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Kilroy Realty, L.P.
Form 10-Q
October 29, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2015

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

KILROY REALTY CORPORATION
KILROY REALTY, L.P.

(Exact name of registrant as specified in its charter)

Kilroy Realty Corporation	Maryland (State or other jurisdiction of incorporation or organization)	95-4598246 (I.R.S. Employer Identification No.)
Kilroy Realty, L.P.	Delaware (State or other jurisdiction of incorporation or organization)	95-4612685 (I.R.S. Employer Identification No.)

12200 W. Olympic Boulevard, Suite 200, Los Angeles, California 90064
(Address of principal executive offices) (Zip Code)

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

N/A
(Former name, former address and former fiscal year, if changed since last report)
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Kilroy Realty Corporation Yes No

Kilroy Realty, L.P. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Kilroy Realty Corporation Yes No

Kilroy Realty, L.P. Yes No

Indicate by check mark 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

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company” in Rule 12b-2 of the Exchange Act.

Kilroy Realty Corporation

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

Kilroy Realty, L.P.

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

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

Kilroy Realty Corporation Yes No

Kilroy Realty, L.P. Yes No

As of October 23, 2015, 92,220,367 shares of Kilroy Realty Corporation common stock, par value \$.01 per share, were outstanding.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended September 30, 2015 of Kilroy Realty Corporation and Kilroy Realty, L.P. Unless stated otherwise or the context otherwise requires, references to “Kilroy Realty Corporation” or the “Company,” “we,” “our,” and “us” mean Kilroy Realty Corporation, a Maryland corporation, and its controlled and consolidated subsidiaries, and references to “Kilroy Realty, L.P.” or the “Operating Partnership” mean Kilroy Realty, L.P., a Delaware limited partnership, and its controlled and consolidated subsidiaries.

The Company is a real estate investment trust, or REIT, and the general partner of the Operating Partnership. As of September 30, 2015, the Company owned an approximate 98.1% common general partnership interest in the Operating Partnership. The remaining approximate 1.9% common limited partnership interests are owned by non-affiliated investors and certain directors and officers of the Company. As the sole general partner of the Operating Partnership, the Company exercises exclusive and complete discretion over the Operating Partnership’s day-to-day management and control and can cause it to enter into certain major transactions, including acquisitions, dispositions and refinancings, and cause changes in its line of business, capital structure and distribution policies.

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

Noncontrolling interests and stockholders’ equity and partners’ capital are the main areas of difference between the consolidated financial statements of the Company and those of the Operating Partnership. The common limited partnership interests in the Operating Partnership are accounted for as partners’ capital in the Operating Partnership’s financial statements and, to the extent not held by the Company, as noncontrolling interests in the Company’s financial statements. The Operating Partnership’s financial statements reflect the noncontrolling interest in Kilroy Realty Finance Partnership, L.P., a Delaware limited partnership (the “Finance Partnership”). This noncontrolling interest represents the Company’s 1% indirect general partnership interest in the Finance Partnership, which is directly held by Kilroy Realty Finance, Inc., a wholly owned subsidiary of the Company. The differences between stockholders’ equity, partners’ capital and noncontrolling interests result from the differences in the equity issued by the Company and the Operating Partnership, and in the Operating Partnership’s noncontrolling interest in the Finance Partnership.

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

- Combined reports better reflect how management and the analyst community view the business as a single operating unit;
- Combined reports enhance investors’ understanding of the Company and the Operating Partnership by enabling them to view the business as a whole and in the same manner as management;
- Combined reports are more efficient for the Company and the Operating Partnership and result in savings in time, effort and expense; and
- Combined reports are more efficient for investors by reducing duplicative disclosure and providing a single document for their review.

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

- consolidated financial statements;

the following notes to the consolidated financial statements:

Note 8, Stockholders' Equity of the Company;

Note 9, Partners' Capital of the Operating Partnership;

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Note 13, Net Income Available to Common Stockholders Per Share of the Company; and
Note 14, Net Income Available to Common Unitholders Per Unit of the Operating Partnership;
“Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations
—Liquidity and Capital Resources of the Company;” and
—Liquidity and Capital Resources of the Operating Partnership.”

This report also includes separate sections under Part I, Item 4. Controls and Procedures and separate Exhibit 31 and Exhibit 32 certifications for each of the Company and the Operating Partnership to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that the Company and Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and 18 U.S.C. §1350.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
 QUARTERLY REPORT FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015
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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED) OF KILROY REALTY CORPORATION

KILROY REALTY CORPORATION
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	September 30, 2015	December 31, 2014
	(unaudited)	
ASSETS		
REAL ESTATE ASSETS:		
Land and improvements	\$ 850,280	\$ 877,633
Buildings and improvements	4,028,044	4,059,639
Undeveloped land and construction in progress (Note 2)	1,475,718	1,120,660
Total real estate assets held for investment	6,354,042	6,057,932
Accumulated depreciation and amortization	(999,557)	(947,664)
Total real estate assets held for investment, net (\$176,947 and \$211,755 of VIE, respectively, Note 1)	5,354,485	5,110,268
REAL ESTATE ASSETS AND OTHER ASSETS HELD FOR SALE, NET	—	8,211
CASH AND CASH EQUIVALENTS	567,940	23,781
RESTRICTED CASH (Note 1)	8,130	75,185
MARKETABLE SECURITIES (Note 12)	12,638	11,971
CURRENT RECEIVABLES, NET (Note 5)	11,533	7,229
DEFERRED RENT RECEIVABLES, NET (Note 5)	183,352	156,416
DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLE ASSETS, NET (Note 4)	173,457	201,926
DEFERRED FINANCING COSTS, NET	18,709	18,374
PREPAID EXPENSES AND OTHER ASSETS, NET	23,148	20,375
TOTAL ASSETS	\$6,353,392	\$ 5,633,736
LIABILITIES AND EQUITY		
LIABILITIES:		
Secured debt (Notes 6 and 12)	\$475,923	\$ 546,292
Unsecured debt, net (Notes 6 and 12)	2,181,382	1,783,121
Unsecured line of credit (Notes 6 and 12)	—	140,000
Accounts payable, accrued expenses and other liabilities	249,980	225,830
Accrued distributions (Note 15)	34,993	32,899
Deferred revenue and acquisition-related intangible liabilities, net (Note 4)	127,473	132,239
Rents received in advance and tenant security deposits	46,579	49,363
Liabilities of real estate assets held for sale	—	56
Total liabilities	3,116,330	2,909,800
COMMITMENTS AND CONTINGENCIES (Note 11)		
EQUITY:		
Stockholders' Equity (Note 8):		
Preferred stock, \$.01 par value, 30,000,000 shares authorized:		
6.875% Series G Cumulative Redeemable Preferred stock, \$.01 par value, 4,600,000 shares authorized, 4,000,000 shares issued and outstanding (\$100,000 liquidation preference)	96,155	96,155
6.375% Series H Cumulative Redeemable Preferred stock, \$.01 par value, 4,000,000 shares authorized, issued and outstanding (\$100,000 liquidation	96,256	96,256

