).2	Amendment No. 1 to Second Amended and Restated Bylaws <sup>(35)</sup>
4.1	Form of Certificate for Common Stock of the Registrant <sup>(1)</sup>
4.2	Registration Rights Agreement dated January 31, 1997 <sup>(1)</sup>
4.3	Registration Rights Agreement dated February 6, 1998 <sup>(3)</sup>
4.4	Second Amended and Restated Registration Rights Agreement dated as of March 5, 2004 <sup>(2)</sup>
4.5	Registration Rights Agreement dated as of October 31, 1997 <sup>(4)</sup>
4.6	Rights Agreement dated as of October 2, 1998 between Kilroy Realty Corporation and ChaseMellon Shareholder Services, L.L.C., as Rights Agent, which includes the form of Articles Supplementary of the Series B Junior Participating Preferred Stock of Kilroy Realty Corporation as Exhibit A, the form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Shares as Exhibit C <sup>(5)</sup>
4.7	Registration Rights Agreement dated as of October 6, 2000 <sup>(6)</sup>
4.8	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
4.9	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 <sup>(7)</sup>

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<b>Exhibit Number</b>	<b>Description</b>
4.10	Form of 5.72% Series A Guaranteed Senior Note due 2010 <sup>(7)</sup>
4.11	Form of 6.45% Series B Guaranteed Senior Note due 2014 <sup>(7)</sup>
4.12	Kilroy Realty 2006 Incentive Award Plan <sup>(24)</sup>
4.13	Amendment to Kilroy Realty 2006 Incentive Award Plan <sup>(26)</sup>
4.14	Second Amendment to Kilroy Realty 2006 Incentive Award Plan <sup>(30)</sup>
4.15	Third Amendment to Kilroy Realty 2006 Incentive Award Plan <sup>(35)</sup>
4.16	Form of Restricted Stock Award Agreement <sup>(25)</sup>
4.17	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 <sup>(28)</sup>
4.18	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. <sup>(28)</sup>
4.19	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 4.25% Exchangeable Senior Notes due 2014 and the form of related guarantee <sup>(39)</sup>
4.20	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 <sup>(39)</sup>
10.1	Fifth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P. dated as of March 5, 2004 <sup>(2)</sup>
10.2	First Amendment to Fifth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P., dated as of December 7, 2004 <sup>(8)</sup>
10.3	Second Amendment to Fifth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P., dated as of October 2, 2008 <sup>(34)</sup>
10.4	Third Amendment to Fifth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P. <sup>(36)</sup>
10.5	Omnibus Agreement dated as of October 30, 1996 by and among Kilroy Realty, L.P. and the parties named therein <sup>(1)</sup>
10.6	Supplemental Representations, Warranties and Indemnity Agreement by and among Kilroy Realty, L.P. and the parties named therein <sup>(1)</sup>
10.7	Pledge Agreement by and among Kilroy Realty, L.P., John B. Kilroy, Sr., John B. Kilroy, Jr. and Kilroy Industries <sup>(1)</sup>
10.8	1997 Stock Option and Incentive Plan of the Registrant and Kilroy Realty, L.P. <sup>(1)</sup>
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 <sup>(9)</sup>
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 <sup>(9)</sup>
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 <sup>(10)</sup>

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<b>Exhibit Number</b>	<b>Description</b>
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 <sup>(10)</sup>
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 <sup>(10)</sup>
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 <sup>(10)</sup>
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 <sup>(10)</sup>
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 <sup>(10)</sup>
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 <sup>(10)</sup>
10.18	Development Agreement by and between Kilroy Long Beach Associates and the City of Long Beach <sup>(10)</sup>
10.19	Amendment No. 1 to Development Agreement by and between Kilroy Long Beach Associates and the City of Long Beach <sup>(10)</sup>
10.20	Property Management Agreement between Kilroy Realty Finance Partnership, L.P. and Kilroy Realty, L.P. <sup>(11)</sup>
10.21	Form of Environmental Indemnity Agreement <sup>(11)</sup>
10.22	Option Agreement by and between Kilroy Realty, L.P. and Kilroy Airport Imperial Co. <sup>(12)</sup>
10.23	Option Agreement by and between Kilroy Realty, L.P. and Kilroy Calabasas Associates <sup>(12)</sup>
10.24	Noncompetition Agreement by and between the Registrant and John B. Kilroy, Sr. <sup>(1)</sup>
10.25	Noncompetition Agreement by and between the Registrant and John B. Kilroy, Jr. <sup>(1)</sup>
10.26	License Agreement by and among the Registrant and the other persons named therein <sup>(12)</sup>
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. <sup>(13)</sup>
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. <sup>(13)</sup>
10.29	Purchase and Sale Agreement and Escrow Instructions dated May 5, 1997 by and between Kilroy Realty L.P. and Pullman Carnegie Associates <sup>(14)</sup>
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. <sup>(14)</sup>
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. <sup>(15)</sup>
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. <sup>(15)</sup>
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. <sup>(15)</sup>

