

KILROY REALTY CORP  
 Form 10-K  
 February 12, 2016

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

12200 W. Olympic Boulevard, Suite 200, Los Angeles, California 90064  
 (Address of principal executive offices) (Zip Code)  
 Registrant's telephone number, including area code: (310) 481-8400

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

| Registrant                | Title of each class  | Name of each exchange on which registered |
|---------------------------|--|---|
| Kilroy Realty Corporation | Common Stock, \$.01 par value  | New York Stock Exchange                   |
| Kilroy Realty Corporation | 6.875% Series G Cumulative Redeemable Preferred Stock, \$.01 par value | New York Stock Exchange                   |
| Kilroy Realty Corporation | 6.375% Series H Cumulative Redeemable Preferred Stock, \$.01 par value | New York Stock Exchange                   |

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

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

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

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Kilroy Realty Corporation Yes  No  Kilroy Realty, L. P. Yes  No

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

Kilroy Realty Corporation Yes  No  Kilroy Realty, L. P. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Kilroy Realty Corporation Yes  No  Kilroy Realty, L. P. Yes  No

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

Kilroy Realty Corporation Yes  No  Kilroy Realty, L. P. Yes  No

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

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

Kilroy Realty Corporation

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

Kilroy Realty, L.P.

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

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

Kilroy Realty Corporation Yes  No  Kilroy Realty, L. P. Yes  No

The aggregate market value of the voting and non-voting shares of common stock held by non-affiliates of Kilroy Realty Corporation was approximately \$5,926,241,394 based on the quoted closing price on the New York Stock Exchange for such shares on June 30, 2015.

There is no public trading market for the common units of limited partnership interest of Kilroy Realty, L.P. As a result, the aggregate market value of the common units of limited partnership interest held by non-affiliates of Kilroy Realty, L.P. cannot be determined.

As of February 5, 2016, 92,275,561 shares of Kilroy Realty Corporation's common stock, par value \$.01 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Kilroy Realty Corporation's Proxy Statement with respect to its 2016 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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## EXPLANATORY NOTE

This report combines the annual reports on Form 10-K for the year ended December 31, 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 December 31, 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-K. We believe it is important to understand the differences between the Company and the Operating Partnership in the context of how the Company and the Operating Partnership operate as an interrelated, consolidated company. The Company is a REIT, the only material asset of which is the partnership interests it holds in the Operating Partnership. As a result, the Company does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing equity from time to time and guaranteeing certain debt of the Operating Partnership. The Company itself is not directly obligated under any indebtedness, but guarantees some of the debt of the Operating Partnership. The Operating Partnership owns substantially all 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, 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 in the Operating Partnership’s noncontrolling interest in the Finance Partnership.

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

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

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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.

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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:

Item 6. Selected Financial Data – Kilroy Realty Corporation;

Item 6. Selected Financial Data – Kilroy Realty, L.P.;

Item 7. 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;

consolidated financial statements;

the following notes to the consolidated financial statements:

Note 7, Secured and Unsecured Debt of the Company;

Note 8, Secured and Unsecured Debt of the Operating Partnership;

Note 10, Noncontrolling Interests on the Company’s Consolidated Financial Statements;

Note 11, Stockholders’ Equity of the Company;

Note 12, Preferred and Common Units of the Operating Partnership;

Note 20, Net Income Available to Common Stockholders Per Share of the Company;

Note 21, Net Income Available to Common Unitholders Per Unit of the Operating Partnership;

Note 22, Supplemental Cash Flow Information of the Company;

Note 23, Supplemental Cash Flow Information of the Operating Partnership;

Note 25, Quarterly Financial Information of the Company (Unaudited); and

Note 26, Quarterly Financial Information of the Operating Partnership (Unaudited).

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

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PART I

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, information concerning projected future occupancy and rental rates, lease expirations, debt maturity, potential investments, strategies such as capital recycling, development and redevelopment activity, projected construction costs, dispositions, future executive incentive compensation and other forward-looking financial data, as well as the discussion in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Factors That May Influence Future Results of Operations.” Forward-looking statements are based on our current expectations, beliefs and assumptions, and are not guarantees of future performance. Forward-looking statements are inherently subject to uncertainties, risks, changes in circumstances, trends and factors that are difficult to predict, many of which are outside of our control. Accordingly, actual performance, results and events may vary materially from those indicated in the forward-looking statements, and you should not rely on the forward-looking statements as predictions of future performance, results or events. All forward-looking statements are based on currently available information and speak only as of the date on which they are made. We assume no obligation to update any forward-looking statement that becomes untrue because of subsequent events, new information or otherwise, except to the extent we are required to do so in connection with our ongoing requirements under U.S. federal securities laws.

## ITEM 1. BUSINESS

## The Company

We are a self-administered 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 own our interests in all of our properties through the Operating Partnership and the Finance Partnership and generally conduct substantially all of our operations through the Operating Partnership. We qualify as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”).

Our stabilized portfolio of operating properties was comprised of the following office properties at December 31, 2015:

|                              | Number of<br>Buildings | Rentable<br>Square Feet | Number of<br>Tenants | Percentage<br>Occupied |   |
|------------------------------|------------------------|-------------------------|----------------------|------------------------|---|
| Stabilized Office Properties | 101                    | 13,032,406              | 517                  | 94.8                   | % |

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. During the year ended December 31, 2015, we stabilized a development project consisting of two office buildings encompassing 108,517 rentable square feet in Hollywood, California, and a development project consisting of two office buildings encompassing 339,987 rentable square feet in Redwood City, California. These projects were included in our stabilized portfolio as of December 31, 2015. 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. 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 December 31, 2015, we had one office development project in the “lease-up” phase. We also had four operating properties and one land parcel classified as held for sale as of December 31, 2015. As of December 31, 2015, the following properties were excluded from our stabilized portfolio:

|   | Number of<br>Properties/Projects | Estimated Rentable<br>Square Feet <sup>(1)</sup> |
|---|----------------------------------|--|
| Properties held for sale <sup>(2)</sup> | 4                                | 465,812  |
| Development projects in “lease-up”      | 1                                | 73,000   |
| Development projects under construction | 5                                | 1,910,000  |

Estimated rentable square feet upon completion. See “Item 7. Management’s Discussion and Analysis of Financial (1) Condition and Results of Operations—Factors That May Influence Future Results of Operations —Completed, In-Process and Future Development Pipeline” for more information.

(2) See Note 4 “Dispositions and Real Estate Assets Held for Sale” to our consolidated financial statements included in this report for additional information.

Our stabilized portfolio also excludes our near-term and future development pipeline, which as of December 31, 2015, was comprised of ten potential development sites, representing approximately 99 gross acres of undeveloped land on

which we believe we have the potential to develop over 5.0 million square feet of office space, depending upon economic conditions.

As of December 31, 2015, all of our 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 one future development project located in the state of Washington. All of our properties and development projects are 100% owned, excluding two office properties owned by Redwood City Partners, LLC, a consolidated subsidiary, and an undeveloped land parcel

held at a qualified intermediary for potential future transactions that are intended to qualify as like-kind exchanges pursuant to Section 1031 of the Code (“Section 1031 Exchanges”) to defer taxable gains on dispositions for federal and state income tax purposes, which have been consolidated for financial reporting purposes (see Note 2 “Basis of Presentation and Significant Accounting Policies” to our consolidated financial statements included in this report).

We own our interests in all of our real estate assets through the Operating Partnership and the Finance Partnership and generally conduct substantially all of our operations through the Operating Partnership of which we owned a 98.1% common general partnership interest as of December 31, 2015. The remaining 1.9% common limited partnership interest in the Operating Partnership as of December 31, 2015 was owned by non-affiliated investors and certain of our executive officers and directors. Kilroy Realty Finance, Inc., a wholly owned subsidiary of the Company, is the sole general partner of the Finance Partnership and owns a 1.0% common general partnership interest. The Operating Partnership owns the remaining 99.0% common limited partnership interest. We conduct substantially all of our development activities through Kilroy Services, LLC (“KSLLC”), which is a wholly owned subsidiary of the Operating Partnership. With the exception of the Operating Partnership, Redwood City Partners LLC, all of the Company's subsidiaries are wholly owned.

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

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

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

• Corporate Governance Guidelines;

• Code of Business Conduct and Ethics;

• Audit Committee Charter;

• Executive Compensation Committee Charter; and

• Nominating / Corporate Governance Committee Charter.

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

Attention: Investor Relations  
Kilroy Realty Corporation  
12200 West Olympic Boulevard, Suite 200  
Los Angeles, California 90064



## Business and Growth Strategies

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

• the quality, geographic location, physical characteristics and operating sustainability 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, and construction and development management;

• our access to development, redevelopment, acquisition and leasing opportunities as a result of our extensive experience and significant working relationships with major West Coast property owners, corporate tenants, municipalities and landowners given our over 65-year presence in the West Coast markets;

• our active development program and our extensive future development pipeline of undeveloped land sites (see “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations —Information on Leases Commenced and Executed” for additional information pertaining to the Company’s in-process, near-term and future development pipeline);

• our capital recycling program (see “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations —Liquidity and Capital Resources of the Operating Partnership” for additional information pertaining to the Company’s capital recycling program and related 2015 and 2016 property and land dispositions);

• our ability to capitalize on inflection points in a real estate cycle to add quality assets to our portfolio at substantial discounts to long-term value, through either acquisition, development or redevelopment; and

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

• 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 property management, leasing, marketing, financing, accounting, legal, and construction and development management functions;

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

managing our properties to offer the maximum degree of utility and operational efficiency to tenants. We offer tenant sustainability programs focused on helping our tenants reduce their energy and water consumption and increase their recycling diversion rates. We also incorporate green lease language into all of our new full-service gross leases, which align tenant and landlord interests on energy, water, and waste efficiency and were honored in 2014 to be part of the inaugural class of Green Lease Leaders, the Institute for Market Transformation's program to encourage green leasing in real estate. 100% of our new full-service gross leases also contain a cost recovery clause for resource efficiency-related capital;

building our current development projects to Leadership in Energy and Environmental Design ("LEED") specifications. All of our development projects are now designed to achieve LEED certification, either LEED Platinum or Gold;

actively pursuing LEED certification for over 1.9 million square feet of office space under construction.

During the past few years we have significantly enhanced the sustainability profile of our portfolio, ending 2015 with 47% of our properties LEED certified and 64% of eligible properties ENERGY STAR certified.

During 2015, the Company was recognized for our sustainability efforts with multiple industry leadership awards, including NAREIT's 2015 Office Leader in the Light Award and ENERGY STAR Partner of the Year award. The company was also recognized by the Global Real Estate Sustainability Benchmark as the North American leader in sustainability for the second year in a row, and was ranked first among 155 North American participants across all asset types;

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

enhancing our management team with individuals who have extensive regional experience and are highly knowledgeable in their respective markets; and

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

**Development and Redevelopment Strategies.** We and our predecessors have developed office properties primarily located in California since 1947. As of December 31, 2015, our near-term and future development pipeline was comprised of ten potential development sites, representing approximately 99 gross acres of undeveloped land on which we believe we have the potential to develop over 5.0 million square feet of office space, depending upon economic conditions. Our strategy with respect to development is to:

maintain a disciplined approach by commencing development when appropriate based on market conditions, favoring pre-leasing, developing in stages or phasing, and cost control;

be the premier provider of modern and collaborative office buildings on the West Coast with focus on design and environment;

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

execute on our development projects under construction and our near-term and future development pipeline, including expanding entitlements; and

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

Redevelopment opportunities are those projects in which we spend significant development and construction costs on existing or acquired buildings pursuant to a formal plan, the intended result of which is a higher economic return

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on the property. We may engage in the additional development or redevelopment of office properties when market conditions support a favorable risk-adjusted return on such development or redevelopment. We expect that our significant working relationships with tenants, municipalities and landowners on the West Coast will give us further access to development and redevelopment 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.

**Acquisition Strategies.** We believe we are well positioned to acquire properties and development and redevelopment opportunities as the result of our extensive experience, strong financial position and ability to access capital. We continue to actively monitor our target markets and to evaluate the acquisition of value add office properties and development and redevelopment opportunities that add immediate Net Operating Income to our portfolio or play a strategic role in our future growth and that:

- provide attractive yields and significant potential for growth in cash flow from property operations;
- present growth opportunities in our existing or other strategic markets; and
- demonstrate the potential for improved performance through intensive management, repositioning and leasing that should result in increased occupancy and rental revenues.

**Financing Strategies.** Our financing policies and objectives are determined by our board of directors. Our goal is to limit our dependence on leverage and maintain a conservative ratio of debt-to-total market capitalization. As of December 31, 2015, our total debt as a percentage of total market capitalization was 26.7%, and our total debt and liquidation value of our preferred equity as a percentage of total market capitalization was 29.1%, both of which were calculated based on the quoted closing price per share of the Company's common stock of \$63.28 on December 31, 2015 (see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations —Liquidity and Capital Resources of the Company —Capitalization" for additional information). Our financing strategies include:

- maintaining financial flexibility, including a low secured to unsecured debt ratio, to maximize our ability to access a variety of both public and private capital sources;
- maintaining a staggered debt maturity schedule in which the maturity dates of our debt are spread over several years to limit risk exposure at any particular point in the capital and credit market cycles;
- completing financing in advance of the need for capital; and
- managing interest rate exposure by generally maintaining a greater amount of fixed-rate debt as compared to variable-rate debt.

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

#### Significant Tenants

As of December 31, 2015, our 15 largest tenants in terms of annualized base rental revenues represented approximately 36.9% of our total annualized base rental revenues, defined as annualized monthly contractual rents from existing tenants as of December 31, 2015. Annualized base rental revenue includes the impact of straight-lining rent escalations and the amortization of free rent periods and excludes the impact of the following: amortization of deferred revenue related tenant-funded tenant improvements, amortization of above/below market rents, amortization for lease incentives due under existing leases and expense reimbursement revenue.

For further information on our 15 largest tenants and the composition of our tenant base, see “Item 2. Properties —Significant Tenants.”

### Competition

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

### Segment and Geographic Financial Information

During 2015 and 2014, we had one reportable segment, our office properties segment. For information about our office property revenues and long-lived assets and other financial information, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Results of Operations.”

As of December 31, 2015, all of our 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 one future development project located in the state of Washington. All of our properties and development projects are 100% owned, excluding two office properties owned by Redwood City Partners, LLC, a consolidated subsidiary, and an undeveloped land parcel held at a qualified intermediary for potential future Section 1031 Exchanges, which have been consolidated for financial reporting purposes as variable interest entities (see Note 2 “Basis of Presentation and Significant Accounting Policies” to our consolidated financial statements included in this report).

### Employees

As of December 31, 2015, we employed 232 people through the Operating Partnership, KSLLC, and Kilroy Realty TRS, Inc. We believe that relations with our employees are good.

### Environmental Regulations and Potential Liabilities

**Government Regulation 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; however, if a Phase 1 does recommend that soil samples be taken or other subsurface investigations take place, we generally perform such recommended actions. Depending on the age of the property, the Phase I may have included an assessment of asbestos-containing materials or a separate hazardous materials survey may have been conducted. 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 or above ground storage tanks, may have caused soil or groundwater contamination.** In some instances, the prior owners of the affected

properties conducted remediation of known contamination in the soils on our properties. Although we may be required to conduct further clean-up of the soil at these properties (see Note 16 “Commitments and Contingencies” to our consolidated financial statements included in this report for additional information regarding our ground lease obligations), we are not aware of any such condition, liability, or concern by any other means that would give rise to material environmental liability. However, our assessments may have failed to reveal all environmental conditions, liabilities, or compliance concerns; there may be material environmental conditions, liabilities, or compliance concerns

that arose at a property after the review was completed; future laws, ordinances, or regulations may impose material additional environmental liability; and environmental conditions at our properties may be affected in the future by tenants, third parties, or the condition of land or operations near our properties, such as the presence of underground storage tanks. We cannot be certain that costs of future environmental compliance will not have an adverse effect on our financial condition, results of operations, cash flow, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to security holders.

Use of hazardous materials by some of our tenants. Some of our tenants handle hazardous substances and wastes on our properties as part of their routine operations. Environmental laws and regulations may subject these tenants, and potentially us, to liability resulting from such activities. We generally require our tenants in their leases to comply with these environmental laws and regulations and to indemnify us for any related liabilities. As of December 31, 2015, other than routine cleaning materials, approximately 5-8% of our tenants handled hazardous substances and/or wastes on approximately 1-3% of the aggregate square footage of our properties as part of their routine operations. These tenants are primarily involved in the life sciences business. The hazardous substances and wastes are primarily comprised of diesel fuel for emergency generators and small quantities of lab and light manufacturing chemicals including, but not limited to, alcohol, ammonia, carbon dioxide, cryogenic gases, dichlorophenol, methane, naturallyte acid, nitrogen, nitrous oxide, and oxygen which are routinely used by life science companies. We are not aware of any material noncompliance, liability, or claim relating to hazardous or toxic substances or petroleum products in connection with any of our properties, and management does not believe that on-going activities by our tenants will have a material adverse effect on our operations.

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

Potential environmental liabilities may exceed our environmental insurance coverage limits, transactional indemnities or holdbacks. We carry what we believe to be commercially reasonable environmental insurance. Our environmental insurance policies are subject to various terms, conditions and exclusions. Similarly, in connection with some transactions we obtain environmental indemnities and holdbacks that may not be honored by the indemnitors, may be less than the resulting liabilities or may otherwise fail to address the liabilities adequately. Therefore, we cannot provide any assurance that our insurance coverage or transactional indemnities will be sufficient or that our liability, if any, will not have a material adverse effect on our financial condition, results of operations, cash flows, quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to security holders.

## ITEM 1A. RISK FACTORS

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

### Risks Related to our Business and Operations

Global market and economic conditions may adversely affect our liquidity and financial condition and those of our tenants. Our business may be adversely affected by global market and economic conditions, including general global economic uncertainty and dislocations in the credit markets. 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 or, in some cases, cease to provide funding to borrowers. Volatility in the U.S. and international capital markets and concern over a return to 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 or worsen, 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.

All of our properties are located in California and greater Seattle, Washington and we may therefore be susceptible to adverse economic conditions and regulations, as well as natural disasters, in those areas. Because all of our properties are concentrated in California and greater Seattle, we may be exposed to greater economic risks than if we owned a more geographically dispersed portfolio. Further, within California, our properties are concentrated in Los Angeles, Orange County, San Diego County and the San Francisco Bay Area, exposing us to risks associated with those specific areas. We are susceptible to adverse developments in the economic and regulatory environments of California and greater Seattle (such as periods of economic slowdown or recession, business layoffs or downsizing, industry slowdowns, relocations of businesses, increases in real estate and other taxes, costs of complying with governmental regulations or increased regulation and other factors), as well as adverse weather conditions and natural disasters that occur in those areas (such as earthquakes, wind, landslides, droughts, fires and other events). In addition, California is also regarded as more litigious and more highly regulated and taxed than many other states, which may reduce demand for office space in California.

Any adverse developments in the economy or real estate market in California and the surrounding region, or in greater Seattle or any decrease in demand for office space resulting from the California or greater Seattle regulatory or business environment 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 dividends and distributions to our security holders.

Our performance and the market value of our securities 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 market value of the Company's 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 dividends and distributions to our security holders.

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

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

- inability to collect rent from tenants;

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

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

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

- costs of complying with changes in governmental regulations;

- the relative illiquidity of real estate investments;

- changing submarket demographics;

• changes in space utilization by our tenants due to technology, economic conditions and business culture;

• the development of harmful mold or other airborne toxins or contaminants that could damage our properties or expose us to third-party liabilities; and

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property damage resulting from seismic activity or other natural disasters.

We depend upon significant tenants, and the loss of a significant tenant could adversely affect our financial condition, results of operations, ability to borrow funds and cash flows. As of December 31, 2015, our 15 largest tenants represented approximately 36.9% of total annualized base rental revenues. See further discussion on the composition of our tenants by industry and our largest tenants under “Item 2. Properties —Significant Tenants.”