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preference)

Common stock, \$.01 par value, 150,000,000 shares authorized, 92,220,367 and 86,259,684 shares issued and outstanding, respectively	922	863
Additional paid-in capital	3,042,330	2,635,900
Distributions in excess of earnings	(62,850	) (162,964
Total stockholders' equity	3,172,813	2,666,210
Noncontrolling Interests:		
Common units of the Operating Partnership (Note 7)	57,913	51,864
Noncontrolling interest in consolidated subsidiary (Note 1)	6,336	5,862
Total noncontrolling interests	64,249	57,726
Total equity	3,237,062	2,723,936
TOTAL LIABILITIES AND EQUITY	\$6,353,392	\$ 5,633,736

See accompanying notes to consolidated financial statements.

KILROY REALTY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited; in thousands, except share and per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
REVENUES				
Rental income	\$ 129,510	\$ 115,221	\$ 391,892	\$ 338,911
Tenant reimbursements	11,681	11,346	40,280	33,399
Other property income	362	2,457	1,690	7,650
Total revenues	141,553	129,024	433,862	379,960
EXPENSES				
Property expenses	26,684	25,801	78,264	75,448
Real estate taxes	12,087	11,008	37,232	32,728
Provision for bad debts	—	58	289	58
Ground leases	862	771	2,451	2,306
General and administrative expenses	10,799	11,138	36,200	33,806
Acquisition-related expenses	4	431	397	1,268
Depreciation and amortization	49,422	50,032	152,567	148,647
Total expenses	99,858	99,239	307,400	294,261
OTHER (EXPENSES) INCOME				
Interest income and other net investment (loss) gain (Note 12)	(694	) (9	) 177	587
Interest expense (Note 6)	(12,819	) (16,608	) (44,561	) (49,880
Total other (expenses) income	(13,513	) (16,617	) (44,384	) (49,293
INCOME FROM CONTINUING OPERATIONS BEFORE GAINS ON SALES OF REAL ESTATE	28,182	13,168	82,078	36,406
Gain on sale of land (Note 3)	—	—	17,268	3,490
Gains on sales of depreciable operating properties (Note 3)	78,522	—	109,950	—
INCOME FROM CONTINUING OPERATIONS	106,704	13,168	209,296	39,896
DISCONTINUED OPERATIONS (Note 1)				
Income from discontinued operations	—	548	—	2,091
Gains on dispositions of discontinued operations	—	5,587	—	110,391
Total income from discontinued operations	—	6,135	—	112,482
NET INCOME	106,704	19,303	209,296	152,378
Net income attributable to noncontrolling common units of the Operating Partnership	(1,945	) (321	) (3,850	) (3,011
NET INCOME ATTRIBUTABLE TO KILROY REALTY CORPORATION	104,759	18,982	205,446	149,367
PREFERRED DIVIDENDS	(3,313	) (3,313	) (9,938	) (9,938
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$ 101,446	\$ 15,669	\$ 195,508	\$ 139,429
Income from continuing operations available to common stockholders per common share – basic (Note 13)	\$ 1.10	\$ 0.11	\$ 2.18	\$ 0.34
Income from continuing operations available to common stockholders per common share – diluted (Note 13)	\$ 1.09	\$ 0.11	\$ 2.17	\$ 0.33

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Net income available to common stockholders per share – basic (Note 13)	\$1.10	\$0.18	\$2.18	\$1.67
Net income available to common stockholders per share – diluted (Note 13)	\$1.09	\$0.18	\$2.17	\$1.63
Weighted average common shares outstanding – basic (Note 13)	92,150,341	83,161,323	89,077,012	82,525,033
Weighted average common shares outstanding – diluted (Note 13)	92,639,065	85,110,456	89,593,261	84,622,622
Dividends declared per common share	\$0.35	\$0.35	\$1.05	\$1.05

See accompanying notes to consolidated financial statements.

KILROY REALTY CORPORATION
CONSOLIDATED STATEMENTS OF EQUITY

(Unaudited; in thousands, except share and per share/unit data)

	Preferred Stock	Common Stock Number of Shares	Common Stock	Additional Paid-in Capital	Distributions in Excess of Earnings	Total Stock- holders' Equity	Noncontrolling Interests	Total Equity
BALANCE AS OF DECEMBER 31, 2013	\$ 192,411	82,153,944	\$ 822	\$ 2,478,975	\$ (210,896)	\$ 2,461,312	\$ 54,848	\$ 2,516,160
Net income					149,367	149,367	3,011	152,378
Issuance of common stock		370,700	4	22,132		22,136		22,136
Issuance of share-based compensation awards				1,281		1,281		1,281
Noncash amortization of share-based compensation				10,345		10,345		10,345
Exercise of stock options		482,000	4	20,533		20,537		20,537
Repurchase of common stock, stock options and restricted stock units		(48,017)		(2,861)		(2,861)		(2,861)
Settlement of restricted stock units for shares of common stock		108,529		—		—		—
Common shares issued in connection with early exchange of 4.25%		431,270	4	219		223		223
Exchangeable Notes Common shares received in connection with capped call option transactions		(111,206)				—		—
Exchange of common units of the Operating Partnership		1,000		28		28	(28)	—
				(370)		(370)	370	—

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Adjustment for noncontrolling interest								
Contribution by noncontrolling interest in consolidated subsidiary						336		336
Preferred dividends				(9,938	) (9,938	)		(9,938
Dividends declared per common share and common unit (\$1.05 per share/unit)				(88,332	) (88,332	) (1,896	)	(90,228
BALANCE AS OF SEPTEMBER 30, 2014	\$ 192,411	83,388,220	\$ 834	\$ 2,530,282	\$ (159,799)	\$ 2,563,728	\$ 56,641	\$ 2,620,369

	Preferred Stock	Common Stock Number of Shares	Common Stock Common	Additional Paid-in Capital	Distributions in Excess of Earnings	Total Stock-holders' Equity	Noncontrolling Interests	Total Equity
BALANCE AS OF DECEMBER 31, 2014	\$ 192,411	86,259,684	\$ 863	\$ 2,635,900	\$ (162,964)	\$ 2,666,210	\$ 57,726	\$ 2,723,936
Net income					205,446	205,446	3,850	209,296
Issuance of common stock (Note 8)		5,640,033	56	387,453		387,509		387,509
Issuance of share-based compensation awards				1,268		1,268		1,268
Noncash amortization of share-based compensation				13,621		13,621		13,621
Exercise of stock options (Note 10)		265,000	3	11,289		11,292		11,292
Repurchase of common stock, stock options and restricted stock units		(39,317)	(3,121)	(3,121)	(3,121
Settlement of restricted stock units for shares of common stock		78,937		—		—		—