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<b>Exhibit Number</b>	<b>Description</b>
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. <sup>(14)</sup>
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. <sup>(14)</sup>
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. <sup>(14)</sup>
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 <sup>(16)</sup>
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 <sup>(16)</sup>
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 <sup>(16)</sup>
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 <sup>(16)</sup>
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 <sup>(16)</sup>
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 <sup>(16)</sup>
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 <sup>(16)</sup>
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 <sup>(16)</sup>
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 <sup>(16)</sup>
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 <sup>(16)</sup>
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 <sup>(17)</sup>
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. <sup>(18)</sup>
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 <sup>(19)</sup>
10.50	Secured Promissory Notes and Deeds of Trusts Aggregating \$80.0 Million payable to Metropolitan Life Insurance Company dated January 10, 2002 <sup>(20)</sup>
10.51	Secured Promissory Notes and Deeds of Trust Aggregating \$115 million payable to Teachers Insurance and Annuity Association of America <sup>(21)</sup>

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<b>Exhibit Number</b>	<b>Description</b>
10.52	Fourth Amended and Restated Revolving Credit Agreement dated October 22, 2004 <sup>(22)</sup>
10.53	Fourth Amended and Restated Guaranty of Payment dated October 22, 2004 <sup>(22)</sup>
10.54	Amendment No. 1 to Fourth Amended and Restated Credit Agreement dated June 30, 2005 <sup>(38)</sup>
10.55	Amendment No. 2 to Fourth Amended and Restated Credit Agreement dated April 26, 2006 <sup>(23)</sup>
10.56	Amendment No. 3 to Fourth Amended and Restated Credit Agreement <sup>(37)</sup>
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 <sup>(27)</sup>
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 <sup>(40)</sup>
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 <sup>(40)</sup>
10.60	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Jeffrey C. Hawken effective as of January 1, 2007 <sup>(27)</sup>
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 <sup>(40)</sup>
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 <sup>(27)</sup>
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 <sup>(40)</sup>
10.64	Letter confirmation dated March 27, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and JPMorgan Chase Bank, National Association, London Branch <sup>(28)</sup>
10.65	Letter confirmation dated March 27, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and Bank of America, N.A. <sup>(28)</sup>
10.66	Letter confirmation dated March 27, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and Lehman Brothers OTC Derivatives Inc. <sup>(28)</sup>
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 <sup>(29)</sup>
10.68	Amendment to letter confirmation dated April 4, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and Bank of America, N.A. <sup>(29)</sup>
10.69	Amendment to letter confirmation dated April 4, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and Lehman Brothers OTC Derivatives Inc. <sup>(29)</sup>
10.70	Kilroy Realty Corporation 2007 Deferred Compensation Plan <sup>(32)</sup>
10.71	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Steven R. Scott effective as of January 1, 2007 <sup>(32)</sup>
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 <sup>(40)</sup>
10.73	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Tyler H. Rose effective as of January 1, 2007 <sup>(32)</sup>
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 <sup>(40)</sup>