Our financial condition, results of operations, ability to borrow funds and cash flows would be adversely affected if any of our significant tenants fails to renew its lease(s), renew its lease(s) on terms less favorable to us, or becomes bankrupt or insolvent or otherwise unable to satisfy its lease obligations.

Downturn in tenants’ businesses may reduce our revenues and cash flows. For the year ended December 31, 2015, we derived approximately 99.6% of our revenues from rental income and tenant reimbursements. A tenant may experience a downturn in its business, which may weaken its financial condition and result in its failure to make timely rental payments or result in defaults under our leases. In the event of default by a tenant, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment.

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

A large percentage of our tenants operate in a concentrated group of industries and downturns in these industries could adversely affect our financial condition, results of operations and cash flows. As of December 31, 2015, as a percentage of our annualized base rental revenue, 37% of our tenants operated in the technology industry, 16% in the finance, insurance and real estate industries, 13% in the professional, business and other services industries, 11% in the media industry, 10% in the education and health services industries and 13% in other industries. As we continue our development and potential acquisition activities in markets populated by knowledge and creative based tenants in the technology and media industries, our tenant mix could become more concentrated, further exposing us to risks associated with those industries. For a further discussion of the composition of our tenants by industry, see “Item 2. Properties —Significant Tenants.” An economic downturn in any of these industries, or in any industry in which a significant number of our tenants currently or may in the future operate, could negatively impact the financial condition of such tenants and cause them to fail to make timely rental payments or default on lease obligations, fail to renew their leases or renew their leases on terms less favorable to us, become bankrupt or insolvent, or otherwise become unable to satisfy their obligations to us. As a result, a downturn in an industry in which a significant number of our tenants operate could adversely affect our financial conditions, result of operations and cash flows.

We may be unable to renew leases or re-lease available space. Most of our income is derived from the rent earned from our tenants. We had office space representing approximately 5.2%, of the total square footage of our properties that was not occupied as of December 31, 2015. In addition, leases representing approximately 5.8% and 10.4% of the leased rentable square footage of our properties are scheduled to expire in 2016 and 2017, 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. We cannot provide any assurance that leases will be renewed, available space will be re-leased or that our rental rates will be equal to or above the current rental rates. If the average rental rates for our properties decrease, existing tenants do not renew their leases, or available space is not re-leased, our financial condition, results of operations, cash

flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders could be adversely affected.

We are subject to governmental regulations that may affect the development, redevelopment and use of our properties. Our properties are subject to regulation under federal laws, such as the Americans with Disabilities Act of 1990 (the "ADA"), pursuant to 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 our properties. Federal, state, or local governments may also enact future laws and regulations that could require us to make significant modifications or renovations to our properties. If we were to incur substantial costs to comply with the ADA or any other regulations, our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders could be adversely affected.

Our properties are subject to land use rules and regulations that govern our development, redevelopment and use of our properties, such as Title 24 of the California Code of Regulations (“Title 24”), which prescribes building energy efficiency standards for residential and nonresidential buildings in the State of California. If we were not in compliance with material provisions of Title 24 or other regulations affecting our properties, we might be required to take remedial action, which could include making modifications or renovations to our properties. Changes in the existing land use rules and regulations and approval process that restrict or delay our ability to develop, redevelop or use our properties (such as potential restrictions on the use and/or density of new developments, water use and other uses and activities) or that prescribe additional standards could have an adverse effect on our financial position, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

We may not be able to meet our debt service obligations. As of December 31, 2015, we had approximately \$2.2 billion aggregate principal amount of indebtedness, of which \$9.7 million in principal payments will be paid during the year ended December 31, 2016 and our next debt maturity of \$64.3 million of secured debt will occur in February 2017. Our total debt and preferred equity at December 31, 2015 represented 29.1% of our total market capitalization (which we define as the aggregate of our long-term debt, liquidation value of our preferred equity, and the market value of the Company’s common stock and the Operating Partnership’s common units of limited partnership interest, or common units). For calculation of our market capitalization and additional information on debt maturities, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Liquidity and Capital Resources of the Company —Capitalization” and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Liquidity and Capital Resources of the Operating Partnership —Liquidity Uses.”

The instruments and agreements governing some of our outstanding indebtedness (including borrowings under the Operating Partnership’s unsecured revolving credit facility, unsecured term loan facility and unsecured term loan) contain provisions that require us to repurchase for cash or repay that indebtedness under specified circumstances or upon the occurrence of specified events (including certain changes of control of the Company), and our future debt agreements and debt securities may contain similar provisions or may require that we offer to repurchase the applicable indebtedness for cash under specified circumstances or upon the occurrence of specified events. We may not have sufficient funds to pay our indebtedness when due (including upon any such required repurchase, repayment or offer to repurchase), and we may not be able to arrange for the financing necessary to make those payments on favorable terms or at all. In addition, our ability to make required payments on our indebtedness when due (including upon any such required repurchase, repayment or offer to repurchase) may be limited by the terms of other debt instruments or agreements. Our failure to pay amounts due in respect of any of our indebtedness when due may constitute an event of default under the instrument governing that indebtedness, which could permit the holders of that indebtedness to require the immediate repayment of that indebtedness in full and, in the case of secured indebtedness, could allow them to sell the collateral securing that indebtedness and use the proceeds to repay that indebtedness. Moreover, any acceleration of or default in respect of any of our indebtedness could, in turn, constitute an event of default under other debt instruments or agreements, thereby resulting in the acceleration and required repayment of

that other indebtedness.

We cannot assure you that our business will generate sufficient cash flow from operations or that future sources of cash will be available to us in an amount sufficient to enable us to pay amounts due on our indebtedness or to fund our other liquidity needs, including cash distributions necessary to maintain the Company's REIT qualification.

Additionally, if we incur additional indebtedness in connection with future acquisitions or for any other purpose, our debt service obligations could increase.

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We may need to refinance all or a portion of our indebtedness on or before maturity. Our ability to refinance our indebtedness or obtain additional financing will depend on, among other things:

- our financial condition, results of operations and market conditions at the time; and
- restrictions in the agreements governing our indebtedness.

As a result, we may not be able to refinance our indebtedness on commercially reasonable terms or at all. If we do not generate sufficient cash flow from operations, and additional borrowings or refinancings or proceeds of asset sales or other sources of cash are not available to us, we may not have sufficient cash to enable us to meet all of our obligations. Accordingly, if we cannot service our indebtedness, we may have to take actions such as seeking additional equity financing, delaying capital expenditures, or entering into strategic acquisitions and alliances. Any of these events or circumstances could have a material adverse effect on our financial condition, results of operations, cash flows, the trading price of our securities and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders. In addition, foreclosures could create taxable income without accompanying cash proceeds, which could require us to borrow or sell assets to raise the funds necessary to meet the REIT distribution requirements discussed below, even if such actions are not on favorable terms.

The covenants in the agreements governing the Operating Partnership's unsecured revolving credit facility, unsecured term loan facility and unsecured term loan may limit our ability to make distributions to the holders of our common stock. The Operating Partnership's \$600.0 million unsecured revolving credit facility, \$150.0 million unsecured term loan facility and \$39.0 million unsecured term loan contain financial covenants that could limit the amount of distributions payable by us on our common stock and preferred stock. We rely on cash distributions we receive from the Operating Partnership to pay distributions on our common stock and preferred stock and to satisfy our other cash needs, and the unsecured revolving credit facility, unsecured term loan facility and unsecured term loan provide that the Operating Partnership may not, in any year, make partnership distributions to us or other holders of its partnership interests in an aggregate amount in excess of the greater of:

- 95% of the Operating Partnership's consolidated funds from operations (as defined in the agreements governing the unsecured revolving credit facility, unsecured term loan facility and unsecured term loan) for such year; and

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

In addition, the agreements governing the unsecured revolving credit facility, unsecured term loan facility and unsecured term loan each provides that, if the Operating Partnership fails to pay any principal of or interest on any borrowings or other amounts payable under such agreement when due, the Operating Partnership may make only those partnership distributions that result in distributions to us in an amount sufficient to permit us to make distributions to our stockholders that we reasonably believe are necessary to maintain our status as a REIT for federal and state income tax purposes. Any limitation on our ability to make distributions to our stockholders, whether as a result of these provisions in the unsecured revolving credit facility, the unsecured term loan facility, unsecured term loan or otherwise, could have a material adverse effect on the market value of our common stock.

A downgrade in our credit ratings could materially adversely affect our business and financial condition. The credit ratings assigned to the Operating Partnership's debt securities and our preferred stock could change based upon, among

other things, our results of operations and financial condition. These ratings are subject to ongoing evaluation by credit rating agencies, and we cannot assure you that any rating will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. Moreover, these credit ratings do not apply to our common stock and are not recommendations to buy, sell or hold our common stock or any other securities. If any of the credit rating agencies that have rated the Operating Partnership's debt securities or our preferred stock downgrades or lowers

its credit rating, or if any credit rating agency indicates that it has placed any such rating on a so-called “watch list” for a possible downgrading or lowering or otherwise indicates that its outlook for that rating is negative, it could have a material adverse effect on our costs and availability of capital, which could in turn have a material adverse effect on our financial condition, results of operations, cash flows, the trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

We face significant competition, which may decrease the occupancy and rental rates of our properties. We compete with several developers, owners and operators of office, undeveloped land 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 price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders may be adversely affected.

In order to maintain the quality of our properties and successfully compete against other properties, we must periodically spend money to maintain, repair and renovate our properties, which reduces our cash flows. If our properties are not as attractive to current and prospective tenants in terms of rent, services, condition or location as properties owned by our competitors, we could lose tenants or suffer lower rental rates. As a result, we may from time to time be required to make significant capital expenditures to maintain the competitiveness of our properties. There can be no assurances that any such expenditure would result in higher occupancy or higher rental rates, or deter existing tenants from relocating to properties owned by our competitors.

Potential casualty losses, such as earthquake losses, may adversely affect our financial condition, results of operations and cash flows. 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. In addition, all of our properties are located in earthquake-prone areas. 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. We may also 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. Further, 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 not be able to rebuild our existing properties to their existing specifications if we experience a substantial or comprehensive loss of such properties. In the event that we experience a substantial or comprehensive loss of one of our properties, we may not be able to rebuild such property to its existing specifications. Further, reconstruction or improvement of such property could potentially require significant upgrades to meet zoning and building code requirements or be subject to environmental and other legal restrictions.

Climate change may adversely affect our business. To the extent that climate change does occur, we may experience extreme weather and changes in precipitation and temperature, all of which may result in physical damage or a decrease in demand for our properties located in the areas affected by these conditions. Should the impact of climate change be material in nature or occur for lengthy periods of time, our financial condition or results of operations would be adversely affected. In addition, changes in federal and state legislation and regulation on climate change

could result in increased capital expenditures to improve the energy efficiency of our existing properties in order to comply with such regulations.

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, acquirer and developer of real properties, we are subject to environmental and health and safety laws and regulations. Certain of these laws and regulations impose joint and several liability, without regard to fault, for investigation and clean-up

costs on current and former owners and operators of real property and persons who have disposed of or released hazardous substances into the environment. At some of our 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 our properties. Although we believe that the prior owners of the affected properties or other persons may have conducted remediation of known contamination at these properties, not all such contamination has been remediated and further clean-up at these properties may be required. Unknown or unremediated 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. See “Item 1. Business —Environmental Regulations and Potential Liabilities.”

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

- 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 and private REITs, institutional investment funds and other real estate investors;

- even if we are able to acquire a desired property, competition from other real estate investors may significantly increase the purchase price;

- even if we enter into agreements for the acquisition of a desired property, we may be unable to complete such acquisitions because they remain subject to customary conditions to closing, including the completion of due diligence investigations to management’s satisfaction;

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

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

- we may lease acquired properties at economic lease terms different than projected;

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

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

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

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

- we may be unable to lease acquired, developed or redeveloped properties at projected economic lease terms or within budgeted timeframes;

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

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

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

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

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

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

While we historically have acquired, developed and redeveloped office properties in California markets, over the past few years we have acquired properties in greater Seattle, where we currently have twelve properties and one future development project, and may in the future acquire, develop or redevelop properties for other uses and expand our business to other geographic regions where we expect the development or acquisition of property to result in favorable risk-adjusted returns on our investment. Presently, we do not possess the same level of familiarity with other outside markets, which could adversely affect our ability to acquire, develop or redevelop properties or to achieve expected performance.

We face risks associated with the development of mixed-use commercial properties. We are currently developing, and in the future may develop, properties either alone or through joint ventures that are known as “mixed-use” developments. This means that in addition to the development of office space, the project may also include space for residential, retail or other commercial purposes. Generally we have less experience developing and managing non-office real estate. As a result, if a development project includes non-office space, we may develop that space ourselves or seek to partner with a third-party developer with more experience. If we do not partner with such a developer, or if we choose to develop the space ourselves, we would be exposed to specific risks associated with the development and ownership of non-office real estate. In addition, if we elect to participate in the development through a joint venture, we may be exposed to the risks associated with the failure of the other party to complete the development as expected, which could require that we identify another joint venture partner and/or complete the project ourselves (including providing any necessary financing). In the case of residential properties, these risks include competition for prospective tenants from other operators whose properties may be perceived to offer a better location or better amenities or whose rent may be perceived as a better value given the quality, location and amenities that the tenant seeks. With residential properties, we will also compete against apartments, condominiums and single-family homes that are for sale or rent. Because we have less experience with residential properties, we may retain third parties to manage these properties. If we decide to wholly own a non-office project and hire a third-party manager, we could be dependent on that party and its key personnel to provide services to us, and we may not find a suitable replacement if the management agreement is terminated, or if key personnel leave or otherwise become unavailable to us.

Joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on co-venturers' financial condition, and disputes between us and our co-venturers and could expose us to potential liabilities and losses. In addition to the Redwood City Partners, LLC venture formed during 2013, we may continue to co-invest in the future with third parties through partnerships, joint ventures or other entities, or through acquiring non-controlling interests in, or sharing responsibility for, managing the affairs of a property, partnership, joint venture or other entity, which may subject us to risks that may not be present with other methods of ownership, including the following:

we would not be able to exercise sole decision-making authority regarding the property, partnership, joint venture or other entity, which would allow for impasses on decisions that could restrict our ability to sell or transfer our interests in such entity or such entity's ability to transfer or sell its assets;

partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions,

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which could delay construction or development of a property or increase our financial commitment to the partnership or joint venture;

partners or co-venturers may pursue economic or other business interests, policies or objectives that are competitive or inconsistent with ours;

if we become a limited partner or non-managing member in any partnership or limited liability company, and such entity takes or expects to take actions that could jeopardize our status as a REIT or require us to pay tax, we may be forced to dispose of our interest in such entity;

disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/or directors from focusing their time and effort on our business; and

we may, in certain circumstances, be liable for the actions of our third-party partners or co-venturers.

We own certain properties subject to ground leases and other restrictive agreements that limit our uses of the properties, restrict our ability to sell or otherwise transfer the properties and expose us to the loss of the properties if such agreements are breached by us, terminated or not renewed. As of December 31, 2015, we owned eleven office buildings, located on various land parcels and regions, which we lease individually on a long-term basis. As of December 31, 2015, we had approximately 1.9 million aggregate rentable square feet, or 14.2% of our total stabilized portfolio, of rental space located on these leased parcels and we may in the future invest in additional properties that are subject to ground leases or other similar restrictive arrangements. Many of these ground leases and other restrictive agreements impose significant limitations on our uses of the subject property, restrict our ability to sell or otherwise transfer our interests in the property or restrict our leasing of the property. These restrictions may limit our ability to timely sell or exchange the properties, impair the properties' value or negatively impact our ability to find suitable tenants for the properties. In addition, if we default under the terms of any particular lease, we may lose the ownership rights to the property subject to the lease. Upon expiration of a lease, we may not be able to renegotiate a new lease on favorable terms, if at all. The loss of the ownership rights to these properties or an increase of rental expense could have an adverse effect on our financial condition, results of operations, cash flow, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

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

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

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

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

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

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

We face risks associated with short-term liquid investments. From time to time, we have significant cash balances that we invest in a variety of short-term investments that are intended to preserve principal value and maintain a high degree of liquidity while providing current income. These investments may include (either directly or indirectly):

• direct obligations issued by the U.S. Treasury;

• obligations issued or guaranteed by the U.S. government or its agencies;

• taxable municipal securities;

• obligations (including certificates of deposits) of banks and thrifts;

• commercial paper and other instruments consisting of short-term U.S. dollar denominated obligations issued by corporations and banks;

• repurchase agreements collateralized by corporate and asset-backed obligations;

• both registered and unregistered money market funds; and

• other highly rated short-term securities.

Investments in these securities and funds are not insured against loss of principal. Under certain circumstances we may be required to redeem all or part of our investment, and our right to redeem some or all of our investment may be delayed or suspended. In addition, there is no guarantee that our investments in these securities or funds will be redeemable at par value. A decline in the value of our investment or a delay or suspension of our right to redeem may have a material adverse effect on our results of operations or financial condition.

Future terrorist activity or engagement in war by the United States may have an adverse effect on our financial condition and operating results. Terrorist attacks in the United States 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 United States also may adversely affect the markets in which our securities trade and may cause further erosion of business and consumer confidence and spending, and may result in increased volatility in national and international financial markets and economies. Any one of these events may cause a decline in the demand for our office 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.

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”) will subject us to substantial additional federal regulation. There are significant corporate governance and executive

compensation-related requirements that have been, and will in the future be, imposed on publicly-traded companies under the Dodd-Frank Act. Several of these provisions require the SEC to adopt additional rules and regulations in these areas. For example, the Dodd-Frank Act requires publicly-traded companies to give stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments, heightens certain independence standards for compensation advisers and authorizes the SEC to promulgate rules that would allow stockholders to nominate their own candidates for board seats using a registrant’s proxy materials. Our efforts to comply with these requirements have resulted in, and are likely to continue to result in, an increase in expenses and a diversion of management’s time

from other business activities. In addition, if stockholders do not vote to approve our executive compensation practices and/or our equity plan amendments, these actions may interfere with our ability to attract and retain key personnel who are essential to our future success. Given the uncertainty associated with both the results of the existing Dodd-Frank Act requirements and the manner in which additional provisions of the Dodd-Frank Act will be implemented by various regulatory agencies and through regulations, the full extent of the impact of such requirements on our operations is unclear. Accordingly, the changes resulting from the Dodd-Frank Act may impact the profitability of business activities, require changes to certain business practices, or otherwise adversely affect our financial condition, results of operations, cash flows, the quoted trading price of our securities and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

Our property taxes could increase due to reassessment or property tax rate changes. We are required to pay some state and local taxes on our properties. In addition, the real property taxes on our properties may increase as our properties are reassessed by taxing authorities or as property tax rates change. For example, under a current California law commonly referred to as "Proposition 13," property tax reassessment generally occurs as a result of a "change in ownership" of a property, as specially defined for purposes of those rules. Because the property taxing authorities may not determine whether there has been a "change in ownership" or the actual reassessed value of a property for a period of time after a transaction has occurred, we may not know the impact of a potential reassessment for a considerable amount of time following a particular transaction. Therefore, the amount of property taxes we are required to pay could increase substantially from the property taxes we currently pay or have paid in the past, including on a retroactive basis. In addition, from time to time voters and lawmakers have announced initiatives to repeal or amend Proposition 13 to eliminate its application to commercial property and/or introduce split tax roll legislation. Such initiatives, if successful, would increase the assessed value and/or tax rates applicable to commercial property in California, including our properties. An increase in the assessed value of our properties or our property tax rates could adversely impact our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

Unfavorable resolution of litigation matters and disputes could have a material adverse effect on our financial condition. From time to time, we are involved in legal proceedings, lawsuits and other claims. We may also be named as defendants in lawsuits allegedly arising out of our actions or the actions of our operators and tenants in which such operators and tenants have agreed to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities arising in connection with their respective businesses. An unfavorable resolution of litigation could have an 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 our ability to pay dividends and distributions to our security holders. Regardless of its outcome, litigation may result in substantial costs and expenses and significantly divert the attention of our management. There can be no assurance that we will be able to prevail in, or achieve a favorable settlement of, litigation. In addition, litigation, government proceedings or environmental matters could lead to increased costs or interruption of our normal business operations.