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Exchange of common units of the Operating Partnership	16,030	467	467	(467)	—
Adjustment for noncontrolling interest		(4,547)	(4,547)	4,547
Contribution by noncontrolling interest in consolidated subsidiary				474		474
Preferred dividends			(9,938	)	(9,938)
Dividends declared per common share and common unit (\$1.05 per share/unit)			(95,394	)	(95,394)
BALANCE AS OF SEPTEMBER 30, 2015	\$192,411	92,220,367	\$922	\$3,042,330	\$(62,850)
				\$3,172,813	\$64,249	\$3,237,062

See accompanying notes to consolidated financial statements.

KILROY REALTY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in thousands)

	Nine Months Ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$209,296	\$152,378
Adjustments to reconcile net income to net cash provided by operating activities (including discontinued operations):		
Depreciation and amortization of building and improvements and leasing costs	150,531	148,878
Increase in provision for bad debts	289	58
Depreciation of furniture, fixtures and equipment	2,036	1,731
Noncash amortization of share-based compensation awards	11,272	8,817
Noncash amortization of deferred financing costs and debt discounts and premiums	1,412	3,563
Noncash amortization of net below market rents (Note 4)	(6,769)	(6,216)
Gain on sale of land (Note 3)	(17,268)	(3,490)
Gains on sales of depreciable operating properties (Note 3)	(109,950)	—
Gains on dispositions of discontinued operations (Note 1)	—	(110,391)
Noncash amortization of deferred revenue related to tenant-funded tenant improvements	(9,957)	(7,695)
Straight-line rents	(35,530)	(15,245)
Net change in other operating assets	(9,356)	(795)
Net change in other operating liabilities	16,606	25,671
Net cash provided by operating activities	202,612	197,264
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for development and redevelopment properties and undeveloped land	(311,916)	(292,803)
Expenditures for acquisition of development properties (Note 2)	(130,609)	(97,727)
Expenditures for operating properties	(71,756)	(93,977)
Expenditures for acquisition of operating properties	—	(106,125)
Net proceeds received from dispositions of land and operating properties (Note 3)	319,639	368,381
Decrease in acquisition-related deposits	3,200	1,000
Issuance of note receivable	(3,000)	—
Decrease in restricted cash (Note 1)	57,776	32,293
Net cash used in investing activities	(136,666)	(188,958)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock (Note 8)	387,509	22,136
Borrowings on unsecured revolving credit facility	250,000	365,000
Repayments on unsecured revolving credit facility	(390,000)	(410,000)
Principal payments on secured debt (Note 6)	(67,335)	(7,315)
Net proceeds from the issuance of unsecured debt (Note 6)	397,776	395,528
Repayments of unsecured debt	—	(83,000)
Repayments for early redemption of exchangeable senior notes	—	(37,092)
Financing costs	(4,534)	(8,043)
Repurchase of common stock and restricted stock units	(3,121)	(2,861)
Proceeds from exercise of stock options (Note 10)	11,292	20,537
Contributions from noncontrolling interests in consolidated subsidiary	474	336
Dividends and distributions paid to common stockholders and common unitholders	(93,910)	(88,540)
Dividends and distributions paid to preferred stockholders and preferred unitholders	(9,938)	(9,938)
Net cash provided by financing activities	478,213	156,748

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Net increase in cash and cash equivalents	544,159	165,054
Cash and cash equivalents, beginning of period	23,781	35,377
Cash and cash equivalents, end of period	\$567,940	\$200,431

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KILROY REALTY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)
(Unaudited; in thousands)

	Nine Months Ended September 30,	
	2015	2014
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Cash paid for interest, net of capitalized interest of \$37,010 and \$33,533 as of September 30, 2015 and 2014, respectively	\$45,678	\$42,633
NONCASH INVESTING TRANSACTIONS:		
Accrual for expenditures for operating properties and development and redevelopment properties	\$89,009	\$92,693
Tenant improvements funded directly by tenants	\$12,944	\$23,069
Assumption of other liabilities in connection with development acquisitions	\$5,070	\$2,300
Release of holdback funds to third party	\$9,279	\$—
NONCASH FINANCING TRANSACTIONS:		
Accrual of dividends and distributions payable to common stockholders and common unitholders	\$33,353	\$30,258
Accrual of dividends and distributions payable to preferred stockholders and preferred unitholders	\$1,656	\$1,656
Exchange of common units of the Operating Partnership into shares of the Company's common stock	\$467	\$28

See accompanying notes to consolidated financial statements.

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ITEM 1: FINANCIAL STATEMENTS (UNAUDITED) OF KILROY REALTY, L.P.

KILROY REALTY, L.P.
CONSOLIDATED BALANCE SHEETS
(in thousands, except unit data)

	September 30, 2015 (unaudited)	December 31, 2014
ASSETS		
REAL ESTATE ASSETS:		
Land and improvements	\$850,280	\$ 877,633
Buildings and improvements	4,028,044	4,059,639
Undeveloped land and construction in progress (Note 2)	1,475,718	1,120,660
Total real estate assets held for investment	6,354,042	6,057,932
Accumulated depreciation and amortization	(999,557)	(947,664)
Total real estate assets held for investment, net (\$176,947 and \$211,755 of VIE, respectively, Note 1)	5,354,485	5,110,268
REAL ESTATE ASSETS AND OTHER ASSETS HELD FOR SALE, NET	—	8,211
CASH AND CASH EQUIVALENTS	567,940	23,781
RESTRICTED CASH (Note 1)	8,130	75,185
MARKETABLE SECURITIES (Note 12)	12,638	11,971
CURRENT RECEIVABLES, NET (Note 5)	11,533	7,229
DEFERRED RENT RECEIVABLES, NET (Note 5)	183,352	156,416
DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLE ASSETS, NET (Note 4)	173,457	201,926
DEFERRED FINANCING COSTS, NET	18,709	18,374
PREPAID EXPENSES AND OTHER ASSETS, NET	23,148	20,375
TOTAL ASSETS	\$6,353,392	\$ 5,633,736
LIABILITIES AND CAPITAL		
LIABILITIES:		
Secured debt (Notes 6 and 12)	\$475,923	\$ 546,292
Unsecured debt, net (Notes 6 and 12)	2,181,382	1,783,121
Unsecured line of credit (Notes 6 and 12)	—	140,000
Accounts payable, accrued expenses and other liabilities	249,980	225,830
Accrued distributions (Note 15)	34,993	32,899
Deferred revenue and acquisition-related intangible liabilities, net (Note 4)	127,473	132,239
Rents received in advance and tenant security deposits	46,579	49,363
Liabilities of real estate assets held for sale	—	56
Total liabilities	3,116,330	2,909,800
COMMITMENTS AND CONTINGENCIES (Note 11)		
CAPITAL:		
Partners' Capital (Note 9):		
6.875% Series G Cumulative Redeemable Preferred units, 4,000,000 units issued and outstanding (\$100,000 liquidation preference)	96,155	96,155
6.375% Series H Cumulative Redeemable Preferred units, 4,000,000 units issued and	96,256	96,256