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<b>Exhibit Number</b>	<b>Description</b>
10.75	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Heidi Roth effective as of January 1, 2007 <sup>(32)</sup>
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 <sup>(40)</sup>
10.77	Kilroy Realty Corporation Stock Award Deferral Program <sup>(33)</sup>
10.78	Ground Lease by and between Frederick Boysen and Ted Boysen and Kilroy Industries dated May 15, 1969 for SeaTac Office Center <sup>(9)</sup>
10.79	Amendment No. 1 to Ground Lease and Grant of Easement dated April 27, 1973 among Frederick Boysen and Dorothy Boysen, Ted Boysen and Rose Boysen and Sea/Tac Properties <sup>(9)</sup>
10.80	Amendment No. 2 to Ground Lease and Grant of Easement dated May 17, 1977 among Frederick Boysen and Dorothy Boysen, Ted Boysen and Rose Boysen and Sea/Tac Properties <sup>(9)</sup>
10.81	Airspace lease dated July 10, 1980 by and among the Washington State Department of Transportation, as lessor, and Sea/Tac Properties, Ltd. and Kilroy Industries, as lessee <sup>(9)</sup>
10.82	Memorandum of Lease dated April 1, 1980 by and among Bow Lake, Inc., as lessor, and Kilroy Industries and Sea/Tac Properties, Ltd., as lessees for Sea/Tac Office Center <sup>(9)</sup>
10.83	Amendment No. 1 to Ground Lease dated September 17, 1990 between Bow Lake, Inc., as lessor, and Sea/Tac Properties, Ltd., as lessee <sup>(9)</sup>
10.84	Amendment No. 2 to Ground Lease dated March 21, 1991 between Bow Lake, Inc., as lessor, and Sea/Tac Properties, Ltd., as lessee <sup>(9)</sup>
10.85	Letter confirmation dated November 16, 2009, among Kilroy Realty, L.P., Kilroy Realty Corporation and JPMorgan Chase Bank, National Association, London Branch <sup>(39)</sup>
10.86	Letter confirmation dated November 16, 2009, among Kilroy Realty, L.P., Kilroy Realty Corporation and Bank of America, N.A. <sup>(39)</sup>
10.87	Letter confirmation dated November 20, 2009, among Kilroy Realty, L.P., Kilroy Realty Corporation and JPMorgan Chase Bank, National Association, London Branch <sup>(39)</sup>
10.88	Letter confirmation dated November 20, 2009, among Kilroy Realty, L.P., Kilroy Realty Corporation and Bank of America, N.A. <sup>(39)</sup>
10.89 *	Form of Indemnification Agreement of Kilroy Realty Corporation with certain officers and directors
10.90 *	Separation Agreement and Release dated December 16, 2009 by and between Richard E. Moran Jr., Kilroy Realty, L.P. and Kilroy Realty Corporation
10.91*	Deed of Trust and Security Agreement dated January 26, 2010 between Kilroy Realty, L.P. and The Northwestern Mutual Life Insurance Company; related Promissory Note dated January 26, 2010 for \$71 million payable to The Northwestern Mutual Life Insurance Company; and related Guarantee of Recourse Obligations dated January 26, 2010 by Kilroy Realty Corporation
12.1*	Statement of Computation of Consolidated Ratio of Earnings to Combined Fixed Charges and Preferred Dividends
21.1*	List of Subsidiaries of the Registrant
23.1*	Consent of Deloitte & Touche LLP
24.1*	Power of Attorney (included on the signature page of this Form 10-K)
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1*	Section 1350 Certification of Chief Executive Officer
32.2*	Section 1350 Certification of Chief Financial Officer





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\* Filed herewith

Management contract or compensatory plan or arrangement.

- (1) Previously filed as an exhibit to the Registration Statement on Amendment No. 3 to Form S-11 (No. 333-15553).
- (2) Previously filed as an exhibit on Form 10-K for the year ended December 31, 2003.
- (3) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on February 11, 1998.
- (4) Previously filed as an exhibit on Form 8-K/A as filed with the Securities and Exchange Commission on December 19, 1997.
- (5) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on October 8, 1998.
- (6) Previously filed as an exhibit on Form 10-K for the year ended December 31, 2000.
- (7) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on August 11, 2004.
- (8) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 9, 2004.
- (9) Previously filed as an exhibit to the Registration Statement on Amendment No. 2 to Form S-11 (No. 333-15553).
- (10) Previously filed as an exhibit to the Registration Statement on Form S-11 (No. 333-15553).
- (11) Previously filed as an exhibit to the Registration Statement on Amendment No. 5 to Form S-11 (No. 333-15553).
- (12) Previously filed as an exhibit to the Registration Statement on Amendment No. 4 to Form S-11 (No. 333-15553).
- (13) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on June 6, 1997.
- (14) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on July 15, 1997.
- (15) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on July 3, 1997.