Our business could be adversely impacted if there are deficiencies in our disclosure controls and procedures or internal control over financial reporting. The design and effectiveness of our disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. While management will continue to review the effectiveness of our disclosure controls and procedures and internal control over financial reporting, there can be no guarantee that our internal control over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, including any material weakness, in our internal control over financial reporting that may occur in the future could result in misstatements of our results of operations, restatements of our financial statements, or otherwise adversely impact our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

We face risks associated with security breaches through cyber attacks, cyber intrusions or otherwise, as well as other significant disruptions of our information technology (IT) networks and related systems. We face risks associated with security breaches, whether through cyber attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to e-mails, persons inside our organization or persons with access to systems inside our organization, and other significant disruptions of our IT networks and related systems. The risk of a security breach or disruption, particularly through cyber attack or cyber intrusion, including by computer hackers, foreign governments and cyber

terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Our IT networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations (including managing our building systems), and, in some cases, may be critical to the operations of certain of our tenants. There can be no assurance that our efforts to maintain the security and integrity of these types of IT networks and related systems will be effective or that attempted security breaches or disruptions would not be successful or damaging. A security breach or other significant disruption involving our IT networks and related systems could, among other things:

- result in unauthorized access to, destruction, loss, theft, misappropriation or release of proprietary, confidential, sensitive or otherwise valuable information of ours or others, including personally identifiable and account information that could be used to compete against us or for disruptive, destructive or otherwise harmful purposes and outcomes;
- result in unauthorized access to or changes to our financial accounting and reporting systems and related data;
- result in our inability to maintain building systems relied on by our tenants;
- require significant management attention and resources to remedy any damage that result;
- subject us to regulatory penalties or claims for breach of contract, damages, credits, penalties or terminations of leases or other agreements; or
- damage our reputation among our tenants and investors.

These events could have an adverse impact on our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

An increase in interest rates would increase our interest costs on variable rate debt and could adversely affect our financial condition, results of operations and cash flows. As of December 31, 2015 approximately 8.4% of our total outstanding debt was subject to variable interest rates and therefore subject to interest rate risk. In addition, we have an unsecured revolving credit facility bearing interest at a variable rate on all amounts drawn on the facility and we may incur additional variable rate debt in the future. An increase in interest rates on variable rate debt would increase our interest expense. Further, rising interest rates could limit our ability to refinance existing debt when it matures. To mitigate this risk, in the future we may enter into interest rate swap agreements or other interest rate hedging contracts. While these agreements would be intended to lessen the impact of rising interest rates on us, they could also expose us to the risk that the counterparties fail to perform, or the underlying transactions could fail to qualify as highly-effective cash flow hedges under the accounting guidance.

The trading price of our common stock may fluctuate significantly. The trading price of our common stock may fluctuate significantly. Between January 1, 2015 and February 11, 2016, the closing sale price of KRC's common stock on the New York Stock Exchange, or the NYSE, ranged from \$47.38 to \$78.86 per share. The trading price of our common stock may fluctuate in response to many factors, including:

- actual or anticipated variations in our operating results, funds from operations, cash flows, liquidity or distributions;
- our ability to successfully execute on our development program;
- our ability to successfully complete acquisitions and operate acquired properties;

• earthquakes;

• changes in our earnings estimates or those of analysts;

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publication of research reports about us, the real estate industry generally or the office and residential sectors in which we operate;

the failure to maintain our current credit ratings or comply with our debt covenants;

increases in market interest rates that lead purchasers of our common stock to demand a higher dividend yield;

changes in market valuations of similar companies;

adverse market reaction to any debt or equity securities we may issue or additional debt we incur in the future;

additions or departures of key management personnel;

actions by institutional stockholders;

speculation in the press or investment community;

high levels of volatility in the credit markets;

general market and economic conditions; and

the realization of any of the other risk factors included in this report.

Many of the factors listed above are beyond our control. These factors may cause the trading price of our common stock to decline, regardless of our financial performance and condition and prospects. It is impossible to provide any assurance that the trading price of our common stock or the amount of dividends we pay on our common stock will not decline in the future, and it may be difficult for holders to resell shares of our common stock at prices they find attractive or at all.

Changes in accounting pronouncements could adversely affect our operating results, in addition to the reported financial performance of our tenants. Uncertainties posed by various initiatives of accounting standard-setting by the Financial Accounting Standards Board and the SEC, which establish and govern accounting standards for U.S. companies, may change the financial accounting and reporting standards or their interpretation and application of these standards that govern the preparation of our financial statements, including proposed changes in lease accounting.

Proposed and/or future changes in accounting standards could have a material impact on our reported financial condition and results of operations. In some cases, we could be required to apply a new or revised standard retroactively, resulting in potentially material restatements of prior period financial statements. Similarly, these changes could have a material impact on our tenants' reported financial condition or results of operations or could impact our tenants' business decisions in leasing real estate.

We face risks associated with our tenants and contractual counterparties being designated "Prohibited Persons" by the Office of Foreign Assets Control. Pursuant to Executive Order 13224 and other laws, the Office of Foreign Assets Control of the United States Department of the Treasury ("OFAC") maintains a list of persons designated as terrorists or who are otherwise blocked or banned ("Prohibited Persons"). OFAC regulations and other laws prohibit conducting business or engaging in transactions with Prohibited Persons (the "OFAC Requirements"). Certain of our loan and other agreements require us to comply with OFAC Requirements. Our leases and other agreements, in general, require the other party to comply with OFAC Requirements. If a tenant or other party with whom we contract is placed on the

OFAC list we may be required by the OFAC Requirements to terminate the lease or other agreement. Any such termination could result in a loss of revenue or a damage claim by the other party that the termination was wrongful.

#### Risks Related to Our Organizational Structure

Loss of our key personnel could harm our operations and financial performance and adversely affect the quoted trading price of our securities. The leadership and performance of our executive and senior officers play a key role in

the success of the Company. They are integral to the Company's success for many reasons, including that each has a strong national or regional reputation in our industry and investment community. In addition, they have significant relationships with investors, lenders, tenants and industry personnel, which benefit the Company.

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

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

In certain circumstances, our limited partners must approve our dissolution and the disposition of properties contributed by the limited partners. For as long as limited partners own at least 5% of all of the Operating Partnership's partnership interests, we must obtain the approval of limited partners holding a majority of the units representing common limited partnership interests before we may dissolve. As of December 31, 2015, limited partners owned approximately 1.9% of the Operating Partnership's partnership interests, of which 0.8% was owned by John Kilroy. In addition, we agreed to use commercially reasonable efforts to minimize the tax consequences to common limited partners resulting from the repayment, refinancing, replacement, or restructuring of debt, or any sale, exchange, or other disposition of any of our other assets. The exercise of one or more of these approval rights by the limited partners could delay or prevent us from completing a transaction that may be in the best interest of all our security holders.

The Chairman of our board of directors and our President and Chief Executive Officer has substantial influence over our affairs. John Kilroy is the Chairman of our board of directors and our President and Chief Executive Officer. John Kilroy beneficially owned, as of December 31, 2015, approximately 1.5% of the total outstanding shares of our common stock. The percentage of outstanding shares of common stock beneficially owned includes 70,321 shares of common stock, 464,925 restricted stock units ("RSUs") that were vested and held by John Kilroy at December 31, 2015, and assumes the exchange into shares of our common stock of the 782,059 common units of the Operating Partnership held by John Kilroy (which may be exchanged for an equal number of shares of our common stock).

Pursuant to the Company's charter, no stockholder may own, actually or constructively, more than 7.0% (by value or by number of shares, whichever is more restrictive) 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 Kilroy, members of his family and some of their affiliated entities. These named individuals and entities may own either actually or constructively, in the aggregate, up to 19.6% of the our common stock, excluding Operating Partnership units that are exchangeable into shares of our common stock. Consequently, John Kilroy has substantial influence over the Company, and because the Company is the manager of the Operating Partnership, over the Operating Partnership, and could

exercise his influence in a manner that is not in the best interest of our stockholders, noteholders or unitholders. Also, John Kilroy may, in the future, have a substantial influence over the outcome of any matters submitted to our stockholders or unitholders for approval.

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

In order for the Company to qualify as a REIT under the Code, its stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months (other than the first year for which an election to be a REIT has been made) or during a proportionate part of a shorter taxable year. Also, not more than 50% of the value of the outstanding shares of the Company's stock may be owned, actually or constructively, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of a taxable year (other than the first year for which an election to be a REIT has been made). The Company's charter contains restrictions on the ownership and transfer of its capital stock that are intended to assist the Company in complying with these requirements and continuing to qualify as a REIT. No single stockholder may own, either actually or constructively, absent a waiver from the board of directors, more than 7.0% (by value or by number of shares, whichever is more restrictive) of the Company's outstanding common stock. Similarly, absent a waiver from the board of directors, no single holder of the Company's 6.875% Series G Cumulative Redeemable Preferred stock (the "Series G Preferred Stock") may actually or constructively own more than 9.8% (by value or by number of shares, whichever is more restrictive) of the Company's Series G Preferred Stock; and no single holder of the Company's 6.375% Series H Cumulative Redeemable Preferred stock (the "Series H Preferred Stock") may actually or constructively own more than 9.8% (by value or by number of shares, whichever is more restrictive) of the Company's Series H Preferred Stock.

The constructive ownership rules under the Code are complex and may cause stock owned actually or constructively by a group of related individuals and/or entities to be owned constructively by one individual or entity. As a result, the acquisition of less than the applicable ownership limit of a particular class of the Company's capital stock could, nevertheless, cause that individual or entity, or another individual or entity, to constructively own stock in excess of, and thereby subject such stock to, the applicable ownership limit.

The board of directors may waive the ownership limits if it is satisfied that the excess ownership would not jeopardize the Company's REIT status and if it believes that the waiver would be in our best interest. The board of directors has waived the ownership limits with respect to John Kilroy, members of his family 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, excluding common units that are exchangeable into shares of common stock.

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 to a trust for the benefit of a qualified charitable organization, and the purported transferee or owner will have no rights with respect to those excess shares.

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

the Company's charter authorizes the board of directors to issue up to 30,000,000 shares of the Company's preferred stock, including convertible preferred stock, without stockholder approval. The board of directors may establish the preferences, rights and other terms, including the right to vote and the right to convert into common stock any shares issued. The issuance of preferred stock could delay or prevent a tender offer or a change of control even if a tender offer or a change of control was in our security holders' interest. As of December 31, 2015, 8,000,000 shares of the Company's preferred stock were issued and outstanding,

consisting of 4,000,000 shares of the Company's Series G Preferred Stock and 4,000,000 shares of the Company's Series H Preferred Stock; and

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

The board of directors may change investment and financing policies without stockholder or unitholder approval. Our board of directors determines our major policies, including policies and guidelines relating to our acquisition, development and redevelopment activities, leverage, financing, growth, operations, indebtedness, capitalization and distributions to our security holders. Our board of directors may amend or revise these and other policies and guidelines from time to time without stockholder or unitholder approval. Accordingly, our stockholders and unitholders will have limited control over changes in our policies and those changes could adversely impact our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

We are not limited in our ability to incur debt. Our financing policies and objectives are determined by the board of directors. Our goal is to limit our dependence on leverage and maintain a conservative ratio of debt to total market capitalization. However, our organizational documents do not limit the amount or percentage of indebtedness, funded or otherwise, that we may incur. As of December 31, 2015, we had approximately \$2.2 billion aggregate principal amount of indebtedness outstanding, which represented 26.7% 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 29.1% as of December 31, 2015. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations —Liquidity and Capital Resources of the Company —Capitalization" for a calculation of our market capitalization. These ratios may be increased or decreased without the consent of our unitholders or stockholders. Increases in the amount of debt outstanding would result in an increase in our debt service, which could adversely affect cash flow and our ability to pay dividends and distributions to our security holders. Higher leverage also increases the risk of default on our obligations and limits our ability to obtain additional financing in the future.

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

The market price of our common stock may be adversely affected by future offerings of debt and equity securities by us or the Operating Partnership. In the future, we may increase our capital resources by offering our debt securities and preferred stock, the Operating Partnership's debt securities and equity securities and our or the Operating Partnership's other borrowings. Upon our liquidation, dissolution or winding-up, holders of such debt securities, our preferred stock and Operating Partnership's equity securities, and lenders with respect to other borrowings by us and the Operating Partnership, will be entitled to receive distributions of our available assets prior to the holders of our common stock and it is possible that, after making distributions on these other securities and borrowings, no assets would be available for distribution to holders of our common stock. In addition, the Operating Partnership's debt and equity securities and borrowings are structurally senior to our common stock, our debt securities and borrowings are senior in right of payment to our common stock, and our outstanding preferred stock has and any preferred stock we may issue in the future may have a preference over our common stock, and all payments (including dividends, principal and interest) and liquidating distributions on such securities and borrowings could limit our ability to pay

dividends or make other distributions to the holders of our common stock. Because any decision to issue securities and make borrowings in the future will depend on market conditions and other factors, some of which may be beyond our control, we cannot predict or estimate the amount, timing or nature of our or the Operating Partnership's future offerings or borrowings. Such future offerings or borrowings may reduce the market price of our common stock.

Sales of a substantial number of shares of the Company's securities, or the perception that this could occur, could result in decreasing the quoted trading price per share of the Company's common stock and of the Operating Partnership's publicly-traded notes. Management cannot predict whether future issuances of shares of the Company's common stock, or the availability of shares for resale in the open market will result in decreasing the market price per share of the Company's common stock. As of December 31, 2015, 92,258,690 shares of the Company's common stock and 8,000,000 shares of the Company's preferred stock, consisting of 4,000,000 shares of Series G Preferred Stock and 4,000,000 shares of Series H Preferred Stock, were issued and outstanding.

As of December 31, 2015, the Company had reserved for future issuance the following shares of common stock: 1,764,775 shares issuable upon the exchange, at the Company's option, of the Operating Partnership's common units; 1,686,608 shares remained available for grant under our 2006 Incentive Award Plan (see Note 13 "Shared-Based Compensation" to our consolidated financial statements included in this report); 1,269,809 shares issuable upon settlement of RSUs; 425,452 shares contingently issuable upon settlement of RSUs subject to performance conditions; and 610,000 shares issuable upon exercise of outstanding options. The Company has a currently effective registration statement registering 8,320,000 shares of our common stock for possible issuance under our 2006 Incentive Award Plan. The Company has a currently effective registration statement registering 1,821,503 shares of our common stock for possible issuance to and resale by certain holders of the Operating Partnership's common units. That registration statement also registers 141,634 shares of common stock held by certain stockholders for possible resale. Consequently, if and when the shares are issued, they may be freely traded in the public markets. The Company has a currently effective registration statement registering a total of up to 9,236,100 shares of our common stock (subject to certain anti-dilution and other potential adjustments) issuable upon conversion of our Series G preferred stock and Series H preferred stock following a "Change of Control" (as defined in the terms of the Series G preferred stock and Series H preferred stock, respectively) of the Company, and, if and when issued, will generally be freely tradable in the public markets. Consequently, if and when the shares are issued or sold under these registration statements, they will be freely tradable in the public markets.

#### Risks Related to Taxes and the Company's Status as a REIT

Loss of the Company's REIT status would have significant adverse consequences to us and the value of the Company's common stock. The Company currently operates in a manner that is intended to allow it to qualify as a REIT for federal income tax purposes under the Code. If the Company were to lose its REIT status, the Company would face adverse tax consequences that would substantially reduce the funds available for distribution to its stockholders for each of the years involved because:

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

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

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

In addition, if the Company failed to qualify as a REIT, it would not be required to make distributions to its stockholders. As a result of all these factors, the Company's failure to qualify as a REIT also could impair our ability to expand our business and raise capital, and could adversely affect the value and quoted trading price of the Company's common stock.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The complexity of these provisions and of the applicable

Treasury regulations that have been promulgated under the Code is greater in the case of a REIT that, like the Company, holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within our control may affect the Company's ability to continue to qualify as a REIT. For example, to qualify as a REIT, at least 95% of the Company's gross income in any year must be derived from qualifying sources. Also, the Company must make distributions to its stockholders aggregating annually at least 90% of the Company's net taxable

income (subject to certain adjustments and excluding any net capital gains). In addition, legislation, new regulations, administrative interpretations or court decisions may adversely affect the Company's security holders or the Company's ability to qualify as a REIT for federal income tax purposes or the desirability of an investment in a REIT relative to other investments. Although management believes that we are organized and operate in a manner to permit the Company to continue to qualify as a REIT, we cannot provide assurances that the Company has qualified or will continue to qualify as a REIT for tax purposes. We have not requested and do not plan to request a ruling from the Internal Revenue Service ("IRS") regarding the Company's qualification as a REIT.

To maintain the Company's REIT status, we may be forced to borrow funds during unfavorable market conditions. To qualify as a REIT, the Company generally must distribute to its stockholders at least 90% of the Company's net taxable income each year (subject to certain adjustments and excluding any net capital gains), and the Company will be subject to regular corporate income taxes to the extent that it distributes less than 100% of its net capital gains or distributes at least 90%, but less than 100%, of its net taxable income each year. In addition, the Company will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions it pays in any calendar year are less than the sum of 85% of its ordinary income, 95% of its net capital gains, and 100% of its undistributed income from prior years. To maintain the Company's REIT status and avoid the payment of federal income and excise taxes, the Operating Partnership may need to borrow funds and distribute or loan the proceeds to the Company so it can meet the REIT distribution requirements even if the then-prevailing market conditions are not favorable for these borrowings. These 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.

If a transaction intended to qualify as a Section 1031 Exchange is later determined to be taxable or if we are unable to identify and complete the acquisition of a suitable replacement property to effect a Section 1031 Exchange, we may face adverse consequences, and if the laws applicable to such transactions are amended or repealed, we may not be able to dispose of properties on a tax deferred basis. When possible, we dispose of properties in transactions that are intended to qualify as Section 1031 Exchanges. It is possible that the qualification of a transaction as a Section 1031 Exchange could be successfully challenged and determined to be currently taxable or that we may be unable to identify and complete the acquisition of a suitable replacement property to effect a Section 1031 Exchange. In such case, our taxable income and earnings and profits would increase. This could increase the dividend income to our stockholders by reducing any return of capital they received. In some circumstances, we may be required to pay additional dividends or, in lieu of that, corporate income tax, possibly including interest and penalties. As a result, we may be required to borrow funds in order to pay additional dividends or taxes and the payment of such taxes could cause us to have less cash available to distribute to our stockholders. In addition, if a Section 1031 Exchange were later to be determined to be taxable, we may be required to amend our tax returns for the applicable year in question, including any information reports we sent our stockholders. Moreover, it is possible that legislation could be enacted that could modify or repeal the laws with respect to Section 1031 Exchanges, which could make it more difficult or not possible for us to dispose of properties on a tax deferred basis.

Dividends payable by REITs, including us, generally do not qualify for the reduced tax rates available for some dividends. "Qualified dividends" payable to U.S. stockholders that are individuals, trusts and estates generally are subject to tax at preferential rates. Subject to limited exceptions, dividends payable by REITs are not eligible for these reduced rates and are taxable at ordinary income tax rates. The more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including the shares of our capital stock.

The tax imposed on REITs engaging in "prohibited transactions" may limit our ability to engage in transactions which would be treated as sales for federal income tax purposes. A REIT's net income from prohibited transactions is subject

to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. Although we do not intend to hold any properties that would be characterized as held for sale to customers in the ordinary course of our business, unless a sale or disposition qualifies under certain statutory safe harbors, such characterization is a factual determination and no guarantee can be given that the IRS would agree with our characterization of our properties or that we will always be able to make use of the available safe harbors.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities or liquidate otherwise attractive investments. To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our capital stock. If we fail to comply with one or more of the asset tests at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. In order to meet these tests, we may be required to forego investments we might otherwise make or to liquidate otherwise attractive investments. Thus, compliance with the REIT requirements may hinder our performance and reduce amounts available for distribution to our stockholders.