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outstanding (\$100,000 liquidation preference)		
Common units, 92,220,367 and 86,259,684 held by the general partner and 1,788,170 and 1,804,200	3,034,341	2,521,900
held by common limited partners issued and outstanding, respectively		
Total partners' capital	3,226,752	2,714,311
Noncontrolling interests in consolidated subsidiaries (Note 1)	10,310	9,625
Total capital	3,237,062	2,723,936
TOTAL LIABILITIES AND CAPITAL	\$6,353,392	\$ 5,633,736

See accompanying notes to consolidated financial statements.

KILROY REALTY, L.P.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited; in thousands, except unit and per unit data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
REVENUES				
Rental income	\$ 129,510	\$ 115,221	\$ 391,892	\$ 338,911
Tenant reimbursements	11,681	11,346	40,280	33,399
Other property income	362	2,457	1,690	7,650
Total revenues	141,553	129,024	433,862	379,960
EXPENSES				
Property expenses	26,684	25,801	78,264	75,448
Real estate taxes	12,087	11,008	37,232	32,728
Provision for bad debts	—	58	289	58
Ground leases	862	771	2,451	2,306
General and administrative expenses	10,799	11,138	36,200	33,806
Acquisition-related expenses	4	431	397	1,268
Depreciation and amortization	49,422	50,032	152,567	148,647
Total expenses	99,858	99,239	307,400	294,261
OTHER (EXPENSES) INCOME				
Interest income and other net investment (loss) gain (Note 12)	(694	) (9	) 177	587
Interest expense (Note 6)	(12,819	) (16,608	) (44,561	) (49,880
Total other (expenses) income	(13,513	) (16,617	) (44,384	) (49,293
INCOME FROM CONTINUING OPERATIONS BEFORE GAINS ON SALES OF REAL ESTATE	28,182	13,168	82,078	36,406
Gain on sale of land (Note 3)	—	—	17,268	3,490
Gains on sales of depreciable operating properties (Note 3)	78,522	—	109,950	—
INCOME FROM CONTINUING OPERATIONS	106,704	13,168	209,296	39,896
DISCONTINUED OPERATIONS (Note 1)				
Income from discontinued operations	—	548	—	2,091
Gains on dispositions of discontinued operations	—	5,587	—	110,391
Total income from discontinued operations	—	6,135	—	112,482
NET INCOME	106,704	19,303	209,296	152,378
Net income attributable to noncontrolling interests in consolidated subsidiaries	(64	) (59	) (211	) (201
NET INCOME ATTRIBUTABLE TO KILROY REALTY, L.P.	106,640	19,244	209,085	152,177
PREFERRED DISTRIBUTIONS	(3,313	) (3,313	) (9,938	) (9,938
NET INCOME AVAILABLE TO COMMON UNITHOLDERS	\$ 103,327	\$ 15,931	\$ 199,147	\$ 142,239
Income from continuing operations available to common unitholders per unit – basic (Note 14)	\$ 1.10	\$ 0.11	\$ 2.18	\$ 0.34
Income from continuing operations available to common unitholders per unit – diluted (Note 14)	\$ 1.09	\$ 0.11	\$ 2.17	\$ 0.33
Net income available to common unitholders per unit – basic (Note 14)	\$ 1.10	\$ 0.18	\$ 2.18	\$ 1.67

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Net income available to common unitholders per unit – diluted (Note 14)	\$1.09	\$0.18	\$2.17	\$1.63
Weighted average common units outstanding – basic (Note 14)	93,938,783	84,965,523	90,869,696	84,329,317
Weighted average common units outstanding – diluted (Note 14)	94,427,507	86,914,656	91,385,945	86,426,906
Dividends declared per common unit	\$0.35	\$0.35	\$1.05	\$1.05

See accompanying notes to consolidated financial statements.

KILROY REALTY, L.P.

CONSOLIDATED STATEMENTS OF CAPITAL

(Unaudited; in thousands, except unit and per unit data)

	Partners' Capital		Common Units	Total Partners' Capital	Noncontrolling Interests in Consolidated Subsidiaries	Total Capital
	Preferred Units	Number of Common Units				
BALANCE AS OF DECEMBER 31, 2013	\$ 192,411	83,959,144	\$ 2,315,361	\$ 2,507,772	\$ 8,388	\$ 2,516,160
Net income			152,177	152,177	201	152,378
Issuance of common units		370,700	22,136	22,136		22,136
Issuance of share-based compensation awards			1,281	1,281		1,281
Noncash amortization of share-based compensation			10,345	10,345		10,345
Exercise of stock options		482,000	20,537	20,537		20,537
Repurchase of common units, stock options and restricted stock units		(48,017)	(2,861)	(2,861)		(2,861)
Settlement of restricted stock units		108,529	—	—		—
Common units issued in connection with early exchange of 4.25% Exchangeable Senior Notes		431,270	223	223		223
Common units received in connection with capped call option transactions		(111,206)				—
Contribution by noncontrolling interest in consolidated subsidiary					336	336
Preferred distributions			(9,938)	(9,938)		(9,938)
Distributions declared per common unit (\$1.05 per unit)			(90,228)	(90,228)		(90,228)
BALANCE AS OF SEPTEMBER 30, 2014	\$ 192,411	85,192,420	\$ 2,419,033	\$ 2,611,444	\$ 8,925	\$ 2,620,369

	Partners' Capital		Common Units	Total Partners' Capital	Noncontrolling Interests in Consolidated Subsidiaries	Total Capital
	Preferred Units	Number of Common Units				
BALANCE AS OF DECEMBER 31, 2014	\$ 192,411	88,063,884	\$ 2,521,900	\$ 2,714,311	\$ 9,625	\$ 2,723,936
Net income			209,085	209,085	211	209,296
Issuance of common units (Note 9)		5,640,033	387,509	387,509		387,509
Issuance of share-based compensation awards			1,268	1,268		1,268
Noncash amortization of share-based compensation			13,621	13,621		13,621

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Exercise of stock options (Note 10)	265,000	11,292	11,292	11,292
Repurchase of common units, stock options and restricted stock units	(39,317)	(3,121)	(3,121)	(3,121)
Settlement of restricted stock units	78,937	—	—	—
Contribution by noncontrolling interest in consolidated subsidiary			474	474
Preferred distributions		(9,938)	(9,938)	(9,938)
Distributions declared per common unit (\$1.05 per unit)		(97,275)	(97,275)	(97,275)
BALANCE AS OF SEPTEMBER 30, 2015	\$ 192,411	94,008,537	\$ 3,034,341	\$ 3,226,752
			\$ 10,310	\$ 3,237,062

See accompanying notes to consolidated financial statements.