## Edgar Filing: KILROY REALTY CORP - Form 10-K

- (16) Previously filed as an exhibit on Form 10-Q for the quarter ended September 30, 1997.
- (17) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on November 21, 1997.
- (18) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 29, 1997.
- (19) Previously filed as an exhibit on Form 10-Q for the quarter ended September 30, 1998.
- (20) Previously filed as an exhibit on Form 10-K for the year ended December 31, 2001.
- (21) Previously filed as an exhibit on Form 10-Q for the quarter ended March 31, 2004.
- (22) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on October 28, 2004.
- (23) Previously filed as an exhibit on Form 10-Q for the quarter ended March 31, 2006.
- (24) Previously filed as an exhibit to the Registration Statement on Form S-8 filed with the Securities and Exchange Commission on June 28, 2006.
- (25) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on February 8, 2007.
- (26) Previously filed as an exhibit on Form 10-K for the year ended December 31, 2006.
- (27) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on March 22, 2007.
- (28) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on April 5, 2007.
- (29) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on April 11, 2007.
- (30) Previously filed as an exhibit on Form 10-Q for the quarter ended March 31, 2007.
- (31) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 12, 2008.
- (32) Previously filed as an exhibit on Form 10-Q for the quarter ended June 30, 2007.
- (33) Previously filed as an exhibit to Form 8-K as filed with the Securities and Exchange Commission on January 2, 2008.
- (34) Previously filed as an exhibit on Form 10-Q for the quarter ended September 30, 2008.

## Edgar Filing: KILROY REALTY CORP - Form 10-K

(35) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on May 27, 2009.

(36) Previously filed as an exhibit on Form 10-Q for the quarter ended June 30, 2009.

(37) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on July 23, 2009.

(38) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on July 5, 2005.

(39) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on November 25, 2009.

(40) Previously filed as an exhibit on Form 10-K for the year ended December 31, 2008.

**Table of Contents****SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 11, 2010.

KILROY REALTY CORPORATION

By: /s/ HEIDI R. ROTH  
Heidi R. Roth

*Senior Vice President and Controller*

**POWER OF ATTORNEY**

KNOW ALL MEN BY THESE PRESENTS, that we, the undersigned officers and directors of Kilroy Realty Corporation, hereby severally constitute John B. Kilroy, Sr., John B. Kilroy, Jr., Jeffrey C. Hawken, Tyler H. Rose and Heidi R. Roth, and each of them singly, our true and lawful attorneys with full power to them, and each of them singly, to sign for us and in our names in the capacities indicated below, the Form 10-K filed herewith and any and all amendments to said Form 10-K, and generally to do all such things in our names and in our capacities as officers and directors to enable Kilroy Realty Corporation to comply with the provisions of the Securities Exchange Act of 1934, as amended, and all requirements of the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorneys, or any of them, to said Form 10-K and any and all amendments thereto.

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

Name	Title	Date
/s/ JOHN B. KILROY, SR.  John B. Kilroy, Sr.	Chairman of the Board	February 11, 2010
/s/ JOHN B. KILROY, JR.  John B. Kilroy, Jr.	President, Chief Executive Officer and Director (Principal Executive Officer)	February 11, 2010
/s/ TYLER H. ROSE  Tyler H. Rose	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 11, 2010
/s/ HEIDI R. ROTH  Heidi R. Roth	Senior Vice President and Controller (Principal Accounting Officer)	February 11, 2010
/s/ EDWARD F. BRENNAN, PH.D.  Edward F. Brennan, Ph.D.	Director	February 11, 2010
/s/ WILLIAM P. DICKEY  William P. Dickey	Director	February 11, 2010
/s/ SCOTT S. INGRAHAM	Director	February 11, 2010