Legislative or regulatory action could adversely affect us. In recent years, numerous legislative, judicial and administrative changes have been made to the federal income tax laws applicable to investments in REITs and similar entities. Additional changes to tax laws are likely to continue to occur in the future, and any such changes may adversely impact our ability to qualify as a REIT, our tax treatment as a REIT, our ability to comply with contractual obligations or the tax treatment of our stockholders and limited partners.

#### ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

## ITEM 2. PROPERTIES

## General

Our stabilized portfolio of operating properties was comprised of the following office properties at December 31, 2015:

|                              | Number of<br>Buildings | Rentable<br>Square Feet | Number of<br>Tenants | Percentage<br>Occupied |   |
|------------------------------|------------------------|-------------------------|----------------------|------------------------|---|
| Stabilized Office Properties | 101                    | 13,032,406              | 517                  | 94.8                   | % |

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. During the year ended December 31, 2015, we stabilized a development project consisting of two office buildings encompassing 108,517 rentable square feet in Hollywood, California, and a development project consisting of two office buildings encompassing 339,987 rentable square feet in Redwood City, California. These projects were included in our stabilized portfolio as of December 31, 2015. 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. 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 December 31, 2015, we had one office development project in the “lease-up” phase. We also had four operating properties and one land parcel classified as held for sale as of December 31, 2015. As of December 31, 2015, the following properties were excluded from our stabilized portfolio:

|   | Number of<br>Properties/Projects | Estimated Rentable<br>Square Feet <sup>(1)</sup> |
|---|----------------------------------|--|
| Properties held for sale <sup>(2)</sup> | 4                                | 465,812  |
| Development projects in “lease-up”      | 1                                | 73,000   |
| Development projects under construction | 5                                | 1,910,000  |

<sup>(1)</sup> Estimated rentable square feet upon completion. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Factors That May Influence Future Results of Operations —Completed, In-Process and Future Development Pipeline” for more information.

<sup>(2)</sup> See Note 4 “Dispositions and Real Estate Assets Held for Sale” to our consolidated financial statements included in this report for additional information.

Our stabilized portfolio also excludes our near-term and future development pipeline, which as of December 31, 2015, was comprised of ten potential development sites, representing approximately 99 gross acres of undeveloped land on which we believe we have the potential to develop over 5.0 million square feet of office space, depending upon economic conditions.

As of December 31, 2015, all of our 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 one future development project located in the state of Washington. All of our properties and development projects are 100% owned, excluding two office properties owned by Redwood City Partners, LLC, a consolidated subsidiary, and an undeveloped land parcel held at a qualified intermediary for potential future Section 1031 Exchanges to defer taxable gains on dispositions for federal and state income tax purposes, which have been consolidated for financial reporting purposes (see Note 2

“Basis of Presentation and Significant Accounting Policies” for additional information).

We own all of our properties through the Operating Partnership and the Finance Partnership. All our properties are held in fee, except for the eleven office buildings that are held subject to long-term ground leases for the land (see Note 16 “Commitments and Contingencies” to our consolidated financial statements included in this report for additional information regarding our ground lease obligations).

In general, the office properties are leased to tenants on a full service gross, modified gross or triple net basis. Under a full service gross lease, we are 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. In addition, some office properties, primarily in the greater Seattle region and certain properties in certain submarkets in San Francisco, are leased to tenants on a triple net basis, pursuant to which the 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, 2015, we managed all of our properties through internal property managers.

### Office Properties

The following table sets forth certain information relating to each of the stabilized office properties owned as of December 31, 2015.

| Property Location                                   | No. of Buildings | Year Built/<br>Renovated | Rentable<br>Square Feet | Percentage<br>Occupied at<br>12/31/2015 <sup>(1)</sup> | Annualized<br>Base Rent<br>(in \$000's) <sup>(2)</sup> | Annualized<br>Rent<br>Per Square<br>Foot <sup>(2)</sup> |
|---|------------------|--------------------------|-------------------------|--|--|---|
| Los Angeles and Ventura Counties                    |                  |                          |                         |  |  |   |
| 23925 Park Sorrento,<br>Calabasas, California       | (3) 1            | 2001                     | 11,789                  | 100.0  | % \$421  | \$35.72   |
| 23975 Park Sorrento,<br>Calabasas, California       | (3) 1            | 2002                     | 104,797                 | 95.7   | % 3,388  | 34.69   |
| 24025 Park Sorrento,<br>Calabasas, California       | (3) 1            | 2000                     | 108,671                 | 75.0   | % 2,807  | 34.46   |
| 2829 Townsgate Road,<br>Thousand Oaks, California   | (3) 1            | 1990                     | 81,067                  | 100.0  | % 2,352  | 29.01   |
| 2240 E. Imperial Highway,<br>El Segundo, California | (4) 1            | 1983/ 2008               | 122,870                 | 100.0  | % 3,950  | 32.15   |
| 2250 E. Imperial Highway,<br>El Segundo, California | (8) 1            | 1983                     | 298,728                 | 100.0  | % 9,448  | 31.76   |
| 2260 E. Imperial Highway,<br>El Segundo, California | (4) 1            | 1983/ 2012               | 298,728                 | 100.0  | % 10,510   | 35.18   |
| 909 Sepulveda Blvd.,<br>El Segundo, California      | (3) 1            | 1972/ 2005               | 241,607                 | 97.9   | % 6,664  | 28.52   |
| 999 Sepulveda Blvd.,<br>El Segundo, California      | (3) 1            | 1962/ 2003               | 128,592                 | 95.7   | % 3,054  | 25.58   |
| 6115 W. Sunset Blvd.,<br>Los Angeles, California    | (5) 1            | 1938/ 2015               | 26,075                  | 98.3   | % 1,341  | 52.35   |
| 6121 W. Sunset Blvd.,<br>Los Angeles, California    | (5) 1            | 1938/ 2015               | 82,442                  | 100.0  | % 4,133  | 50.13   |
| 6255 Sunset Blvd,<br>Los Angeles, California        | (9) 1            | 1971/ 1999               | 324,617                 | 97.5   | % 11,531   | 37.70   |
|   | (3) 1            | 1989                     | 10,457                  | 86.1   | % 109  | 19.95   |

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|  |      |   |            |         |       |         |       |
|--|------|---|------------|---------|-------|---------|-------|
| 3750 Kilroy Airport Way,<br>Long Beach, California |      |   |            |         |       |         |       |
| 3760 Kilroy Airport Way,<br>Long Beach, California | (3)  | 1 | 1989       | 165,278 | 96.0  | % 4,776 | 30.09 |
| 3780 Kilroy Airport Way,<br>Long Beach, California | (3)  | 1 | 1989       | 219,745 | 89.2  | % 5,213 | 27.16 |
| 3800 Kilroy Airport Way,<br>Long Beach, California | (3)  | 1 | 2000       | 192,476 | 88.6  | % 5,411 | 31.71 |
| 3840 Kilroy Airport Way,<br>Long Beach, California | (3)  | 1 | 1999       | 136,026 | 100.0 | % 4,915 | 36.13 |
| 3880 Kilroy Airport Way,<br>Long Beach, California | (10) | 1 | 1987/ 2013 | 96,035  | 100.0 | % 2,839 | 29.56 |

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| Property Location  | No. of Buildings | Year Built/<br>Renovated | Rentable<br>Square Feet | Percentage<br>Occupied at<br>12/31/2015 <sup>(1)</sup> | Annualized<br>Base Rent<br>(in \$000's) <sup>(2)</sup> | Annualized<br>Rent<br>Per Square<br>Foot <sup>(2)</sup> |
|--|------------------|--------------------------|-------------------------|--|--|---|
| 3900 Kilroy Airport Way,<br>Long Beach, California                 | (3) 1            | 1987                     | 126,840                 | 100.0  | % 3,105  | 24.51   |
| 12100 W. Olympic Blvd.,<br>Los Angeles, California                 | (3) 1            | 2003                     | 150,167                 | 94.2   | % 6,098  | 43.10   |
| 12200 W. Olympic Blvd.,<br>Los Angeles, California                 | (3) 1            | 2000                     | 150,117                 | 97.6   | % 4,573  | 40.81   |
| 12233 W. Olympic Blvd.,<br>Los Angeles, California                 | (11) 1           | 1980/ 2011               | 151,029                 | 85.9   | % 4,452  | 48.48   |
| 12312 W. Olympic Blvd.,<br>Los Angeles, California                 | (6) 1            | 1950/ 1997               | 76,644                  | 100.0  | % 4,096  | 53.44   |
| 1633 26th Street,<br>Santa Monica, California                      | (4) 1            | 1972/ 1997               | 44,915                  | 100.0  | % 1,270  | 28.28   |
| 2100/2110 Colorado Avenue,<br>Santa Monica, California             | (3) 3            | 1992/ 2009               | 102,864                 | 100.0  | % 4,357  | 42.36   |
| 3130 Wilshire Blvd.,<br>Santa Monica, California                   | (3) 1            | 1969/ 1998               | 88,340                  | 88.7   | % 2,580  | 33.93   |
| 501 Santa Monica Blvd.,<br>Santa Monica, California                | (3) 1            | 1974                     | 73,115                  | 59.1   | % 2,175  | 50.98   |
| Subtotal/Weighted Average –<br>Los Angeles and Ventura<br>Counties | 29               |                          | 3,614,031               | 95.1   | % \$115,568  | \$34.68   |
| Orange County  |                  |                          |                         |  |  |   |
| 2211 Michelson,<br>Irvine, California                              | (3) 1            | 2007                     | 271,556                 | 94.0   | % \$9,518  | \$37.69   |
| Subtotal/Weighted Average –<br>Orange County                       | 1                |                          | 271,556                 | 94.0   | % \$9,518  | \$37.69   |
| San Diego County   |                  |                          |                         |  |  |   |
| 12225 El Camino Real,<br>Del Mar, California                       | (4) 1            | 1998                     | 58,401                  | 100.0  | % \$1,965  | \$33.64   |
| 12235 El Camino Real,<br>Del Mar, California                       | (4) 1            | 1998                     | 54,673                  | 96.4   | % 2,372  | 45.01   |
| 12340 El Camino Real,<br>Del Mar, California                       | (4) 1            | 2002                     | 87,774                  | 91.4   | % 3,506  | 43.68   |
| 12390 El Camino Real,<br>Del Mar, California                       | (4) 1            | 2000                     | 72,332                  | 100.0  | % 3,069  | 42.44   |
| 12348 High Bluff Drive,<br>Del Mar, California                     | (12) 1           | 1999                     | 38,806                  | 100.0  | % 1,292  | 33.29   |
| 12400 High Bluff Drive,<br>Del Mar, California                     | (4) 1            | 2004                     | 209,220                 | 100.0  | % 10,671   | 51.00   |
| 3579 Valley Centre Drive,<br>Del Mar, California                   | (4) 1            | 1999                     | 50,677                  | 100.0  | % 2,025  | 39.96   |
| 3611 Valley Centre Drive,<br>Del Mar, California                   | (3) 1            | 2000                     | 130,047                 | 100.0  | % 5,342  | 41.08   |
| 3661 Valley Centre Drive,<br>Del Mar, California                   | (13) 1           | 2001                     | 129,051                 | 90.2   | % 3,415  | 36.36   |

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|  |     |   |      |         |       |         |       |
|--|-----|---|------|---------|-------|---------|-------|
| 3721 Valley Centre Drive,<br>Del Mar, California                 | (4) | 1 | 2003 | 114,780 | 79.9  | % 4,155 | 45.28 |
| 3811 Valley Centre Drive,<br>Del Mar, California                 | (6) | 1 | 2000 | 112,067 | 100.0 | % 5,199 | 46.39 |
| 12780 El Camino Real,<br>Del Mar, California                     | (6) | 1 | 2013 | 140,591 | 100.0 | % 6,366 | 45.28 |
| 12790 El Camino Real,<br>Del Mar, California                     | (4) | 1 | 2013 | 78,349  | 97.5  | % 3,182 | 41.63 |
| 13280 Evening Creek Drive<br>South,<br>I-15 Corridor, California | (3) | 1 | 2008 | 41,196  | 100.0 | % 1,058 | 25.69 |
| 13290 Evening Creek Drive<br>South,<br>I-15 Corridor, California | (4) | 1 | 2008 | 61,180  | 100.0 | % 1,453 | 23.75 |
| 13480 Evening Creek Drive<br>North,<br>I-15 Corridor, California | (4) | 1 | 2008 | 149,817 | 100.0 | % 7,779 | 51.92 |
| 13500 Evening Creek Drive<br>North,<br>I-15 Corridor, California | (4) | 1 | 2004 | 147,533 | 100.0 | % 6,286 | 42.61 |

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| Property Location   | No. of Buildings | Year Built/ Renovated | Rentable Square Feet | Percentage Occupied at 12/31/2015 <sup>(1)</sup> | Annualized Base Rent (in \$000's) <sup>(2)</sup> | Annualized Rent Per Square Foot <sup>(2)</sup> |
|---|------------------|-----------------------|----------------------|--|--|--|
| 13520 Evening Creek Drive North,<br>I-15 Corridor, California | (4) 1            | 2004                  | 141,128              | 82.0   | % 4,167  | 36.93  |
| 2355 Northside Drive,<br>Mission Valley, California           | (3) 1            | 1990                  | 53,610               | 100.0  | % 1,410  | 27.07  |
| 2365 Northside Drive,<br>Mission Valley, California           | (3) 1            | 1990                  | 96,437               | 83.0   | % 2,552  | 31.88  |
| 2375 Northside Drive,<br>Mission Valley, California           | (14) 1           | 1990                  | 51,516               | 89.4   | % 1,350  | 29.32  |
| 2385 Northside Drive,<br>Mission Valley, California           | (3) 1            | 2008                  | 89,023               | 95.7   | % 2,690  | 31.58  |
| 2305 Historic Decatur Road,<br>Point Loma, California         | (15) 1           | 2009                  | 103,900              | 67.4   | % 2,400  | 34.25  |
| 4939 Directors Place,<br>Sorrento Mesa, California            | (6) 1            | 2002                  | 60,662               | 100.0  | % 2,276  | 37.52  |
| 4955 Directors Place,<br>Sorrento Mesa, California            | (16) 1           | 2008                  | 76,246               | —  | % —  | —  |
| 10390 Pacific Center Court,<br>Sorrento Mesa, California      | (6) 1            | 2002                  | 68,400               | 100.0  | % 2,771  | 40.52  |
| 10394 Pacific Center Court,<br>Sorrento Mesa, California      | (6) 1            | 1995                  | 59,630               | 100.0  | % 1,182  | 19.83  |
| 10398 Pacific Center Court,<br>Sorrento Mesa, California      | (6) 1            | 1995                  | 43,645               | 100.0  | % 698  | 15.99  |
| 10421 Pacific Center Court,<br>Sorrento Mesa, California      | (6) 1            | 1995/ 2002            | 75,899               | 100.0  | % 1,186  | 15.62  |
| 10445 Pacific Center Court,<br>Sorrento Mesa, California      | (6) 1            | 1995                  | 48,709               | 100.0  | % 936  | 19.22  |
| 10455 Pacific Center Court,<br>Sorrento Mesa, California      | (7) 1            | 1995                  | 90,000               | 100.0  | % 1,112  | 12.35  |
| 5717 Pacific Center Blvd.,<br>Sorrento Mesa, California       | (16) 1           | 2001/ 2005            | 67,995               | —  | % —  | —  |
| 4690 Executive Drive,<br>UTC, California                      | (3) 1            | 1999                  | 47,846               | 58.2   | % 693  | 24.87  |
| Subtotal/Weighted Average –<br>San Diego County               | 33               |                       | 2,851,140            | 89.6   | % \$94,558                                       | \$37.40  |
| San Francisco   |                  |                       |                      |  |  |  |
| 4100 Bohannon Drive,<br>Menlo Park, California                | (5) 1            | 1985                  | 47,379               | 100.0  | % \$1,719  | \$36.27  |
| 4200 Bohannon Drive,<br>Menlo Park, California                | (5) 1            | 1987                  | 45,451               | 100.0  | % 1,834  | 40.34  |
| 4300 Bohannon Drive,<br>Menlo Park, California                | (5) 1            | 1988                  | 63,079               | 100.0  | % 2,485  | 39.39  |
| 4400 Bohannon Drive,<br>Menlo Park, California                | (5) 1            | 1988                  | 48,146               | 100.0  | % 1,521  | 33.67  |
| 4500 Bohannon Drive,  | (5) 1            | 1990                  | 63,078               | 100.0  | % 2,041  | 32.35  |

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|  |      |   |      |         |       |          |       |
|--|------|---|------|---------|-------|----------|-------|
| Menlo Park, California<br>4600 Bohannon Drive,<br>Menlo Park, California | (17) | 1 | 1990 | 48,147  | 100.0 | % 1,172  | 40.92 |
| 4700 Bohannon Drive,<br>Menlo Park, California                           | (5)  | 1 | 1989 | 63,078  | 100.0 | % 2,275  | 36.07 |
| 331 Fairchild Drive,<br>Mountain View, California                        | (6)  | 1 | 2013 | 87,147  | 100.0 | % 4,185  | 48.03 |
| 680 E. Middlefield Road,<br>Mountain View, California                    | (6)  | 1 | 2014 | 170,090 | 100.0 | % 7,729  | 45.44 |
| 690 E. Middlefield Road,<br>Mountain View, California                    | (6)  | 1 | 2014 | 170,823 | 100.0 | % 7,763  | 45.44 |
| 900 Jefferson Avenue,<br>Redwood City, California                        | (5)  | 1 | 2015 | 226,197 | 100.0 | % 13,670 | 60.43 |
| 900 Middlefield Road,<br>Redwood City, California                        | (5)  | 1 | 2015 | 113,790 | 94.9  | % 5,808  | 53.77 |

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| Property Location                                   | No. of Buildings | Year Built/ Renovated | Rentable Square Feet | Percentage Occupied at 12/31/2015 <sup>(1)</sup> | Annualized Base Rent (in \$000's) <sup>(2)</sup> | Annualized Rent Per Square Foot <sup>(2)</sup> |
|---|------------------|-----------------------|----------------------|--|--|--|
| 303 Second Street, San Francisco, California        | (18) 1           | 1988                  | 740,047              | 98.5   | % 38,147   | 52.57  |
| 100 First Street, San Francisco, California         | (19) 1           | 1988                  | 467,095              | 90.8   | % 20,500   | 51.05  |
| 250 Brannan Street, San Francisco, California       | (4) 1            | 1907/ 2001            | 95,008               | 100.0  | % 5,413  | 56.98  |
| 201 Third Street, San Francisco, California         | (3) 1            | 1983                  | 346,538              | 99.7   | % 17,931   | 52.69  |
| 301 Brannan Street, San Francisco, California       | (4) 1            | 1909/ 1989            | 74,430               | 100.0  | % 3,957  | 53.16  |
| 360 Third Street, San Francisco, California         | (20) 1           | 2013                  | 429,796              | 95.2   | % 19,877   | 48.69  |
| 1310 Chesapeake Terrace, Sunnyvale, California      | (5) 1            | 1989                  | 76,244               | 100.0  | % 2,369  | 31.08  |
| 1315 Chesapeake Terrace, Sunnyvale, California      | (5) 1            | 1989                  | 55,635               | 100.0  | % 1,424  | 25.60  |
| 1320-1324 Chesapeake Terrace, Sunnyvale, California | (5) 1            | 1989                  | 79,720               | 100.0  | % 2,421  | 30.36  |
| 1325-1327 Chesapeake Terrace, Sunnyvale, California | (5) 1            | 1989                  | 55,383               | 100.0  | % 1,234  | 22.29  |
| 505 N. Mathilda Avenue, Sunnyvale, California       | (5) 1            | 2014                  | 212,322              | 100.0  | % 9,449  | 44.50  |
| 555 N. Mathilda Avenue, Sunnyvale, California       | (5) 1            | 2014                  | 212,322              | 100.0  | % 9,449  | 44.50  |
| 605 N. Mathilda Avenue, Sunnyvale, California       | (5) 1            | 2014                  | 162,785              | 100.0  | % 7,244  | 44.50  |
| 599 N. Mathilda Avenue, Sunnyvale, California       | (5) 1            | 2000                  | 75,810               | 100.0  | % 2,202  | 29.04  |
| Subtotal/Weighted Average – San Francisco           | 26               |                       | 4,229,540            | 98.1   | % \$193,819                                      | \$47.35  |
| Greater Seattle                                     |                  |                       |                      |  |  |  |
| 601 108th Avenue NE, Bellevue, Washington           | (5) 1            | 2000                  | 488,470              | 98.8   | % \$16,754                                       | \$35.07  |
| 10900 NE 4th Street, Bellevue, Washington           | (3) 1            | 1983                  | 416,755              | 94.3   | % 14,135   | 36.11  |
| 10210 NE Points Drive, Kirkland, Washington         | (5) 1            | 1988                  | 84,641               | 100.0  | % 2,081  | 24.59  |
| 10220 NE Points Drive, Kirkland, Washington         | (5) 1            | 1987                  | 49,851               | 100.0  | % 1,290  | 26.11  |
| 10230 NE Points Drive, Kirkland, Washington         | (5) 1            | 1990                  | 98,982               | 82.2   | % 2,283  | 28.57  |
| 3933 Lake Washington Blvd NE,                       | (5) 1            | 1993                  | 46,450               | 65.5   | % 836  | 27.49  |