KILROY REALTY, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in thousands)

	Nine Months Ended September 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$209,296	\$152,378
Adjustments to reconcile net income to net cash provided by operating activities (including discontinued operations):		
Depreciation and amortization of building and improvements and leasing costs	150,531	148,878
Increase in provision for bad debts	289	58
Depreciation of furniture, fixtures and equipment	2,036	1,731
Noncash amortization of share-based compensation awards	11,272	8,817
Noncash amortization of deferred financing costs and debt discounts and premiums	1,412	3,563
Noncash amortization of net below market rents (Note 4)	(6,769)	(6,216)
Gain on sale of land (Note 3)	(17,268)	(3,490)
Gains on sales of depreciable operating properties (Note 3)	(109,950)	—
Gains on dispositions of discontinued operations (Note 1)	—	(110,391)
Noncash amortization of deferred revenue related to tenant-funded tenant improvements	(9,957)	(7,695)
Straight-line rents	(35,530)	(15,245)
Net change in other operating assets	(9,356)	(795)
Net change in other operating liabilities	16,606	25,671
Net cash provided by operating activities	202,612	197,264
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for development and redevelopment properties and undeveloped land	(311,916)	(292,803)
Expenditures for acquisition of development properties (Note 2)	(130,609)	(97,727)
Expenditures for operating properties	(71,756)	(93,977)
Expenditures for acquisition of operating properties	—	(106,125)
Net proceeds received from dispositions of land and operating properties (Note 3)	319,639	368,381
Decrease in acquisition-related deposits	3,200	1,000
Issuance of note receivable	(3,000)	—
Decrease in restricted cash (Note 1)	57,776	32,293
Net cash used in investing activities	(136,666)	(188,958)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock (Note 8)	387,509	22,136
Borrowings on unsecured revolving credit facility	250,000	365,000
Repayments on unsecured revolving credit facility	(390,000)	(410,000)
Principal payments on secured debt (Note 6)	(67,335)	(7,315)
Net proceeds from the issuance of unsecured debt (Note 6)	397,776	395,528
Repayments of unsecured debt	—	(83,000)
Repayments for early redemptions of exchangeable senior notes	—	(37,092)
Financing costs	(4,534)	(8,043)
Repurchase of common stock and restricted stock units	(3,121)	(2,861)
Proceeds from exercise of stock options (Note 10)	11,292	20,537
Contributions from noncontrolling interests in consolidated subsidiary	474	336
Dividends and distributions paid to common unitholders	(93,910)	(88,540)
Dividends and distributions paid to preferred unitholders	(9,938)	(9,938)
Net cash provided by financing activities	478,213	156,748

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Net increase in cash and cash equivalents	544,159	165,054
Cash and cash equivalents, beginning of period	23,781	35,377
Cash and cash equivalents, end of period	\$567,940	\$200,431

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KILROY REALTY, L.P.
 CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)
 (Unaudited; in thousands)

	Nine Months Ended September 30,	
	2015	2014
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Cash paid for interest, net of capitalized interest of \$37,010 and \$33,533 as of September 30, 2015 and 2014, respectively	\$45,678	\$42,633
NONCASH INVESTING TRANSACTIONS:		
Accrual for expenditures for operating properties and development and redevelopment properties	\$89,009	\$92,693
Tenant improvements funded directly by tenants	\$12,944	\$23,069
Assumption of other liabilities in connection with development acquisitions	\$5,070	\$2,300
Release of holdback funds to third party	\$9,279	\$—
NONCASH FINANCING TRANSACTIONS:		
Accrual of dividends and distributions payable to common unitholders	\$33,353	\$30,258
Accrual of dividends and distributions payable to preferred unitholders	\$1,656	\$1,656

See accompanying notes to consolidated financial statements.

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KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
 Three Months Ended September 30, 2015 and 2014

1. Organization and Basis of Presentation

Organization

Kilroy Realty Corporation (the “Company”) is a self-administered real estate investment trust (“REIT”) active in premier office submarkets along the West Coast. We own, develop, acquire and manage real estate assets, consisting primarily of Class A properties in the coastal regions of Los Angeles, Orange County, San Diego County, the San Francisco Bay Area and greater Seattle, which we believe have strategic advantages and strong barriers to entry. Class A real estate encompasses attractive and efficient buildings of high quality that are attractive to tenants, are well-designed and constructed with above-average material, workmanship and finishes and are well-maintained and managed. We qualify as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”). The Company’s common stock is publicly traded on the New York Stock Exchange (“NYSE”) under the ticker symbol “KRC.”

We own our interests in all of our real estate assets through Kilroy Realty, L.P. (the “Operating Partnership”) and Kilroy Realty Finance Partnership, L.P. (the “Finance Partnership”). We generally conduct substantially all of our operations through the Operating Partnership. Unless stated otherwise or the context indicates otherwise, the terms “Kilroy Realty Corporation” or the “Company,” “we,” “our,” and “us” refer to Kilroy Realty Corporation and its consolidated subsidiaries and the term “Operating Partnership” refers to Kilroy Realty, L.P. and its consolidated subsidiaries. The descriptions of our business, employees, and properties apply to both the Company and the Operating Partnership.

Our stabilized portfolio of operating properties was comprised of the following office properties at September 30, 2015:

	Number of Buildings	Rentable Square Feet	Number of Tenants	Percentage Occupied	
Stabilized Office Properties	101	13,050,947	509	95.6	%

Our stabilized portfolio includes all of our properties with the exception of development and redevelopment properties currently under construction or committed for construction, “lease-up” properties, real estate assets held for sale and undeveloped land. We define redevelopment properties as those properties for which we expect to spend significant development and construction costs on the existing or acquired buildings pursuant to a formal plan, the intended result of which is a higher economic return on the property. As of September 30, 2015, we had no redevelopment properties. We define “lease-up” properties as properties we recently developed or redeveloped that have not yet reached 95% occupancy and are within one year following cessation of major construction activities. As of September 30, 2015, we had one development project in the “lease-up” phase.