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Scott S. Ingraham

/s/ DALE F. KINSELLA

Director

February 11, 2010

Dale F. Kinsella

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**KILROY REALTY CORPORATION**  
**CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009 AND 2008**  
**AND FOR THE THREE YEARS ENDED DECEMBER 31, 2009**

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**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 accompanying consolidated balance sheets of Kilroy Realty Corporation (the Company) as of December 31, 2009 and 2008, and the related consolidated statements of operations, equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 19 to the consolidated financial statements, on January 1, 2009, the Company adopted new accounting provisions with respect to exchangeable debt instruments and noncontrolling interests and retrospectively adjusted all periods presented in the financial statements.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 11, 2010, expressed an unqualified opinion on the Company's internal controls over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California

February 11, 2010



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**KILROY REALTY CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

(in thousands, except share data)

	December 31,	
	2009	2008
<b><u>ASSETS</u></b>		
REAL ESTATE ASSETS (Note 15):		
Land and improvements	\$ 335,932	\$ 336,874
Buildings and improvements	1,920,543	1,889,833
Undeveloped land and construction in progress	263,608	248,889
Total real estate held for investment	2,520,083	2,475,596
Accumulated depreciation and amortization	(605,976)	(532,769)
Total real estate assets, net	1,914,107	1,942,827
CASH AND CASH EQUIVALENTS	9,883	9,553
RESTRICTED CASH	2,059	672
MARKETABLE SECURITIES (Notes 9 and 12)	3,452	1,888
CURRENT RECEIVABLES, NET (Note 2)	3,236	5,753
DEFERRED RENT RECEIVABLES, NET (Note 2)	74,392	67,144
NOTE RECEIVABLE	10,679	10,824
DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLES, NET (Note 3)	51,832	53,539
DEFERRED FINANCING COSTS, NET (Note 2)	8,334	5,883
PREPAID EXPENSES AND OTHER ASSETS, NET	6,307	4,835
TOTAL ASSETS	\$ 2,084,281	\$ 2,102,918
<b><u>LIABILITIES, NONCONTROLLING INTEREST AND EQUITY</u></b>		
LIABILITIES:		
Secured debt (Note 4)	\$ 294,574	\$ 316,456
Exchangeable senior notes, net (Note 4)	436,442	429,892
Unsecured senior notes (Note 4)	144,000	144,000
Unsecured line of credit (Note 4)	97,000	252,000
Accounts payable, accrued expenses and other liabilities (Note 9)	52,533	55,066
Accrued distributions (Note 7)	17,136	21,421
Deferred revenue and acquisition-related liabilities (Note 5)	66,890	76,219
Rents received in advance and tenant security deposits	18,230	19,340
Total liabilities	1,126,805	1,314,394
COMMITMENTS AND CONTINGENCIES (Note 11)		
NONCONTROLLING INTEREST (Note 6):		
7.45% Series A Cumulative Redeemable Preferred units of the Operating Partnership	73,638	73,638
EQUITY (Notes 6 and 7):		
Stockholders' Equity:		
Preferred Stock, \$.01 par value, 30,000,000 shares authorized,		
7.45% Series A cumulative redeemable preferred stock, \$.01 par value,		
1,500,000 shares authorized, none issued and outstanding		
7.80% Series E Cumulative Redeemable Preferred stock, \$.01 par value,		
1,610,000 shares authorized, issued and outstanding (\$40,250 liquidation preference)	38,425	38,425
7.50% Series F Cumulative Redeemable Preferred stock, \$.01 par value,		
3,450,000 shares authorized, issued and outstanding (\$86,250 liquidation preference)	83,157	83,157
Common stock, \$.01 par value, 150,000,000 shares authorized,		
43,148,762 and 33,086,148 shares issued and outstanding, respectively	431	331

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Additional paid-in capital	913,657	700,122
Distributions in excess of earnings	(180,722)	(137,052)
Total stockholders' equity	854,948	684,983
Noncontrolling Interest:		
Common units of the Operating Partnership	28,890	29,903
Total equity	883,838	714,886
TOTAL LIABILITIES, NONCONTROLLING INTEREST AND EQUITY	\$ 2,084,281	\$ 2,102,918

See accompanying note