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|   |     |     |      |            |       |             |         |
|---|-----|-----|------|------------|-------|-------------|---------|
| Kirkland, Washington<br>837 N. 34th Street,<br>Lake Union, Washington | (5) | 1   | 2008 | 111,580    | 100.0 | % 3,257     | 29.19   |
| 701 N. 34th Street,<br>Lake Union, Washington                         | (5) | 1   | 1998 | 138,995    | 72.4  | % 3,008     | 29.90   |
| 801 N. 34th Street,<br>Lake Union, Washington                         | (6) | 1   | 1998 | 169,412    | 100.0 | % 4,423     | 26.11   |
| 320 Westlake Terry Avenue<br>North,<br>Lake Union, Washington         | (5) | 1   | 2007 | 184,643    | 100.0 | % 6,314     | 34.20   |
| 321 Terry Avenue North,<br>Lake Union, Washington                     | (5) | 1   | 2013 | 135,755    | 100.0 | % 4,465     | 32.89   |
| 401 Terry Avenue North,<br>Lake Union, Washington                     | (6) | 1   | 2003 | 140,605    | 100.0 | % 6,207     | 44.15   |
| Subtotal/Weighted Average –<br>Greater Seattle                        |     | 12  |      | 2,066,139  | 95.1  | % \$65,053  | \$33.26 |
| TOTAL/WEIGHTED<br>AVERAGE   |     | 101 |      | 13,032,406 | 94.8  | % \$478,516 | \$39.34 |

- (1) Based on all leases at the respective properties in effect as of December 31, 2015. Includes month-to-month leases as of December 31, 2015.  
Annualized base rental revenue includes the impact of straight-lining rent escalations and the amortization of free rent periods and excludes the impact of the following: amortization of deferred revenue related tenant-funded
- (2) tenant improvements, amortization of above/below market rents, amortization for lease incentives due under existing leases and expense reimbursement revenue. Excludes month-to-month leases and vacant space as of December 31, 2015.
- (3) For these properties, the leases are written on a full service gross basis.
- (4) For these properties, the leases are written on a modified gross basis.
- (5) For these properties, the leases are written on a triple net basis.
- (6) For these properties, the leases are written on a modified net basis.
- (7) For this property, the leases are written on a gross basis.
- (8) For this property, leases of approximately 52,000 rentable square feet are written on a full service gross basis and approximately 246,000 rentable square feet are written on a modified gross basis.  
For this property, leases of approximately 5,000 rentable square feet are written on a modified gross basis,
- (9) approximately 294,000 rentable square feet are written on a full service gross basis and approximately 17,000 rentable square feet are written on a triple net basis.
- (10) For this property, leases of approximately 46,000 rentable square feet are written on a modified gross basis and approximately 50,000 rentable square feet are written on a full service gross basis.  
For this property, leases of approximately 25,000 rentable square feet are written on a full service gross basis,
- (11) approximately 71,000 rentable square feet are written on a modified gross basis and approximately 35,000 rentable square feet are written on a gross basis.
- (12) For this property, leases of approximately 23,000 rentable square feet are written on a full service gross basis and approximately 16,000 rentable square feet are written on a modified gross basis.
- (13) For this property, leases of approximately 32,000 rentable square feet are written on a full service gross basis, and approximately 84,000 rentable square feet are written on a modified gross basis.
- (14) For this property, leases of approximately 29,000 rentable square feet are written on a gross basis and approximately 17,000 rentable square feet are written on a full service gross basis.
- (15) For this property, leases of approximately 48,000 rentable square feet are written on a full service gross basis and approximately 22,000 rentable square feet are written on a gross basis.
- (16) These properties are vacant.
- (17) For this property, leases of approximately 19,000 rentable square feet are written on a gross basis and approximately 29,000 rentable square feet are written on a triple net basis.  
For this property, leases of approximately 491,000 rentable square feet are written on a full service gross basis,
- (18) approximately 18,000 rentable square feet are written on a triple net basis, approximately 38,000 rentable square feet are written on a gross basis and approximately 182,000 rentable square feet are written on a modified gross basis.  
For this property, leases of approximately 84,000 rentable square feet are written on a gross basis, approximately
- (19) 344,000 rentable square feet are written on a full service gross basis and approximately 8,000 rentable square feet is written on a triple net basis.
- (20) For this property, leases of approximately 370,000 rentable square feet are written on a modified gross basis and approximately 59,000 rentable square feet are written on a full service gross basis.

## Completed Development Projects and Development Projects in Lease-Up

During the year ended December 31, 2015, we completed and stabilized the following development projects, each comprised of two buildings, which were added to our stabilized portfolio of operating properties:

| Completed Development Project                                     | Construction Period |                                 | Rentable Square Feet | Office % Occupied |   |
|---|---------------------|---------------------------------|----------------------|-------------------|---|
|   | Start Date          | Completion / Stabilization Date |                      |                   |   |
| Crossing/900<br>Redwood City, California <sup>(1)</sup>           | 4Q 2013             | 4Q 2015                         | 339,987              | 100.0             | % |
| Columbia Square - Phase 1<br>Hollywood, California <sup>(2)</sup> | 2Q 2013             | 3Q 2015                         | 108,517              | 100.0             | % |
| TOTAL:  |                     |                                 | 448,504              | 100.0             | % |

(1) This project is owned by Redwood City Partners, LLC, a consolidated subsidiary.

(2) Phase 1 is comprised of 94,969 rentable square feet of office space and 13,548 rentable square feet of retail space.

During the fourth quarter of December 31, 2015, we completed the building shell of the following development project, and this property was in “lease-up” at December 31, 2015:

| Lease-up Projects                             | Construction Period |                 | Estimated Stabilization Date | Rentable Square Feet | % Occupied |
|---|---------------------|-----------------|------------------------------|----------------------|------------|
|   | Start Date          | Completion Date |                              |                      |            |
| The Heights at Del Mar<br>Del Mar, California | 4Q 2014             | 4Q 2015         | 4Q 2016                      | 73,000               | — %        |

## In-Process, Near-Term and Future Development Pipeline

The following table sets forth certain information relating to our in-process development pipeline as of December 31, 2015.

| In-Process Development Projects     | Estimated Construction Period | Estimated Construction Completion Date | Estimated Stabilization Date | Estimated Rentable Square Feet | Office % Leased |
|-------------------------------------|-------------------------------|--|------------------------------|--------------------------------|-----------------|
|                                     | Start Date                    | Completion Date                        | Stabilization Date           | Square Feet                    |                 |
| <b>UNDER CONSTRUCTION:</b>          |                               |  |                              |                                |                 |
| San Francisco, California           |                               |  |                              |                                |                 |
| 350 Mission Street                  | 4Q 2012                       | 3Q 2015                                | 2Q 2016                      | 450,000                        | 100%            |
| 333 Brannan Street                  | 4Q 2013                       | 3Q 2015                                | 2Q 2016                      | 185,000                        | 100%            |
| The Exchange on 16th <sup>(1)</sup> | 2Q 2015                       | 3Q 2017                                | 3Q 2018                      | 700,000                        | —%              |
| Los Angeles, California             |                               |  |                              |                                |                 |
| Columbia Square Phase 2 - Office    | 3Q 2013                       | 1Q 2016                                | 1Q 2017                      | 370,000                        | 58%             |
| Columbia Square Residential         | 3Q 2013                       | 1Q 2016                                | 1Q 2017                      | 205,000                        | N/A             |
| SUBTOTAL:                           |                               |  |                              | 1,910,000                      | 50%             |

- (1) In the second quarter of 2015, the Company commenced development of the four building complex comprised of two six-story buildings and two twelve-story buildings located in the Mission Bay district of San Francisco.

The following table sets forth certain information relating to our near-term and future development pipeline as of December 31, 2015.

| Location  | Location         | Estimated Rentable Square Feet |
|---|------------------|--------------------------------|
| <b>NEAR-TERM DEVELOPMENT PIPELINE <sup>(1)</sup>:</b> |                  |                                |
| 100 Hooper <sup>(2)</sup>                             | San Francisco    | 400,000                        |
| Academy Project                                       | Hollywood        | 545,000                        |
| 333 Dexter <sup>(3)</sup>                             | South Lake Union | 700,000                        |
| One Paseo   | Del Mar          | TBD                            |
| <b>FUTURE DEVELOPMENT PIPELINE:</b>                   |                  |                                |
| Flower Mart   | San Francisco    | TBD                            |
| 9455 Towne Centre Drive <sup>(4)</sup>                | San Diego        | 150,000                        |
| Carlsbad Oaks – Lots 4, 5 & 8                         | Carlsbad         | 222,000                        |
| Pacific Corporate Center – Lot 8                      | Sorrento Mesa    | 170,000                        |
| Santa Fe Summit – Phase II and III                    | 56 Corridor      | 600,000                        |
| Sorrento Gateway – Lot 2                              | Sorrento Mesa    | 80,000                         |

(1) Project developable square feet and scope could change materially from estimated data provided due to one of more of the following: any significant changes in the economy, market conditions, our markets, tenant requirements and demands, construction costs, new office supply, regulatory and entitlement processes or project design.

(2) In July 2015, the Company closed on a fully-entitled 3.3 acre site for a total purchase price of approximately \$78.0 million in cash and approximately \$4.1 million in accrued liabilities and acquisition costs in the south of market area of San Francisco. The Company will develop and own two buildings totaling approximately 400,000 square feet.

(3) Consists of four adjacent parcels in the South Lake Union submarket of Seattle which the Company acquired in February 2015.

(4) The Company is planning to demolish the existing two-story 45,195 rentable square foot office building and is currently pursuing entitlements to build a new five-story 150,000 rentable square foot building.

## Significant Tenants

The following table sets forth information about our 15 largest tenants based upon annualized base rental revenues, as defined below, as of December 31, 2015.

| Tenant Name                   | Annualized Base Rental Revenue <sup>(1)</sup><br>(in thousands) | Percentage of Total Annualized Base Rental Revenue <sup>(1)</sup> | Lease Expiration Date  |
|-------------------------------|---|---|------------------------|
| LinkedIn Corporation          | \$ 28,344   | 5.9%  | Various <sup>(4)</sup> |
| Box, Inc. <sup>(2)</sup>      | 22,493  | 4.7%  | Various <sup>(5)</sup> |
| DIRECTV, LLC                  | 22,467  | 4.7%  | September 2027         |
| Synopsys, Inc.                | 15,492  | 3.2%  | August 2030            |
| Bridgepoint Education, Inc.   | 15,066  | 3.2%  | Various <sup>(6)</sup> |
| Delta Dental of California    | 10,313  | 2.2%  | May 2018               |
| AMN Healthcare, Inc.          | 9,001   | 1.9%  | July 2027              |
| Concur Technologies           | 8,225   | 1.7%  | December 2025          |
| Zenefits Insurance Service    | 7,314   | 1.5%  | Various <sup>(7)</sup> |
| Scan Group <sup>(3)</sup>     | 6,487   | 1.4%  | Various <sup>(8)</sup> |
| Group Health Cooperative      | 6,372   | 1.3%  | September 2017         |
| Neurocrine Biosciences, Inc.  | 6,366   | 1.3%  | December 2019          |
| Riot Games, Inc.              | 6,223   | 1.3%  | Various <sup>(9)</sup> |
| Institute for Systems Biology | 6,207   | 1.3%  | March 2021             |
| Fish & Richardson, P.C.       | 6,071   | 1.3%  | October 2018           |
| Total                         | \$ 176,441  | 36.9%   |                        |

Annualized base rental revenue includes the impact of straight-lining rent escalations and the amortization of free rent periods and excludes the impact of the following: amortization of deferred revenue related tenant-funded (1)tenant improvements, amortization of above/below market rents, amortization for lease incentives due under existing leases, and expense reimbursement revenue. Excludes month-to-month leases and vacant space as of December 31, 2015.

(2)Includes 100% of annualized base rental revenues from Redwood City Partners, LLC, a consolidated subsidiary.

(3)The Company has entered into leases with various affiliates of the tenant.

(4)The LinkedIn Corporation leases, which contribute \$2.2 million and \$26.1 million, expire in July 2019 and September 2026, respectively.

(5)The Box, Inc. leases, which contribute \$2.1 million and \$20.4 million, expire in August 2021 and June 2028, respectively.

(6)The Bridgepoint Education Inc. leases, which contribute \$1.0 million, \$6.3 million and \$7.8 million, expire in February 2017, July 2018 and September 2018, respectively.

(7)The Zenefits Insurance Service leases, which contribute \$1.3 million and \$6.0 million, expire in January 2017 and March 2023, respectively.

(8)The Scan Group leases, which contribute \$0.3 million and \$6.2 million, expire in January 2016 and April 2026, respectively.

(9)The Riot Games, Inc. leases, which contribute \$0.5 million, \$1.6 million, and \$4.1 million, expire in September 2020, November 2020, and November 2024, respectively.



The following pie chart sets forth the composition of our tenant base by industry and as a percentage of our annualized base rental revenue based on the North American Industry Classification System as of December 31, 2015.

## Lease Expirations

The following table sets forth a summary of our lease expirations for each of the next ten years beginning with 2016, 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

| Year of Lease Expiration | # of Expiring Leases | Total Square Feet | % of Total Leased Square Feet | Annualized Base Rent (000's) <sup>(1) (2)</sup> | % of Total Annualized Base Rent <sup>(1)</sup> | Annualized Rent per Square Foot <sup>(1)</sup> |
|--------------------------|----------------------|-------------------|-------------------------------|---|--|--|
| 2016                     | 94                   | 700,875           | 5.8                           | % \$ 20,844                                     | 4.3  | % \$29.74                                      |
| 2017                     | 104                  | 1,260,852         | 10.4                          | % 47,192  | 9.9  | % 37.43  |
| 2018                     | 75                   | 1,361,052         | 11.2                          | % 54,644  | 11.4   | % 40.15  |
| 2019                     | 88                   | 1,534,421         | 12.6                          | % 56,113  | 11.7   | % 36.57  |
| 2020                     | 89                   | 1,899,476         | 15.7                          | % 71,094  | 14.9   | % 37.43  |
| 2021                     | 50                   | 906,739           | 7.5                           | % 38,270  | 8.0  | % 42.21  |
| 2022                     | 17                   | 398,968           | 3.3                           | % 16,910  | 3.5  | % 42.38  |
| 2023                     | 18                   | 563,794           | 4.6                           | % 26,778  | 5.6  | % 47.50  |
| 2024                     | 17                   | 554,293           | 4.6                           | % 21,432  | 4.5  | % 38.67  |
| 2025                     | 8                    | 101,610           | 0.8                           | % 4,676   | 1.0  | % 46.02  |
| 2026 and beyond          | 28                   | 2,854,723         | 23.5                          | % 120,563                                       | 25.2   | % 42.23  |
| Total <sup>(3)</sup>     | 588                  | 12,136,803        | 100.0                         | % \$ 478,516                                    | 100.0  | % \$39.43                                      |

Annualized base rent includes the impact of straight-lining rent escalations and the amortization of free rent periods and excludes the impact of the following: amortization of deferred revenue related tenant-funded tenant improvements, amortization of above/below market rents, amortization for lease incentives due under existing leases and expense reimbursement revenue. Additionally, the underlying leases contain various expense structures including full service gross, modified gross and triple net. Amounts represent percentage of total portfolio annualized contractual base rental revenue.

(1) Includes 100% of annualized base rent from Redwood City Partners, LLC, a consolidated subsidiary.

The information presented for all lease expiration activity reflects leasing activity through December 31, 2015 for our stabilized portfolio. For leases that have been renewed early or space that has been re-leased to a new tenant,

(2) 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, vacant space and lease renewal options not executed as of December 31, 2015.

## Secured Debt

As of December 31, 2015, the Operating Partnership had five outstanding mortgage notes payable and one outstanding secured note payable, which were secured by certain of our properties. Our secured debt represents an aggregate indebtedness of approximately \$375.7 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,” Notes 7 and 8 to our consolidated financial statements and Schedule III—Real Estate and Accumulated Depreciation included with this report. Management believes that, as of December 31, 2015, the value of the properties securing the applicable secured obligations in each case exceeded the principal amount of the outstanding obligation.

ITEM 3. LEGAL PROCEEDINGS

We and our properties are subject to routine litigation incidental to our business. As of December 31, 2015, we are not a defendant in, and our properties are not subject to, any legal proceedings that we believe, if determined adversely to us, would have a material adverse effect upon our financial condition, results of operations, or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

None.

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## PART II

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

The Company's common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "KRC." As of the date this report was filed, there were approximately 89 registered holders of the Company's common stock. The following table illustrates high, low, and closing prices by quarter, as well as dividends declared, during 2015 and 2014 as reported on the NYSE.

| 2015           | High    | Low     | Close   | Per Share Common<br>Stock Dividends<br>Declared |
|----------------|---------|---------|---------|---|
| First quarter  | \$78.86 | \$70.48 | \$76.17 | \$0.3500  |
| Second quarter | 77.92   | 67.15   | 67.15   | 0.3500  |
| Third quarter  | 73.45   | 63.41   | 65.16   | 0.3500  |
| Fourth quarter | 69.92   | 62.83   | 63.28   | 0.3500  |
| 2014           | High    | Low     | Close   | Per Share Common<br>Stock Dividends<br>Declared |
| First quarter  | \$59.53 | \$49.72 | \$58.58 | \$0.3500  |
| Second quarter | 62.88   | 57.29   | 62.28   | 0.3500  |
| Third quarter  | 63.96   | 58.03   | 59.44   | 0.3500  |
| Fourth quarter | 71.47   | 58.73   | 69.07   | 0.3500  |

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

The table below reflects our purchases of equity securities during the three month period leading up to December 31, 2015.

| Period                         | Total Number of<br>Shares (or Units)<br>Purchased | Average Price<br>Paid per Share (or<br>Unit) | Total Number of<br>Shares (or Units)<br>Purchased as Part<br>of Publicly<br>Announced Plans<br>or Programs | Maximum<br>Number (or<br>Approximate<br>Dollar Value) that<br>May Yet to be<br>Purchased Under<br>the Plans or<br>Programs |
|--------------------------------|---|--|--|--|
| October 1 - October 31, 2015   | —   | \$—  | —  | —  |
| November 1 - November 30, 2015 | —   | \$—  | —  | —  |
| December 1 - December 31, 2015 | 62,072  | \$63.80                                      | —  | —  |
| Total                          | 62,072  | \$63.80                                      | —  | —  |



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

There is no established public trading market for the Operating Partnership's common units. As of the date this report was filed, there were 21 holders of record of common units (including through the Company's general partnership interest).