As of September 30, 2015, the following properties were excluded from our stabilized portfolio:

	Number of Properties/Projects	Estimated Rentable Square Feet
Development projects in “lease-up”	1	108,539
Development projects under construction ⁽¹⁾	7	2,322,000

(1) Estimated rentable square feet upon completion.

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Our stabilized portfolio also excludes our near-term and future development pipeline, which as of September 30, 2015 was comprised of ten development sites, representing approximately 106 gross acres of undeveloped land.

As of September 30, 2015, all of our stabilized portfolio properties and development projects were owned and all of our business was conducted in the state of California with the exception of twelve office properties and a recently acquired development opportunity located in the state of Washington. All of our properties and development projects are 100% owned, excluding a development project owned by Redwood City Partners, LLC (“Redwood LLC”), a consolidated subsidiary.

As of September 30, 2015, the Company owned an approximate 98.1% common general partnership interest in the Operating Partnership. The remaining approximate 1.9% common limited partnership interest in the Operating Partnership as of September 30, 2015 was owned by non-affiliated investors and certain of our executive officers and directors (see Note 7). Both the general

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

and limited common partnership interests in the Operating Partnership are denominated in common units. Generally, the number of common units held by the Company is equivalent to the number of outstanding shares of the Company's common stock, and the rights of all the common units to quarterly distributions and payments in liquidation mirror those of the Company's common stockholders. The common limited partners have certain redemption rights as provided in the Operating Partnership's Seventh Amended and Restated Agreement of Limited Partnership, as amended, the "Partnership Agreement" (see Note 7).

Kilroy Realty Finance, Inc., which is a wholly owned subsidiary of the Company, is the sole general partner of the Finance Partnership and owns a 1.0% common general partnership interest in the Finance Partnership. The Operating Partnership owns the remaining 99.0% common limited partnership interest. Kilroy Services, LLC ("KSLLC"), which is a wholly owned subsidiary of the Operating Partnership, is the entity through which we generally conduct substantially all of our development activities. With the exception of the Operating Partnership and Redwood LLC, all of our subsidiaries are wholly owned.

Basis of Presentation

The consolidated financial statements of the Company include the consolidated financial position and results of operations of the Company, the Operating Partnership, the Finance Partnership, KSLLC, Redwood LLC and all of our wholly owned and controlled subsidiaries. The consolidated financial statements of the Operating Partnership include the consolidated financial position and results of operations of the Operating Partnership, the Finance Partnership, KSLLC, Redwood LLC and all wholly-owned and controlled subsidiaries of the Operating Partnership. All intercompany balances and transactions have been eliminated in the consolidated financial statements.

The accompanying interim financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America ("GAAP") and in conjunction with the rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures required for annual financial statements have been condensed or excluded pursuant to SEC rules and regulations. Accordingly, the interim financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying interim financial statements reflect all adjustments of a normal and recurring nature that are considered necessary for a fair presentation of the results for the interim periods presented. However, the results of operations for the interim periods are not necessarily indicative of the results that may be expected for the year ending December 31, 2015. The interim financial statements for the Company and the Operating Partnership should be read in conjunction with the audited consolidated financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2014.

Certain amounts in the consolidated statements of operations for prior periods have been reclassified to reflect the activity of discontinued operations disposed of prior to the Company's adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") No. 2014-08 ("ASU 2014-08"). Properties classified as held for sale and/or disposed of prior to January 1, 2015 are presented as discontinued operations for all periods presented.

Variable Interest Entities

At September 30, 2015, the consolidated financial statements of the Company and the Operating Partnership included one variable interest entity ("VIE"), in which we were deemed to be the primary beneficiary. The VIE, Redwood LLC, was established in the second quarter of 2013 in connection with an undeveloped land acquisition. The impact of consolidating the VIE increased the Company's total assets, liabilities and noncontrolling interests by approximately

\$180.7 million (of which \$176.9 million related to real estate held for investment on our consolidated balance sheet), approximately \$43.5 million and approximately \$6.3 million, respectively, as of September 30, 2015.

As of December 31, 2014, the consolidated financial statements of the Company and the Operating Partnership included two VIEs, in which we were deemed to be the primary beneficiary. One of the VIEs was Redwood LLC and the remaining VIE was established during the fourth quarter of 2014 to facilitate potential Section 1031 Exchanges. During the three months ended March 31, 2015, the Section 1031 Exchange was successfully completed and the VIE was terminated. As a result, \$59.2 million of our restricted cash balance at December 31, 2014, which related to prior period disposition proceeds that were set aside to facilitate the Section 1031 Exchange, was released from escrow. The impact of consolidating the VIEs increased the Company's total assets, liabilities and noncontrolling interests by approximately \$219.6 million (of which \$211.8 million related to real estate held for investment on our consolidated balance sheet), approximately \$23.4 million and approximately \$5.9 million, respectively, as of December 31, 2014.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

Adoption of New Accounting Pronouncements

Effective January 1, 2015, the Company adopted FASB ASU 2014-08, which changed the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, only disposals representing a strategic shift that has (or will have) a major effect on an entity's operations and final results, such as a major line of business, a major geographical area or a major equity investment, should be presented as discontinued operations. The Company adopted and applied the new guidance on a prospective basis as required by ASU 2014-08. Therefore, real estate assets classified as held for sale and/or disposed of subsequent to January 1, 2015 that do not represent a strategic shift will be presented in continuing operations for all periods presented. Properties classified as held for sale and/or disposed of prior to January 1, 2015 will continue to be presented in discontinued operations for prior periods presented. In accordance with this guidance, the operations of the ten properties sold during the nine months ended September 30, 2015 are presented in continuing operations for the nine months ended September 30, 2015. For the nine months ended September 30, 2014, discontinued operations includes the income and gains on all of the properties sold in 2014.

Recently Issued Accounting Pronouncements

On August 12, 2015, the FASB issued ASU No. 2015-14 (“ASU 2015-14”) to defer the effective date of ASU No. 2014-09, which outlines a single comprehensive model for entities to use in accounting for revenues arising from contracts with customers and notes that lease contracts with customers are a scope exception. Public business entities may elect to adopt the amendments as of the original effective date; however, adoption is required for annual reporting periods beginning after December 15, 2017. The Company is currently assessing the impact of the guidance on our consolidated financial statements and notes to our consolidated financial statements.