The following table reports the distributions per common unit declared during the years ended December 31, 2015 and 2014.

|                |   |
|----------------|---|
| 2015           | Per Unit<br>Common<br>Unit Distribution<br>Declared |
| First quarter  | \$0.3500  |
| Second quarter | 0.3500  |
| Third quarter  | 0.3500  |
| Fourth quarter | 0.3500  |
| 2014           | Per Unit<br>Common<br>Unit Distribution<br>Declared |
| First quarter  | \$0.3500  |
| Second quarter | 0.3500  |
| Third quarter  | 0.3500  |
| Fourth quarter | 0.3500  |

During 2015 and 2014, the Operating Partnership redeemed 39,425 and 1,000 common units, respectively, for the same number of shares of the Company's common stock.

## PERFORMANCE GRAPH

The following line graph compares the change in cumulative stockholder return on shares of the Company's common stock to the cumulative total return of the NAREIT All Equity REIT Index, the Standard & Poor's 500 Stock Index, and the SNL REIT Office Index for the five-year period ended December 31, 2015. 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 28 office equity REITs, including us. The graph assumes the investment of \$100 in us and each of the indices on December 31, 2010 and, as required by the SEC, the reinvestment of all distributions. The return shown on the graph is not necessarily indicative of future performance.

## ITEM 6. SELECTED FINANCIAL DATA – KILROY REALTY CORPORATION

The following tables set forth selected consolidated financial and operating data on an historical basis for the Company. The following data should be read in conjunction with our financial statements and notes thereto and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this report.

The consolidated balance sheet data as of December 31, 2015 and 2014 and the consolidated statement of operations data for the years ended December 31, 2015, 2014 and 2013 have been derived from the historical consolidated financial statements of Kilroy Realty Corporation audited by an independent registered public accounting firm. The consolidated balance sheet data as of December 31, 2013, 2012 and 2011 and the consolidated statement of operations data for the years ended December 31, 2012 and 2011 have been derived from the historical consolidated financial statements of Kilroy Realty Corporation and adjusted to present the income from operating properties that were sold through the year ended December 31, 2014, as income from discontinued operations, and adjusted for the impact of subsequent accounting changes requiring retrospective application, if any. Effective January 1, 2015 the Company adopted Financial Accounting Standards Board Accounting Standards Update 2014-08 (see Note 2 “Basis of Presentation and Significant Accounting Policies” to our consolidated financial statements included in this report for additional information). Therefore results from operating properties sold in 2015 are reported within continuing operations for all periods presented and adjustments to prior years’ consolidated financial statement information for operating properties that were sold during the year ended December 31, 2015 were not required.

## Kilroy Realty Corporation Consolidated

(in thousands, except share, per share, square footage and occupancy data)

|   | Year Ended December 31, |            |            |            |            |
|---|-------------------------|------------|------------|------------|------------|
|   | 2015                    | 2014       | 2013       | 2012       | 2011       |
| Statements of Operations Data:  |                         |            |            |            |            |
| Total revenues from continuing operations   | \$581,275               | \$521,725  | \$457,111  | \$373,318  | \$304,574  |
| Income (loss) from continuing operations  | 238,604                 | 59,313     | 14,935     | (5,475 )   | (16,664 )  |
| Income from discontinued operations <sup>(1)</sup>  | —                       | 124,495    | 29,630     | 282,576    | 84,153     |
| Net income available to common stockholders   | 220,831                 | 166,969    | 30,630     | 249,826    | 50,819     |
| Per-Share Data:   |                         |            |            |            |            |
| Weighted average shares of common stock outstanding – basic   | 89,854,096              | 83,090,235 | 77,343,853 | 69,639,623 | 56,717,121 |
| Weighted average shares of common stock outstanding – diluted   | 90,395,775              | 84,967,720 | 77,343,853 | 69,639,623 | 56,717,121 |
| Income (loss) from continuing operations available to common stockholders per share of common stock basic   | \$2.44                  | \$0.52     | \$0.00     | \$(0.40 )  | \$(0.57 )  |
| Income (loss) from continuing operations available to common stockholders per share of common stock diluted | \$2.42                  | \$0.51     | \$0.00     | \$(0.40 )  | \$(0.57 )  |
| Net income available to common stockholders per share – basic   | \$2.44                  | \$1.99     | \$0.37     | \$3.56     | \$0.87     |
| Net income available to common stockholders per share – diluted   | \$2.42                  | \$1.95     | \$0.37     | \$3.56     | \$0.87     |
| Dividends declared per common share   | \$1.40                  | \$1.40     | \$1.40     | \$1.40     | \$1.40     |

The Company adopted ASU 2014-08 effective January 1, 2015 (see Note 2 “Basis of Presentation and Significant Accounting Policies” to our consolidated financial statements included in this report for additional information). As a result, results of operations for properties classified as held for sale and/or disposed of subsequent to January 1, 2015 are presented in continuing operations. Prior to January 1, 2015, properties classified as held for sale and/or disposed of are presented in discontinued operations.

|   | December 31, |             |             |             |             |
|---|--------------|-------------|-------------|-------------|-------------|
|   | 2015         | 2014        | 2013        | 2012        | 2011        |
| <b>Balance Sheet Data:</b>  |              |             |             |             |             |
| Total real estate held for investment, before accumulated depreciation and amortization | \$6,328,146  | \$6,057,932 | \$5,264,947 | \$4,757,394 | \$3,798,690 |
| Total assets  | 5,939,469    | 5,633,736   | 5,111,028   | 4,616,084   | 3,446,795   |
| Total debt  | 2,238,508    | 2,469,413   | 2,204,938   | 2,040,935   | 1,821,286   |
| Total noncontrolling interest – preferred units <sup>(1)</sup>                          | —            | —           | —           | —           | 73,638      |
| Total preferred stock   | 192,411      | 192,411     | 192,411     | 192,411     | 121,582     |
| Total equity <sup>(2)</sup>   | 3,234,586    | 2,723,936   | 2,516,160   | 2,235,933   | 1,327,482   |
| <b>Other Data:</b>  |              |             |             |             |             |
| Funds From Operations <sup>(3) (4)</sup>  | \$316,612    | \$250,744   | \$218,621   | \$165,455   | \$136,173   |
| <b>Cash flows provided by (used in):</b>  |              |             |             |             |             |
| Operating activities  | \$272,008    | \$245,253   | \$240,576   | \$180,724   | \$138,256   |
| Investing activities  | (262,752 )   | (501,436 )  | (506,520 )  | (706,506 )  | (634,283 )  |
| Financing activities  | 23,471       | 244,587     | 284,621     | 537,705     | 485,964     |
| <b>Office Property Data: <sup>(5)</sup></b>   |              |             |             |             |             |
| Rentable square footage   | 13,032,406   | 14,096,617  | 12,736,099  | 13,249,780  | 11,421,112  |
| Occupancy   | 94.8 %       | 94.4 %      | 93.4 %      | 92.8 %      | 90.1 %      |

(1) Represents the redemption value, less issuance costs of our 1,500,000 7.45% Series A Cumulative Preferred Units (“Series A Preferred Units”). The Series A Preferred Units were redeemed in 2012.

Includes the noncontrolling interest of the common units of the Operating Partnership and Redwood City Partners, (2) LLC (a consolidated subsidiary created during 2013, see Note 2 “Basis of Presentation and Significant Accounting Policies” to our consolidated financial statements included in this report for additional information).

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, gains and losses from sales of depreciable real estate and impairment write-downs associated with depreciable real estate, plus real estate-related depreciation and amortization (excluding (3) amortization of deferred financing costs and depreciation of non-real estate assets), and after adjustment for unconsolidated partnerships and joint ventures. Our calculation of FFO includes the amortization of deferred revenue related to tenant-funded tenant improvements and excludes the depreciation of the related tenant improvement assets. We also add back net income attributable to noncontrolling common units of the Operating Partnership because we report FFO attributable to common stockholders and common unitholders.

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 because 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.

Adjustments to arrive at FFO were as follows: net income attributable to noncontrolling common units of the Operating Partnership, depreciation and amortization of real estate assets, and net gain on dispositions of discontinued operations. 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 the Company’s GAAP net income available for common stockholders to FFO for the periods presented.

FFO includes amortization of deferred revenue related to tenant-funded tenant improvements of \$13.3 million, (4) \$11.0 million, \$10.7 million, \$9.1 million and \$9.3 million for the years ended December 31, 2015, 2014, 2013, 2012 and 2011, respectively.

(5) Occupancy percentages and total square feet reported are based on the Company’s stabilized office portfolio for the periods presented.

## SELECTED FINANCIAL DATA – KILROY REALTY, L.P.

The following tables set forth selected consolidated financial and operating data on an historical basis for the Operating Partnership. The following data should be read in conjunction with our financial statements and notes thereto and “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in this report.

The consolidated balance sheet data as of December 31, 2015 and 2014 and the consolidated statement of operations data for the years ended December 31, 2015, 2014 and 2013 have been derived from the historical consolidated financial statements of Kilroy Realty, L.P. audited by an independent registered public accounting firm. The consolidated balance sheet data as of December 31, 2013, 2012 and 2011 and the consolidated statement of operations data for the years ended December 31, 2012 and 2011 have been derived from the historical consolidated financial statements of Kilroy Realty, L.P. and adjusted to present the income from operating properties that were sold through the year ended December 31, 2014, as income from discontinued operations, and adjusted for the impact of subsequent accounting changes requiring retrospective application, if any. Effective January 1, 2015 the Company adopted Financial Accounting Standards Board Accounting Standards Update 2014-08 (see Note 2 “Basis of Presentation and Significant Accounting Policies” to our consolidated financial statements included in this report for additional information). Therefore results from operating properties sold in 2015 are reported within continuing operations for all periods presented and adjustments to prior years’ consolidated financial statement information for operating properties that were sold during the year ended December 31, 2015 were not required.

## Kilroy Realty, L.P. Consolidated

(in thousands, except unit, per unit, square footage and occupancy data)

|  | Year Ended December 31, |            |            |            |            |
|--|-------------------------|------------|------------|------------|------------|
|  | 2015                    | 2014       | 2013       | 2012       | 2011       |
| <b>Statements of Operations Data:</b>  |                         |            |            |            |            |
| Total revenues from continuing operations  | \$581,275               | \$521,725  | \$457,111  | \$373,318  | \$304,574  |
| Income (loss) from continuing operations   | 238,604                 | 59,313     | 14,935     | (5,475 )   | (16,664 )  |
| Income from discontinued operations <sup>(1)</sup>   | —                       | 124,495    | 29,630     | 282,576    | 84,153     |
| Net income available to common unitholders   | 224,887                 | 170,298    | 31,091     | 255,375    | 51,764     |
| <b>Per Unit Data:</b>  |                         |            |            |            |            |
| Weighted average common units outstanding – basic  | 91,645,578              | 84,894,498 | 79,166,260 | 71,403,258 | 58,437,444 |
| Weighted average common units outstanding – diluted  | 92,187,257              | 86,771,983 | 79,166,260 | 71,403,258 | 58,437,444 |
| Income (loss) from continuing operations available to common unitholders per common unit – basic   | \$2.44                  | \$0.52     | \$0.00     | \$(0.40 )  | \$(0.58 )  |
| Income (loss) from continuing operations available to common unitholders per common unit – diluted | \$2.42                  | \$0.51     | \$0.00     | \$(0.40 )  | \$(0.58 )  |
| Net income available to common unitholders per unit – basic  | \$2.44                  | \$1.99     | \$0.37     | \$3.56     | \$0.86     |
| Net income available to common unitholders per unit – diluted                                      | \$2.42                  | \$1.94     | \$0.37     | \$3.56     | \$0.86     |
| Distributions declared per common unit   | \$1.40                  | \$1.40     | \$1.40     | \$1.40     | \$1.40     |

The Company adopted ASU 2014-08 effective January 1, 2015 (see Note 2 “Basis of Presentation and Significant Accounting Policies” to our consolidated financial statements included in this report for additional information). As a result, results of operations for properties classified as held for sale and/or disposed of subsequent to January 1, 2015 are presented in continuing operations. Prior to January 1, 2015, properties classified as held for sale and/or disposed of are presented in discontinued operations.



|   | December 31, |             |             |             |             |
|---|--------------|-------------|-------------|-------------|-------------|
|   | 2015         | 2014        | 2013        | 2012        | 2011        |
| Balance Sheet Data:   |              |             |             |             |             |
| Total real estate held for investment, before accumulated depreciation and amortization | \$6,328,146  | \$6,057,932 | \$5,264,947 | \$4,757,394 | \$3,798,690 |
| Total assets  | 5,939,469    | 5,633,736   | 5,111,028   | 4,616,084   | 3,446,795   |
| Total debt  | 2,238,508    | 2,469,413   | 2,204,938   | 2,040,935   | 1,821,286   |
| Series A redeemable preferred units <sup>(1)</sup>                                      | —            | —           | —           | —           | 73,638      |
| Total preferred capital   | 192,411      | 192,411     | 192,411     | 192,411     | 121,582     |
| Total capital <sup>(2)</sup>  | 3,234,586    | 2,723,936   | 2,516,160   | 2,235,933   | 1,327,482   |
| Other Data:   |              |             |             |             |             |
| Cash flows provided by (used in):   |              |             |             |             |             |
| Operating activities  | 272,008      | 245,253     | 240,576     | 180,724     | 138,256     |
| Investing activities  | (262,752 )   | (501,436 )  | (506,520 )  | (706,506 )  | (634,283 )  |
| Financing activities  | 23,471       | 244,587     | 284,621     | 537,705     | 485,964     |
| Office Property Data: <sup>(3)</sup>  |              |             |             |             |             |
| Rentable square footage   | 13,032,406   | 14,096,617  | 12,736,099  | 13,249,780  | 11,421,112  |
| Occupancy   | 94.8         | % 94.4      | % 93.4      | % 92.8      | % 90.1      |

<sup>(1)</sup> Represents the redemption value, less issuance costs of the Operating Partnership's issued and outstanding 1,500,000 Series A Preferred Units. All Series A Preferred Units were redeemed in 2012.

<sup>(2)</sup> Includes the noncontrolling interests in consolidated subsidiaries and Redwood City Partners, LLC (a consolidated subsidiary created during 2013, see Note 2 "Basis of Presentation and Significant Accounting Policies" to our consolidated financial statements included in this report for additional information).

<sup>(3)</sup> Occupancy percentages and total square feet reported are based on the Company's stabilized office portfolio for the periods presented.

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

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

Forward-Looking Statements

Statements contained in this "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" that are not historical facts may be forward-looking statements, including statements or information concerning projected future occupancy and rental rates, lease expirations, debt maturity, potential investments, strategies such as capital recycling, development and redevelopment activity, projected construction costs, dispositions, future executive incentive compensation, pending, potential or proposed acquisitions and other forward-looking financial data, as well as the discussion in "—Factors That May Influence Future Results of Operations", "—Liquidity and Capital Resource of the Company", and "—Liquidity and Capital Resources of the Operating Partnership." Forward-looking statements can be identified by the use of words such as "believes," "expects," "projects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "pro forma," "estimates" or "anticipates" and the negative of these words and phrases and similar expressions that do not relate to historical matters. Forward-looking statements are based on our current expectations, beliefs and assumptions, and are not guarantees of future performance. Forward-looking statements are inherently subject to uncertainties, risks, changes in circumstances, trends and factors that are difficult to predict, many of which are outside of our control. Accordingly, actual performance, results and events may vary materially from those indicated in the forward-looking statements, and you should not rely on the forward-looking statements as predictions of future performance, results or outcomes. Numerous factors could cause actual future events to differ materially from those indicated in forward-looking statements, including, among others:

- global market and general economic conditions and their effect on our liquidity and financial conditions and those of our tenants;
- adverse economic or real estate conditions in California and Washington;
- risks associated with our investment in real estate assets, which are illiquid, and with trends in the real estate industry;
- defaults on or non-renewal of leases by tenants;
- any significant downturn in tenants' businesses;
- our ability to re-lease property at or above current market rates;
- costs to comply with government regulations, including environmental remediations;
- the availability of cash for distribution and debt service and exposure of risk of default under debt obligations;
- significant competition, which may decrease the occupancy and rental rates of properties;
- potential losses that may not be covered by insurance;
- the ability to successfully complete acquisitions and dispositions on announced terms;

the ability to successfully operate acquired properties;

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the ability to successfully complete development and redevelopment properties on schedule and within budgeted amounts;

defaults on leases for land on which some of our properties are located;

adverse changes to, or implementations of, applicable laws, regulations or legislation;

environmental uncertainties and risks related to natural disasters; and

the Company's ability to maintain its status as a REIT.

The factors included in this report are not exhaustive and additional factors could adversely affect our business and financial performance. For a discussion of additional risk factors, see the factors included in this report under the caption "Item 1A. Risk Factors," and in our other filings with the SEC. All forward-looking statements are based on currently available information and speak only as of the date of this report. We assume no obligation to update any forward-looking statement that becomes untrue because of subsequent events, new information or otherwise, except to the extent we are required to do so in connection with our ongoing requirements under federal securities laws.

## Company Overview

We are a self-administered 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. We own our interests in all of our properties through the Operating Partnership and the Finance Partnership and generally conduct substantially all of our operations through the Operating Partnership. We owned a 98.1% and 98.0% general partnership interest in the Operating Partnership as of December 31, 2015 and 2014, respectively. All of our properties are held in fee except for the eleven office buildings that are held subject to long-term ground leases for the land (see Note 16 "Commitments and Contingencies" to our consolidated financial statements included in this report for additional information regarding our ground lease obligations).

## 2015 Highlights

2015 was another strong year of execution and operating results for us across multiple fronts. We believe our strong leasing performance, continued execution of our development program with focus and discipline, maintenance of our strong balance sheet and availability to capital including rating agency upgrades, and success with our capital recycling program, continues to position us well for sustained long-term growth.

**Leasing.** During 2015, we executed new and renewal office leases within our stabilized portfolio and our development properties on 1.5 million square feet, with an increase in GAAP rents of 33.0% and cash rents of 22.3%. Our efforts over the past few years have increased the occupancy in our stabilized office portfolio to 94.8% as of December 31, 2015, up from 94.4% as of December 31, 2014.

**Development.** During 2015, we continued our focus on value-add and highly accretive development opportunities and continued to expand our development pipeline through targeted acquisitions of development opportunities on the West Coast. In 2015, we completed and stabilized two development projects, Crossing/900 in Redwood City, California, with a total investment of approximately \$190.0 million and Columbia Square Phase 1 in Hollywood, California, with a total investment of approximately \$81.0 million. The office components of these projects were 100% pre-leased at completion. In 2015, we also acquired two development opportunities, one comprised of four adjacent parcels totaling

2.4 acres in South Lake Union, Washington, and one 3.3 acre land site in the SOMA submarket of San Francisco. The land sites were acquired in two separate transactions for a total cash purchase price of \$127.5 million (see Note 3 “Acquisitions” to our consolidated financial statements included in this report for more information). We also commenced construction on The Exchange at 16th, an approximately 700,000 square-foot, four building project in the Mission Bay submarket of San Francisco.

As of December 31, 2015, the Company had five development projects under construction. Of the office components under construction, two projects are 100% pre-leased and one project is 58% pre-leased. These five projects aggregate approximately 1.9 million square feet of space, and the Company estimates its total investment in these projects will be approximately \$1.2 billion. The total estimated investment of the five projects includes lease commissions and excludes tenant improvement overages. Scheduled completion dates range through 2017. See “—Factors that May Influence Future Operations—Completed, In-Process and Future Development Pipeline” for additional information.

**Capital Recycling Program.** We have continued to utilize our capital recycling program to provide additional capital to finance development expenditures, fund potential acquisitions, repay long-term debt and for other general corporate purposes. Our general strategy is to target the disposition of mature properties or those that have limited upside for us and redeploy the capital into acquisitions and/or development projects where we can add additional value to generate higher returns (see “—Factors that May Influence Future Operations” for additional information).

In connection with this strategy, during 2015, we completed the sale of ten office buildings and one land parcel to unaffiliated third parties in four separate transactions for gross sales proceeds totaling approximately \$335.2 million. In addition, in January 2016 we completed the sales of four operating properties and one undeveloped land parcel that were held for sale at December 31, 2015 for total gross proceeds of \$266.8 million.

**Financings.** In addition to obtaining funding from our capital recycling program during 2015, we successfully completed the following financing and capital raising activities to fund our continued growth. See “—Liquidity and Capital Resources of the Operating Partnership” for additional information.

- Issued common stock for aggregate net proceeds of \$138.2 million under the Company’s at-the-market (ATM) offering program;
- Issued common stock for aggregate net proceeds of \$249.6 million through a registered direct placement;
- Issued \$400.0 million aggregate principal amount of 10-year, 4.375% senior unsecured notes maturing in October 2025;
- Repaid a total of \$475.1 million of unsecured and secured debt at par; and
- Received an upgrade in our debt ratings from Moody’s Investors Service (“Moody’s”) and Standard and Poor’s Rating Service (“S&P”) to Baa2 and BBB, respectively.

#### Critical Accounting Policies

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

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

The following critical accounting policies discussion reflects what we believe are the most significant estimates, assumptions, and judgments used in the preparation of our consolidated financial statements. This discussion of our critical accounting policies is intended to supplement the description of our accounting policies in the footnotes to our

consolidated financial statements and to provide additional insight into the information used by management when evaluating significant estimates, assumptions, and judgments. For further discussion of our significant accounting

policies, see Note 2 “Basis of Presentation & Significant Accounting Policies” to our consolidated financial statements included in this report.

### Rental Revenue Recognition

Rental revenue is our principal source of revenue. The timing of when we commence rental revenue recognition depends largely on our conclusion as to whether we are or the tenant is the owner for accounting purposes of 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 or controls the finished space, which is typically when the improvements being recorded as our asset are substantially complete.

The determination of whether we are or the tenant is the owner of 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, 2015, 2014, and 2013, we capitalized \$22.8 million, \$49.8 million and \$15.1 million, respectively, of tenant-funded tenant improvements. The amount of tenant-funded tenant improvements recorded in any given year varies based upon the mix of specific leases executed and/or commenced during the reporting period. For the years ended December 31, 2015, 2014, and 2013, we recognized \$13.3 million, \$11.0 million and \$10.7 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 certain tenant improvements for accounting purposes, we record our contribution towards those improvements as a lease incentive, which is amortized as a reduction to rental revenue on a straight-line basis over the term of the related lease, and rental revenue recognition begins when the tenant takes possession of or controls the space.

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

## Tenant Reimbursement Revenue

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

- estimating the final expenses, net of accruals, that are recoverable;
- estimating the fixed and variable components of operating expenses for each building;
- conforming recoverable expense pools to those used in establishing the base year or base allowance for the applicable underlying lease; and
- concluding whether an expense or capital expenditure is recoverable pursuant to the terms of the underlying lease.

During the year, we accrue estimated tenant reimbursement revenue in the period in which the tenant reimbursable costs are incurred based on our best estimate of the amounts to be recovered. Throughout the year, we perform analyses to properly match tenant reimbursement revenue with reimbursable costs incurred to date. Additionally, during the fourth quarter of each year, we perform preliminary reconciliations and accrue additional tenant reimbursement revenue or refunds. Subsequent to year end, we perform final detailed reconciliations and analyses on a lease-by-lease basis and bill or refund each tenant for any cumulative annual adjustments in the first and second quarters of each year for the previous year's activity. Our historical experience for the years ended December 31, 2014 and 2013 has been that our final reconciliation and billing process resulted in final amounts that approximated the total annual tenant reimbursement revenues recognized.

## Allowances for Uncollectible Current Tenant Receivables and Deferred Rent Receivables

Tenant receivables and deferred rent receivables are carried net of the allowances for uncollectible current tenant receivables and deferred rent receivables. Current tenant receivables consist primarily of amounts due for contractual lease payments and reimbursements of common area maintenance expenses, property taxes, and other costs recoverable from tenants. Deferred rent receivables represent the amount by which the cumulative straight-line rental revenue recorded to date exceeds cash rents billed to date under the lease agreement. As of December 31, 2015 and 2014, current receivables were carried net of an allowance for uncollectible tenant receivables amount of \$2.1 million and \$2.0 million, respectively, for each period and deferred rent receivables were carried net of an allowance for deferred rent of \$1.9 million and \$2.0 million, respectively.

Management's determination of the adequacy of the allowance for uncollectible 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 considers the current economic and business environment. This determination requires significant judgment and estimates about matters that are uncertain at the time the estimates are made, including the creditworthiness of specific tenants, specific industry trends and conditions, and general economic trends and conditions. Since these factors are beyond our control, actual results can differ from our estimates, and such differences could be material.

With respect to the allowance for uncollectible tenant receivables, the specific identification methodology analysis relies on factors such as the age and nature of the receivables, the payment history and financial condition of the tenant, our assessment of the tenant's ability to meet its lease obligations, and the status of negotiations of any disputes with the tenant. With respect to the allowance for deferred rent receivables, given the longer-term nature of these

receivables, the specific identification methodology analysis evaluates each of our significant tenants and any tenants on our internal watchlist and relies on factors such as each tenant's financial condition and its ability to meet its lease obligations. We evaluate our reserve levels quarterly based on changes in the financial condition of tenants and our assessment of the tenant's ability to meet its lease obligations, overall economic conditions, and the current business environment.

For the years ended December 31, 2015, 2014 and 2013, we recorded a total provision for bad debts for both current tenant receivables and deferred rent receivables of approximately 0.1%, 0.0% and 0.1%, respectively, of rental 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, 2015, 2014 and 2013. In the event our estimates were not accurate and we had to change our allowances by 1% of revenue from continuing operations, the potential impact to our net income available to common stockholders would be approximately \$5.8 million, \$5.2 million and \$4.7 million for the years ended December 31, 2015, 2014 and 2013, respectively.

### Acquisitions

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

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

The fair value of the above-market or below-market component of an acquired in-place operating lease is based upon the present value (calculated using a market discount rate) of the difference between (i) the contractual rents to be paid pursuant to the lease over its remaining non-cancellable lease term and (ii) management's estimate of the rents that would be paid using fair market rental rates and rent escalations at the date of acquisition measured over the remaining non-cancellable term of the lease for above-market operating leases and the initial non-cancellable term plus the term of any below-market fixed rate renewal options, if applicable, for below-market operating leases. The amounts recorded for above-market operating leases are included in deferred leasing costs and acquisition-related intangible assets, net on the balance sheet and are amortized on a straight-line basis as a reduction of rental income over the remaining term of the applicable leases. The amounts recorded for below-market operating leases are included in deferred revenue and acquisition-related liabilities, net on the balance sheet and are amortized on a straight-line basis as an increase to rental income over the remaining term of the applicable leases plus the term of any below-market fixed rate renewal options, if applicable. Our below-market operating leases generally do not include fixed rate or below-market renewal options. If a lease were to be terminated or if termination were determined to be likely prior to its contractual expiration (for example resulting from bankruptcy), amortization of the related above-market or below-market lease intangible would be accelerated.

The fair value of acquired in-place leases is derived based on management's assessment of lost revenue and costs incurred for the period required to lease the "assumed vacant" property to the occupancy level when purchased. This fair value is based on a variety of considerations including, but not necessarily limited to: (1) the value associated with avoiding the cost of originating the acquired in-place leases; (2) the value associated with lost revenue related to tenant reimbursable operating costs estimated to be incurred during the assumed lease-up period; and (3) the value associated with lost rental revenue from existing leases during the assumed lease-up period. Factors considered by us in performing these analyses include an estimate of the carrying costs during the expected lease-up periods, current

market conditions, and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses, and estimates of lost rental revenue during the expected lease-up periods based on current market demand at market rates. In estimating costs to execute similar leases, we consider leasing commissions, legal and other related expenses. The amount recorded for acquired in-place leases is included in deferred leasing costs and acquisition-related intangible assets, net on the balance sheet and amortized as an increase to depreciation and amortization expense over the remaining term of the applicable leases. If a lease were to be terminated or if termination were determined to

be likely prior to its contractual expiration (for example resulting from bankruptcy), amortization of the related unamortized in-place lease intangible would be accelerated.

The determination of the fair value of any debt assumed in connection with a property acquisition is estimated by discounting the future cash flows using interest rates available for the issuance of debt with similar terms and remaining maturities.

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

Costs directly associated with all operating property acquisitions and those development and redevelopment acquisitions that meet the accounting criteria to be accounted for as business combinations are expensed as incurred. During the years ended December 31, 2015, 2014, and 2013, we expensed \$0.5 million, \$1.5 million and \$2.0 million of acquisition costs respectively, based on the level of our acquisition activity during those years. Our acquisition expenses are directly related to our acquisition activity and if our acquisition activity was to increase or decrease, so would our acquisition costs.

We record development acquisitions that do not meet the accounting criteria to be accounted for as business combinations and the subsequent acquisition of the fee interest in land and improvements underlying our properties at the purchase price paid. Costs directly associated with development acquisitions accounted for as asset acquisitions are capitalized as part of the cost of the acquisition. During the years ended December 31, 2015, 2014, and 2013, we capitalized \$1.1 million, \$4.5 million, and \$2.3 million, respectively, of such acquisition costs.

#### 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, forecasted low occupancy levels or near term lease expirations at a specific property;

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

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

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

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

properties;

- significant change in strategy or use of a specific property or any other event that could result in a decreased holding period, including classifying a property as held for sale, or significant development delay;

evidence of material physical damage to the property; and

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

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

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

For each property where such an indicator occurred and/or for properties within a given submarket where such an indicator occurred, we completed an impairment evaluation. After completing this process, we determined that for each of the operating properties evaluated, undiscounted cash flows over the holding period were in excess of carrying value and, therefore, we did not record any impairment losses for these properties.

#### Cost Capitalization and Depreciation

We capitalize costs associated with development and redevelopment activities, capital improvements, tenant improvements, and leasing activities, including internal compensation costs. In addition, for development and redevelopment projects, we also capitalize the following costs during periods in which activities necessary to prepare the project for its intended use are in progress: interest costs based on the weighted average interest rate of our outstanding indebtedness for the period, real estate taxes and insurance. For the years ended December 31, 2015, 2014 and 2013, we capitalized \$15.2 million, \$11.4 million and \$7.3 million, respectively, of internal costs to our qualifying development projects.

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;

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- 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.

#### Share-Based Incentive Compensation Accounting

At December 31, 2015, the Company had one share-based incentive compensation plan, the Kilroy Realty 2006 Incentive Award Plan, which is described more fully in Note 13 “Share-Based Compensation” to our consolidated financial statements included in this report. The Executive Compensation Committee determines compensation for Executive Officers. Compensation cost for all share-based awards, including options, requires an estimate of fair value on the grant date and compensation cost is recognized over the service vesting period, which represents the requisite service period. The grant date fair value for compensation programs that contain market conditions, like modifiers based on total stockholder return (a “market condition”), are performed using complex pricing valuation models that require the input of assumptions, including judgments to estimate expected stock price volatility, expected life, and forfeiture rate. Specifically, the grant date fair value of share-based compensation programs that include market conditions are calculated using a Monte Carlo simulation pricing model and the grant date fair value of stock option grants are calculated using the Black-Scholes valuation model. Additionally, certain of our market condition share-based compensation programs also contain pre-defined FFO per share goals (a “performance condition”) which can impact the number of restricted stock units ultimately earned. This variability relating to the level of the performance condition achieved requires management’s judgment and estimates, which impacts compensation cost recognized for these awards during the performance period. As of December 31, 2015, the performance condition for all of our outstanding market condition share based compensation programs have been met and compensation cost for these awards is no longer variable. Although the number of restricted stock units ultimately earned remains variable subject to the ultimate achievement level of the market condition, compensation cost is no longer variable for these awards as the market condition was already taken into consideration as part of the grant date fair value calculation.

For the years ended December 31, 2015, 2014, and 2013 we recorded approximately \$11.5 million, \$8.1 million, and \$5.3 million, respectively, of compensation cost related to programs that were subject to such valuation models. If the valuation of the grant date fair value for such programs changed by 10%, the potential impact to our net income available to common stockholders would be approximately \$1.0 million, \$0.8 million, and \$0.5 million for the years ended December 31, 2015, 2014, and 2013, respectively.

#### Factors That May Influence Future Results of Operations

**Development Program** We believe that a portion of our long-term future growth will continue to come from the completion of our in-process development projects as well as, subject to market conditions, executing on our near-term and future development pipeline, including expanding entitlements. Over the past several years, we increased our focus on development opportunities and expanded our near-term and future development pipeline through targeted acquisitions of development opportunities on the West Coast.

We have a proactive planning process by which we continually evaluate the size, timing, costs and scope of our development program and, as necessary, scale activity to reflect the economic conditions and the real estate fundamentals that exist in our submarkets. We expect to execute on our development program with prudence and will be pursuing opportunities with attractive economic returns in strategic locations with proximity to public transportation or transportation access and retail amenities and in markets with strong fundamentals and visible

demand. We plan to develop in phases as appropriate and we generally favor starting projects that are pre-leased.

#### Completed Development Projects

During the second half of 2015, we completed construction and stabilized the following two office development projects.

Crossing/900, Redwood City, California, a development project which has a total estimated investment of approximately \$190.0 million and encompasses 339,987 rentable square feet. The office component of this project was 100% occupied at stabilization.

Columbia Square Historic Phase 1, which is the first phase of a three phase development project in Hollywood, California. Phase I of this project has a total estimated investment of approximately \$81.0 million and encompasses 108,517 rentable square feet. The office component of this project was 100% occupied at stabilization.

#### Projects in “Lease-Up”

As of December 31, 2015, we had one office development project in the “lease-up” phase.

The Heights at Del Mar, Del Mar, California, a 73,000 square foot office project that has a total estimated investment of approximately \$45 million.

#### Projects Under Construction

As of December 31, 2015, we had five projects in our in-process development pipeline that were under construction.

350 Mission Street, SOMA, San Francisco, California, which we acquired in October 2012. This development project, which is 100% pre-leased to salesforce.com, Inc., has a total estimated investment of approximately \$285 million and will encompass approximately 450,000 rentable square feet upon completion. The building core and shell were completed in the third quarter of 2015, tenant improvements are in process, and the tenant is currently expected to take possession in the second quarter of 2016.

333 Brannan Street, SOMA, San Francisco, California, which we acquired in July 2012. This development project is 100% pre-leased to Dropbox, has a total estimated investment of approximately \$105 million and will encompass 185,000 rentable square feet upon completion. The building core and shell were completed in the third quarter of 2015, tenant improvements are in process, and the tenant is currently expected to take possession in the second quarter of 2016.

The Exchange on 16th, Mission Bay, San Francisco, California, which we acquired in May 2014 and commenced construction on in June 2015. This project is comprised of four buildings encompassing approximately 700,000 rentable square feet and represents a total estimated investment of approximately \$485 million. Construction is currently in process and is currently expected to be completed in the second half of 2017. This project is not currently pre-leased.

Columbia Square Office Phase 2, Hollywood, California, which we acquired in September 2012. During 2013, we commenced development on this phase of the project comprising approximately 370,000 rentable square feet with an estimated investment of \$220 million. The building core and shell of the project, which is currently 58% pre-leased, is expected to be completed in the first quarter of 2016, and the project is expected to be stabilized in the first quarter of 2017.

Columbia Square Residential, the third phase and residential component of the Columbia Square project, will encompass approximately 205,000 rentable square feet upon completion and has an estimated investment of approximately \$145 million. Construction of this project is currently expected to be completed in the first quarter of 2016, and the project is expected to be leased in phases through the first quarter of 2017.

#### Near-Term and Future Development Pipeline

As of December 31, 2015, our near-term development pipeline included four additional undeveloped land holdings located in various submarkets in San Diego County, San Francisco Bay Area, Greater Seattle and Los Angeles with an aggregate cost basis of approximately \$389.8 million, at which we believe we could develop approximately 2.5 million rentable square feet at a total estimated investment of over \$1.5 billion, depending on successfully obtaining entitlements

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and market conditions. These holdings include two development opportunities acquired in 2015, one in February 2015 in Greater Seattle for a cash purchase price of \$49.5 million and one in July 2015 in San Francisco for a cash purchase price of \$78.0 million.

The following table sets forth information about our near-term development pipeline as of the date of this report.

| Near-Term Development Pipeline <sup>(1)</sup> | Location         | Potential Start Date <sup>(2)</sup> | Approx. Developable Square Feet | Total Estimated Investment | Total Costs as of 12/31/2015 <sup>(3)</sup><br>(in millions) |
|---|------------------|-------------------------------------|---------------------------------|----------------------------|--|
| 100 Hooper <sup>(4)</sup>                     | San Francisco    | 2016                                | 400,000                         | \$250                      | \$88.1   |
| Academy Project                               | Hollywood        | 2016                                | 545,000                         | 385                        | 61.2   |
| 333 Dexter <sup>(5)</sup>                     | South Lake Union | 2016                                | 700,000                         | 380                        | 58.4   |
| One Paseo                                     | Del Mar          | 2016                                | TBD                             | TBD                        | 182.1  |
| Total Near-Term Development Pipeline          |                  |                                     |                                 |                            | \$389.8  |

(1) Project timing, costs, developable square feet and scope could change materially from estimated data provided due to one of more of the following: any significant changes in the economy, market conditions, our markets, tenant requirements and demands, construction costs, new office supply, regulatory and entitlement processes, and project design.

(2) Potential start dates assume successfully obtaining all entitlements and approvals necessary to commence construction. Actual commencement is subject to extensive consideration of market conditions and economic factors. 100 Hooper is fully-entitled with Proposition M allocation.

(3) Represents cash paid and costs incurred as of December 31, 2015.

(4) In July 2015, the Company closed on a fully-entitled 3.3 acre site for approximately \$78.0 million in cash and approximately \$4.1 million in accrued liabilities and acquisition costs in SOMA, San Francisco. The Company will develop and own two buildings totaling approximately 400,000 square feet.

(5) In February 2015, the Company closed on four adjacent parcels in the South Lake Union district for a total purchase price of \$49.5 million in cash and approximately \$2.4 million in transaction costs and accrued liabilities.

As of December 31, 2015, our longer term future development pipeline included additional undeveloped land holdings located in various submarkets in San Diego County and San Francisco Bay Area with an aggregate cost basis of approximately \$225.6 million, at which we believe we could develop more than 2.5 million rentable square feet, depending on successfully obtaining entitlements and market conditions.

Decreases in our development activities could cause a decrease in the average development asset balances qualifying for interest and other carry cost and internal cost capitalization in future periods. During the year ended December 31, 2015, we capitalized interest on in-process development projects and development pipeline projects with an average aggregate cost basis of approximately \$1.1 billion, as it was determined these projects qualified for interest and other carry cost capitalization under GAAP. For the years ended December 31, 2015 and 2014, we capitalized \$52.0 million and \$47.1 million, respectively, of interest to our qualifying development projects. For the years ended December 31, 2015 and 2014, we capitalized \$15.2 million and \$11.4 million respectively, of internal costs to our qualifying redevelopment and development projects.

Acquisitions. During the year ended December 31, 2015, we acquired two development opportunities, one in Greater Seattle for a cash purchase price of approximately \$49.5 million and one in San Francisco for a cash purchase price of approximately \$78.0 million. During 2014, we acquired five office buildings in two transactions for an aggregate

purchase price of approximately \$206.6 million and three undeveloped land sites, including two adjacent land sites, in three transactions with an aggregate purchase price of approximately \$166.0 million. We generally finance our acquisitions through proceeds from the issuance of debt and equity securities, borrowings under our unsecured revolving credit facility, proceeds from our capital recycling program, the assumption of existing debt and cash flows from operations.