On April 7, 2015, the FASB issued ASU No. 2015-03 (“ASU 2015-03”) to amend the accounting guidance for the presentation of debt issuance costs. The standard requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. On August 18, 2015, the FASB also issued ASU No. 2015-15 (“ASU 2015-15”) to address the presentation of debt issuance costs specifically related to line-of-credit arrangements. The standard clarifies that an entity may defer and present debt issuance costs as an asset and amortize the costs ratably over the term of the line-of-credit arrangement, regardless of whether there are an outstanding borrowings on the line-of credit arrangement. ASU 2015-03 and ASU 2015-15 are effective for public business entities for fiscal years beginning after December 15, 2015 and retrospective application is required. Early adoption of the guidance is permitted. The Company expects to adopt the guidance effective January 1, 2016 and the guidance will not have any impact on our consolidated statements of operations, equity/capital, or cash flows.

In February 2015, the FASB issued an update (“ASU 2015-02”) Amendments to the Consolidation Analysis to ASC Topic 810, Consolidation. ASU 2015-02 affects reporting entities that are required to evaluate whether they should consolidate certain legal entities. Specifically, the amendments: (i) modify the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, (ii) eliminate the presumption that a general partner should consolidate a limited partnership, (iii) affect the consolidated analysis of reporting entities that are involved with VIEs, and (iv) provide a scope exception for certain entities. ASU 2015-02 is effective for interim and annual reporting periods beginning after December 15, 2015. The Company is currently assessing the impact of the guidance on our consolidated financial statements and notes to our consolidated financial statements.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

2. Acquisitions

Development Project Acquisitions

During the nine months ended September 30, 2015, we acquired the development opportunities listed below from unrelated third parties. The acquisitions were funded with proceeds from various sources, including the Company's unsecured revolving credit facility, at-the-market stock offering program (see Note 8) and prior year disposition proceeds. As of September 30, 2015, the underlying assets were included as undeveloped land and construction in progress in our consolidated balance sheets.

Project	Date of Acquisition	City/Submarket	Type	Purchase Price (in millions)
333 Dexter ⁽¹⁾	February 13, 2015	South Lake Union, WA	Land	\$49.5
100 Hooper ⁽²⁾	July 7, 2015	San Francisco, CA	Land	78.0
Total Acquisitions				\$127.5

Acquisition comprised of four adjacent parcels in the South Lake Union submarket of Seattle, Washington located at 330 Dexter Avenue North, 333 Dexter Avenue North, 401 Dexter Avenue North, and 400 Aurora Avenue North. ⁽¹⁾ In connection with this acquisition, we also assumed \$2.4 million in accrued liabilities and acquisition costs that are not included in the purchase price above.

In connection with this acquisition, we assumed \$4.1 million in accrued liabilities and acquisition costs that are not ⁽²⁾included in the purchase price above. The Company expects to develop and own two buildings on the site encompassing office and production design and repair space totaling approximately 400,000 square feet.

3. Dispositions

Operating Property Dispositions

The following table summarizes the operating properties sold during the nine months ended September 30, 2015:

Location	Property Type	Month of Disposition	Number of Buildings	Rentable Square Feet
15050 NE 36th Street, Redmond, WA	Office	April	1	122,103
San Diego Properties - Tranche 1 ⁽¹⁾	Office	April	3	384,468
San Diego Properties - Tranche 2 ⁽²⁾	Office	July	6	539,823
Total Dispositions			10	1,046,394

⁽¹⁾ The San Diego Properties - Tranche 1 include the following: 10770 Wateridge Circle, 6200 Greenwich Drive, and 6220 Greenwich Drive.

⁽²⁾ The San Diego Properties - Tranche 2 include the following: 6260 Sequence Drive, 6290 Sequence, Drive, 6310 Sequence Drive, 6340 Sequence Drive, 6350 Sequence Drive, and 4921 Directors Place.

The ten buildings encompassing 1,046,394 rentable square feet were sold for a gross sales price of \$309.2 million, resulting in a gain on sale of \$110.0 million.

Land Disposition

During the nine months ended September 30, 2015, the Company sold a land parcel located at 17150 Von Karman in Irvine, California for a gross sales price of \$26.0 million, resulting in a gain on sale of \$17.3 million.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

4. Deferred Leasing Costs and Acquisition-Related Intangible Assets and Liabilities, net

The following table summarizes our deferred leasing costs and acquisition-related intangible assets (acquired value of leasing costs, above-market operating leases, in-place leases and below-market ground lease obligation) and intangible liabilities (acquired value of below-market operating leases and above-market ground lease obligation) as of September 30, 2015 and December 31, 2014:

	September 30, 2015 (in thousands)	December 31, 2014
Deferred Leasing Costs and Acquisition-Related Intangible Assets, net:		
Deferred leasing costs	\$201,605	\$ 216,102
Accumulated amortization	(74,997)	(74,904)
Deferred leasing costs, net	126,608	141,198
Above-market operating leases	11,026	20,734
Accumulated amortization	(6,380)	(13,952)
Above-market operating leases, net	4,646	6,782
In-place leases	74,071	97,250
Accumulated amortization	(32,331)	(43,773)
In-place leases, net	41,740	53,477
Below-market ground lease obligation	490	490
Accumulated amortization	(27)	(21)
Below-market ground lease obligation, net	463	469
Total deferred leasing costs and acquisition-related intangible assets, net	\$173,457	\$ 201,926
Acquisition-Related Intangible Liabilities, net: ⁽¹⁾		
Below-market operating leases	\$55,136	\$ 68,051
Accumulated amortization	(26,632)	(30,620)
Below-market operating leases, net	28,504	37,431
Above-market ground lease obligation	6,320	6,320
Accumulated amortization	(399)	(324)
Above-market ground lease obligation, net	5,921	5,996
Total acquisition-related intangible liabilities, net	\$34,425	\$ 43,427

(1) Included in deferred revenue and acquisition-related intangible liabilities, net in the consolidated balance sheets.

The following table sets forth amortization related to deferred leasing costs and acquisition-related intangibles for the three and nine months ended September 30, 2015 and 2014, including amounts attributable to discontinued operations for 2014:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
	(in thousands)			
Deferred leasing costs ⁽¹⁾	\$6,932	\$7,132	\$20,847	\$20,683
Above-market operating leases ⁽²⁾	487	1,305	2,135	4,230
In-place leases ⁽¹⁾	3,073	5,169	11,710	17,090

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Below-market ground lease obligation ⁽³⁾	2	2	6	6
Below-market operating leases ⁽⁴⁾	(2,228) (2,940) (8,905) (10,054
Above-market ground lease obligation ⁽⁵⁾	(26	) (26	) (76	) (76
Total	\$8,240	\$10,642	\$25,717	\$31,879

-
- The amortization of deferred leasing costs related to lease incentives is recorded to rental income and other
- (1) deferred leasing costs and in-place leases is recorded to depreciation and amortization expense in the consolidated statements of operations for the periods presented.
 - (2) The amortization of above-market operating leases is recorded as a decrease to rental income in the consolidated statements of operations for the periods presented.
 - (3) The amortization of the below-market ground lease obligation is recorded as an increase to ground lease expense in the consolidated statements of operations for the periods presented.
 - (4) The amortization of below-market operating leases is recorded as an increase to rental income in the consolidated statements of operations for the periods presented.
 - (5) The amortization of the above-market ground lease obligation is recorded as a decrease to ground lease expense in the consolidated statements of operations for the periods presented.

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 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table sets forth the estimated annual amortization expense related to deferred leasing costs and acquisition-related intangibles as of September 30, 2015 for future periods:

Year	Deferred Leasing Costs	Above-Market Operating Leases ⁽¹⁾	In-Place Leases	Below-Market Ground Lease Obligation ⁽²⁾	Below-Market Operating Leases ⁽³⁾	Above-Market Ground Lease Obligation ⁽⁴⁾
	(in thousands)					
Remaining 2015	\$6,740	\$ 399	\$2,800	\$ 2	\$ (2,044)	\$ (25)
2016	25,662	1,499	10,449	8	(7,638)	(101)
2017	22,661	1,241	9,113	8	(7,017)	(101)
2018	19,023	831	6,373	8	(5,735)	(101)
2019	15,150	643	4,714	8	(3,597)	(101)
Thereafter	37,372	33	8,291	429	(2,473)	(5,492)
Total	\$126,608	\$ 4,646	\$41,740	\$ 463	\$ (28,504)	\$ (5,921)

(1) Represents estimated annual amortization related to above-market operating leases. Amounts will be recorded as a decrease to rental income in the consolidated statements of operations.

(2) Represents estimated annual amortization related to below-market ground lease obligations. Amounts will be recorded as an increase to ground lease expense in the consolidated statements of operations.

(3) Represents estimated annual amortization related to below-market operating leases. Amounts will be recorded as an increase to rental income in the consolidated statements of operations.

(4) Represents estimated annual amortization related to above-market ground lease obligations. Amounts will be recorded as a decrease to ground lease expense in the consolidated statements of operations.

5. Receivables

Current Receivables, net

Current receivables, net is primarily comprised of contractual rents and other lease-related obligations due from tenants. The balance consisted of the following as of September 30, 2015 and December 31, 2014:

	September 30, 2015	December 31, 2014 ⁽¹⁾
	(in thousands)	
Current receivables	\$13,372	\$ 9,228
Allowance for uncollectible tenant receivables	(1,839)	(1,999)
Current receivables, net	\$11,533	\$ 7,229

(1) Excludes current receivables, net related to properties held for sale as of December 31, 2014.

Deferred Rent Receivables, net

Deferred rent receivables, net consisted of the following as of September 30, 2015 and December 31, 2014:

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	September 30, 2015	December 31, 2014
	(in thousands)	
Deferred rent receivables	\$185,468	\$ 158,405
Allowance for deferred rent receivables	(2,116) (1,989
Deferred rent receivables, net	\$183,352	\$ 156,416

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KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
 NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

6. Secured and Unsecured Debt of the Operating Partnership

Secured Debt

The following table sets forth the composition of our secured debt as of September 30, 2015 and December 31, 2014:

Type of Debt	Annual Stated Interest Rate (1)	GAAP Effective Rate (1)(2)	Maturity Date	September 30, 2015 (3)	December 31, 2014 (3)
				(in thousands)	
Mortgage note payable	4.27%	4.27%	February 2018	\$128,937	\$130,767
Mortgage note payable (4)	4.48%	4.48%	July 2027	96,743	97,000
Mortgage note payable (4)	6.05%	3.50%	June 2019	86,737	89,242
Mortgage note payable	6.51%	6.51%	February 2017	65,841	66,647
Mortgage note payable (4) (5)	5.23%	3.50%	January 2016	51,431	52,793
Mortgage note payable (4) (5)	5.57%	3.25%	February 2016	39,188	40,258
Mortgage note payable (6)	5.09%	3.50%	August 2015	—	34,311
Mortgage note payable (6)	4.94%	4.00%	April 2015	—	26,285
Mortgage note payable	7.15%	7.15%	May 2017	4,649	6,568
Other	Various	Various	Various	2,397	2,421
Total				\$475,923	\$546,292

(1) All interest rates presented are fixed-rate interest rates.

(2) This represents the rate at which interest expense is recorded for financial reporting purposes, which reflects the amortization of discounts/premiums, excluding debt issuance costs.

(3) Amounts reported include the amounts of unamortized debt premiums of \$7.2 million and \$10.3 million as of September 30, 2015 and December 31, 2014, respectively.

(4) The secured debt and the related properties that secure the debt are held in a special purpose entity and the properties are not available to satisfy the debts and other obligations of the Company or the Operating Partnership.

(5) These mortgage notes payable were repaid in October 2015 at par.

(6) These mortgage notes payable were repaid during the nine months ended September 30, 2015 at par.

Although our mortgage loans are secured and non-recourse to the Company and the Operating Partnership, the Company provides limited customary secured debt guarantees for items such as voluntary bankruptcy, fraud, misapplication of payments and environmental liabilities.

Unsecured Senior Notes

In September 2015, the Operating Partnership issued \$400.0 million of aggregate principal amount of unsecured senior notes in a registered public offering. The outstanding balance of the unsecured senior notes is included in unsecured debt, net of issuance discount of \$2.2 million, on our consolidated balance sheets. The unsecured senior notes, which are scheduled to mature on October 1, 2025, require semi-annual interest payments each April and October based on a stated annual interest rate of 4.375%. The Company will use the net proceeds to repay the 5.000% Unsecured Senior Notes upon maturity in November 2015 and other general corporate purposes, including the

repayment of debt and funding development expenditures.

The following table summarizes the balance and significant terms of the registered unsecured senior notes issued by the Operating Partnership as of September 30, 2015 and December 31, 2014:

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					Principal Amount as of	
	Issuance date	Maturity date	Stated coupon rate	Effective interest rate ⁽¹⁾	September 30, 2015	December 31, 2014
					(in thousands)	
4.375% Unsecured Senior Notes ⁽²⁾	September 2015	October 2025	4.375%	4.440%	\$400,000	\$—
Unamortized discount					\$(2,215)	\$—
Net carrying amount					\$397,785	\$—
4.250% Unsecured Senior Notes ⁽³⁾	July 2014	August 2029	4.250%	4.350%	\$400,000	\$400,000
Unamortized discount					(4,124)	