As part of our growth strategy, which is highly dependent on market conditions and business cycles, among other factors, we continue to evaluate strategic opportunities and remain a disciplined buyer of development and redevelopment opportunities as well as value-add operating properties. We continue to focus on growth opportunities in West Coast markets populated by knowledge and creative based tenants in a variety of industries, including technology, media, healthcare, entertainment and professional services. Against the backdrop of market volatility, we expect to

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manage a strong balance sheet, execute on our development program and selectively evaluate opportunities that either add immediate Net Operating Income to our portfolio or play a strategic role in our future growth.

We cannot provide assurance that we will enter into any agreements to acquire properties, or undeveloped land, or that the potential acquisitions contemplated by any agreements we may enter into in the future will be completed. In addition, acquisitions are subject to various risks and uncertainties and we may be unable to complete an acquisition after making a nonrefundable deposit or incurring acquisition-related costs.

**Capital Recycling Program.** We continuously evaluate opportunities for the potential disposition of properties and undeveloped land in our portfolio with the intent of recycling the proceeds generated from the disposition of less-strategic properties or lower return assets into capital used to fund new operating and development acquisitions, to finance development and redevelopment expenditures, to repay long-term debt and for other general corporate purposes. As part of this strategy, we attempt to enter into Section 1031 Exchanges, when possible, to defer some or all of the taxable gains on the sales, if any, for federal and state income tax purposes.

In connection with our capital recycling strategy, during 2015, we completed the sale of ten office properties and one land parcel to unaffiliated third parties for total gross sales proceeds of \$335.2 million. In addition, in January 2016, we completed the sale of four operating properties and one undeveloped land parcel that were held for sale as of December 31, 2015 for total gross proceeds of \$266.8 million. During 2014, we completed the sale of 17 properties and one undeveloped land parcel to unaffiliated third parties in six separate transactions for total gross sales proceeds of approximately \$432.6 million.

The timing of any potential future disposition transactions will depend on market conditions and other factors, including but not limited to our capital needs and our ability to defer some or all of the taxable gains on the sales. We cannot assure that we will dispose of any additional properties or that we will be able to identify and complete the acquisition of a suitable replacement property to effect a Section 1031 Exchange.

**Leasing Activity and Changes in Rental Rates.** The amount of net rental income generated by our properties depends principally on our ability to maintain the occupancy rates of currently leased space and to lease currently available space, newly developed or redeveloped properties, newly acquired properties with vacant space, 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 leasing activity for our stabilized portfolio during the year ended December 31, 2015.

## Information on Leases Commenced and Executed

## For Leases Commenced

| Year Ended        | 1st & 2nd Generation <sup>(1)</sup> |         |                                     |         | 2nd Generation <sup>(1)</sup>    |                                    |                                      |        | Retention Rates <sup>(7)</sup> | Weighted Average Lease Term (in months) |
|-------------------|-------------------------------------|---------|-------------------------------------|---------|----------------------------------|------------------------------------|--------------------------------------|--------|--------------------------------|---|
|                   | Number of Leases <sup>(2)</sup>     |         | Rentable Square Feet <sup>(2)</sup> |         | TI/LC per Sq. Ft. <sup>(3)</sup> | Changes in Rents <sup>(4)(5)</sup> | Changes in Cash Rents <sup>(6)</sup> |        |                                |   |
|                   | New                                 | Renewal | New                                 | Renewal |                                  |                                    |                                      |        |                                |   |
| December 31, 2015 | 81                                  | 72      | 915,773                             | 627,783 | \$44.02                          | 32.9 %                             | 20.5 %                               | 42.0 % | 72                             |   |

For Leases Executed <sup>(8)</sup>

| Year Ended        | 1st & 2nd Generation <sup>(1)</sup> |         |                                     |         | 2nd Generation <sup>(1)</sup>    |                                    |        |    | Changes in Cash Rents <sup>(6)</sup> | Weighted Average Lease Term (in months) |
|-------------------|-------------------------------------|---------|-------------------------------------|---------|----------------------------------|------------------------------------|--------|----|--------------------------------------|---|
|                   | Number of Leases <sup>(2)</sup>     |         | Rentable Square Feet <sup>(2)</sup> |         | TI/LC per Sq. Ft. <sup>(3)</sup> | Changes in Rents <sup>(4)(5)</sup> |        |    |                                      |   |
|                   | New                                 | Renewal | New                                 | Renewal |                                  |                                    |        |    |                                      |   |
| December 31, 2015 | 84                                  | 71      | 805,483                             | 627,264 | \$38.88                          | 33.0 %                             | 22.3 % | 66 |                                      |   |

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

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

(3) Amounts exclude tenant-funded tenant improvements.

(4) Calculated as the change between GAAP rents for new/renewed leases and the expiring GAAP rents for the same space. Excludes leases for which the space was vacant longer than one year or vacant when the property was acquired.

(5) Excludes commenced and executed leases of approximately 235,255 and 170,910 rentable square feet, respectively, for the year ended December 31, 2015, for which the space was vacant longer than one year or being leased for the first time. Space vacant for more than one year is excluded from our change in rents calculations to provide a meaningful market comparison.

(6) Calculated as the change between stated cash rents for new/renewed leases and the expiring stated rents for the same space. Excludes leases for which the space was vacant longer than one year or vacant when the property was acquired.

(7) Calculated as the percentage of space either renewed or expanded into by existing tenants or subtenants at lease expiration.

(8) For the year ended December 31, 2015, 23 new leases totaling 258,670 rentable square feet were signed but not commenced as of December 31, 2015.

As of December 31, 2015, we believe that the weighted average cash rental rates for our stabilized portfolio, including recently acquired operating properties, are approximately 15% below 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.

In general, market rental rates have continued to increase in the majority of our submarkets over the last several quarters. Our rental rates and occupancy are impacted by general economic conditions, including the pace of regional economic growth and access to capital. Therefore, we cannot give any assurance that leases will be renewed or that available space will be re-leased at rental rates equal to or above the current market rates. Additionally, decreased demand and other negative trends or unforeseeable events that impair our ability to timely renew or re-lease space could have further negative effects on our future financial condition, results of operations, and cash flows.

Scheduled Lease Expirations. The following table sets forth certain information regarding our lease expirations for our stabilized portfolio for the next five years.

Lease Expirations <sup>(1)</sup>

| Year of Lease Expiration | Number of Expiring Leases | Total Square Feet | % of Total Leased Sq. Ft. | Annualized Base Rent <sup>(2)</sup> | % of Total Annualized Base Rent <sup>(2)</sup> | Annualized Base Rent per Sq. Ft. <sup>(2)</sup> |
|--------------------------|---------------------------|-------------------|---------------------------|-------------------------------------|--|---|
| 2016                     | 94                        | 700,875           | 5.8                       | % \$20,844                          | 4.3  | % \$29.74                                       |
| 2017                     | 104                       | 1,260,852         | 10.4                      | % 47,192                            | 9.9  | % 37.43   |
| 2018                     | 75                        | 1,361,052         | 11.2                      | % 54,644                            | 11.4   | % 40.15   |
| 2019                     | 88                        | 1,534,421         | 12.6                      | % 56,113                            | 11.7   | % 36.57   |
| 2020                     | 89                        | 1,899,476         | 15.7                      | % 71,094                            | 14.9   | % 37.43   |
| Total                    | 450                       | 6,756,676         | 55.7                      | % \$249,887                         | 52.2   | % \$36.98                                       |

The information presented for all lease expiration activity reflects leasing activity through December 31, 2015 for our stabilized portfolio. For leases that have been renewed early or space that has been re-leased to a new tenant, (1) 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, intercompany leases, vacant space, and lease renewal options not executed as of December 31, 2015.

Annualized base rent includes the impact of straight-lining rent escalations and the amortization of free rent periods and excludes the impact of the following: amortization of deferred revenue related tenant-funded tenant improvements, amortization of above/below market rents, amortization for lease incentives due under existing leases, and expense reimbursement revenue. Additionally, the underlying leases contain various expense structures (2) including full service gross, modified gross and triple net. Percentages represent percentage of total portfolio annualized contractual base rental revenue. For additional information on tenant improvement and leasing commission costs incurred by the Company for the current reporting period, please see further discussion under the caption "Information on Leases Commenced and Executed."

In addition to the 0.7 million rentable square feet, or 5.2%, of currently available space in our stabilized portfolio, leases representing approximately 5.8% and 10.4% of the occupied square footage of our stabilized portfolio are scheduled to expire during 2016 and 2017, respectively. The leases scheduled to expire in 2016 and 2017 represent approximately 2.0 million rentable square feet or 14.2% of our total annualized base rental revenue. We believe that the weighted average cash rental rates are approximately 15% under the current average market rental rates for leases scheduled to expire during 2016 and 2017, although individual properties within any particular submarket presently may be leased either above, below, or at the current quoted market rates within that submarket, and the average rental rates for individual submarkets may be above, below, or at the average cash rental rate of our overall portfolio. Our ability to re-lease available space depends upon both general market conditions and the market conditions in the specific regions in which individual properties are located.

Incentive Compensation. Our Executive Compensation Committee determines compensation, including cash bonuses and equity incentives, for our executive officers. For 2015, the annual cash bonus program was structured to allow the Executive Compensation Committee to evaluate a variety of key quantitative and qualitative metrics and make a determination based on the Company's and management's overall performance. Our Executive Compensation Committee also grants equity incentive awards that include performance-based and market-measure based vesting requirements and/or time-based vesting requirements. As a result, accrued incentive compensation and compensation expense for future awards may be affected by our operating and development performance, financial results, stock price, performance against applicable performance-based vesting goals, market conditions and other factors. Consequently, we cannot predict the amounts that will be recorded in future periods related to such incentive

compensation.

As of December 31, 2015, there was approximately \$31.2 million of total unrecognized compensation cost related to outstanding nonvested shares of restricted common stock, RSUs and stock options issued under share-based compensation arrangements. Those costs are expected to be recognized over a weighted-average period of 1.9 years. The \$31.2 million of unrecognized compensation cost does not reflect the future compensation cost for any share-based awards issued subsequent to December 31, 2015. Share-based compensation expense for potential future awards could be affected by our operating and development performance, financial results, stock price, performance against applicable performance-based vesting goals, market conditions and other factors.

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## Stabilized Portfolio Information

As of December 31, 2015, our stabilized portfolio was comprised of 101 office properties encompassing an aggregate of approximately 13.0 million rentable square feet. 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. 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 December 31, 2015, we had one development project in the “lease-up” phase. We also had four operating properties and one land parcel classified as held for sale as of December 31, 2015. Our stabilized portfolio also excludes our near-term and future development pipeline, which as of December 31, 2015 was comprised of ten potential development sites, representing approximately 99 gross acres of undeveloped land on which we believe we have the potential to develop over 5.0 million square feet of office space, depending upon economic conditions.

As of December 31, 2015, the following properties were excluded from our stabilized portfolio:

|  | Number of<br>Properties/Projects | Estimated Rentable<br>Square Feet |
|--|----------------------------------|-----------------------------------|
| Properties held for sale <sup>(1)</sup>                | 4                                | 465,812                           |
| Development projects in “lease-up” <sup>(2)</sup>      | 1                                | 73,000                            |
| Development projects under construction <sup>(2)</sup> | 5                                | 1,910,000                         |

Includes four properties located in the Del Mar submarket of San Diego, California. See Note 4 “Dispositions and (1) Real Estate Assets Held for Sale” to our consolidated financial statements included in this report for additional information.

(2) Excludes 2015 property acquisitions.

The following table reconciles the changes in the rentable square feet in our stabilized portfolio of operating properties from December 31, 2014 to December 31, 2015:

|  | Number of<br>Buildings | Rentable<br>Square Feet |
|--|------------------------|-------------------------|
| Total as of December 31, 2014                                  | 111                    | 14,096,617              |
| Completed development properties placed in-service             | 4                      | 448,504                 |
| Dispositions and properties held for sale at December 31, 2015 | (14                    | ) (1,512,206 )          |
| Remeasurement  | —                      | (509 )                  |
| Total as of December 31, 2015                                  | 101                    | 13,032,406              |

## Occupancy Information

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

## Stabilized Portfolio Occupancy

| Region                              | Number of Buildings | Rentable Square Feet | Occupancy at <sup>(1)</sup> |            |            |   |
|-------------------------------------|---------------------|----------------------|-----------------------------|------------|------------|---|
|                                     |                     |                      | 12/31/2015                  | 12/31/2014 | 12/31/2013 |   |
| Los Angeles and Ventura Counties    | 29                  | 3,614,031            | 95.1                        | % 92.8     | % 93.7     | % |
| Orange County                       | 1                   | 271,556              | 94.0                        | % 98.7     | % 92.8     | % |
| San Diego County                    | 33                  | 2,851,140            | 89.6                        | % 90.9     | % 90.8     | % |
| San Francisco Bay Area              | 26                  | 4,229,540            | 98.1                        | % 97.3     | % 94.8     | % |
| Greater Seattle                     | 12                  | 2,066,139            | 95.1                        | % 98.1     | % 96.7     | % |
| Total Stabilized Portfolio          | 101                 | 13,032,406           | 94.8                        | % 94.4     | % 93.4     | % |
|                                     |                     |                      | Average Occupancy           |            |            |   |
|                                     |                     |                      | Year Ended December 31,     |            |            |   |
|                                     |                     |                      | 2015                        | 2014       |            |   |
| Stabilized Portfolio <sup>(1)</sup> |                     |                      | 95.6                        | % 93.5     |            | % |
| Same Store Portfolio <sup>(2)</sup> |                     |                      | 95.0                        | % 94.6     |            | % |

(1) Occupancy percentages reported are based on our stabilized office portfolio as of the end of the period presented.

Occupancy percentages reported are based on office properties owned and stabilized as of January 1, 2014 and still (2) owned and stabilized as of December 31, 2015. See discussion under "Results of Operations" for additional information.

## Current Regional Information

The West Coast real estate markets in which we operate are among the strongest in the nation, led by exceptional growth in demand and absorption particularly in the San Francisco Bay Area and Greater Seattle.

San Francisco Bay Area. In 2015, the San Francisco Bay Area market outperformed all other real estate markets on the West Coast and across the country with the technology sector continuing to drive growth. Rental growth remains strong as supply of large blocks of space remains limited. As of December 31, 2015, our San Francisco Bay Area stabilized portfolio of 4.2 million rentable square feet was 98.1% occupied with approximately 81,000 available rentable square feet compared to 97.3% occupied with approximately 104,000 available rentable square feet as of December 31, 2014. As of January 31, 2016, we were 99.2% leased in the San Francisco Bay Area.

As of December 31, 2015, leases representing an aggregate of approximately 94,000 and 278,000 rentable square feet are scheduled to expire during 2016 and 2017, respectively, in this region. The aggregate rentable square feet under leases scheduled to expire during 2016 and 2017 represents approximately 3.1% of our occupied rentable square feet and 3.6% of our annualized base rental revenues in our total stabilized portfolio as of December 31, 2015.

Greater Seattle. The Greater Seattle market continued to strengthen in 2015, with demand pushing asking rents in Greater Seattle to their highest level in a decade. As of December 31, 2015, our Greater Seattle stabilized portfolio of 2.1 million rentable square feet was 95.1% occupied with approximately 102,000 available rentable square feet compared to 98.1% occupied with approximately 43,000 available rentable square feet as of December 31, 2014. As of January 31, 2016, we were 98.0% leased in Greater Seattle.

As of December 31, 2015, leases representing an aggregate of approximately 80,000 and 247,000 rentable square feet are scheduled to expire during 2016 and 2017, respectively, in this region. The aggregate rentable square feet under leases scheduled to expire during 2016 and 2017 represents approximately 2.7% of our occupied rentable square feet and 2.1% of our annualized base rental revenues in our total stabilized portfolio as of December 31, 2015.

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San Diego County. San Diego continued to show increases in rental rates during 2015 driven by steady business expansion with limited new supply of modern office space. Our San Diego County stabilized portfolio of 2.9 million rentable square feet was 89.6% occupied with approximately 296,000 available rentable square feet as of December 31, 2015 compared to 90.9% occupied with approximately 386,000 available rentable square feet as of December 31, 2014. As of January 31, 2016, our San Diego portfolio was 90.9% leased.

As of December 31, 2015, leases representing an aggregate of approximately 204,000 and 193,000 rentable square feet are scheduled to expire during 2016 and 2017, respectively, in this region. The aggregate rentable square feet under leases scheduled to expire during 2016 and 2017 represents approximately 3.3% of our occupied rentable square feet and 2.3% of our annualized base rental revenues in our total stabilized portfolio as of December 31, 2015.

Los Angeles and Ventura Counties. During 2015, the Los Angeles market continued to strengthen, particularly in markets attractive to creative services and entertainment, which are seeing the largest rental increases. Our Los Angeles and Ventura Counties stabilized portfolio of 3.6 million rentable square feet was 95.1% occupied with approximately 178,000 available rentable square feet as of December 31, 2015 compared to 92.8% occupied with approximately 252,000 available rentable square feet as of December 31, 2014. Across our Los Angeles and Ventura Counties portfolio, as of January 31, 2016, we were 95.8% leased.

As of December 31, 2015, leases representing an aggregate of approximately 310,000 and 481,000 rentable square feet are scheduled to expire during 2016 and 2017, respectively, in this region. The aggregate rentable square feet under the leases scheduled to expire in this region during 2016 and in 2017 represent approximately 6.5% of our occupied rentable square feet and 5.6% of our annualized base rental revenues in our total stabilized portfolio as of December 31, 2015.

## Results of Operations

### Comparison of the Year Ended December 31, 2015 to the Year Ended December 31, 2014

#### Net Operating Income

Management internally evaluates the operating performance and financial results of our stabilized portfolio based on Net Operating Income from continuing operations. 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).

Net Operating Income from continuing operations is considered by management to be an important and appropriate supplemental performance measure to net income (loss) because we believe it helps both investors and management to understand the core operations of our properties excluding corporate and financing-related costs and noncash depreciation and amortization. Net Operating Income is an unlevered operating performance metric of our properties and allows for a useful comparison of the operating performance of individual assets or groups of assets. This measure thereby provides an operating perspective not immediately apparent from GAAP income (loss) from operations or net income (loss). In addition, Net Operating Income is considered by many in the real estate industry to be a useful starting point for determining the value of a real estate asset or group of assets. Other real estate companies may use different methodologies for calculating Net Operating Income, and accordingly, our presentation of Net Operating Income may not be comparable to other real estate companies. Because of the exclusion of the items shown in the reconciliation below, Net Operating Income should only be used as a supplemental measure of our financial performance and not as an alternative to GAAP income (loss) from operations or net income (loss).

As a result of the Company’s adoption of the new discontinued operations accounting guidance (see Note 2 “Basis of Presentation and Significant Accounting Policies” to our consolidated financial statements included in this report for additional information), for the year ended December 31, 2015, Net Operating Income includes the Net Operating Income for the ten properties disposed of in 2015 and the four properties held for sale at December 31, 2015. For the years ended December 31, 2014 and December 31, 2013, Net Operating income from continuing operations does not include the Net Operating Income for properties held for sale or disposed of because properties classified as held for sale and/or disposed of prior to January 1, 2015 continue to be presented in discontinued operations for prior periods presented.

Management further evaluates Net Operating Income by evaluating the performance from the following property groups:

- Same Store Properties – which includes the results of all of the office properties that were owned and included in our stabilized portfolio for two comparable reporting periods, i.e., owned and included in our stabilized portfolio as of January 1, 2014 and still owned and included in the stabilized portfolio as of December 31, 2015;

Stabilized Development and Redevelopment Properties – which includes the results generated by the following:  
Two office development projects comprising four office buildings that were completed and stabilized in the fourth quarter of 2015;  
One office development project comprising two office buildings that was completed and stabilized in the fourth quarter of 2014;  
One office development project consisting of three office buildings that was completed and stabilized in the third quarter of 2014; and  
One office redevelopment property that was stabilized in the first quarter of 2014 following its one year lease-up period.

2014 Acquisition Properties – which includes the results, from the dates of acquisition through the periods presented, for the five office buildings we acquired during 2014;

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2015 Disposition and Held for Sale Properties and Other – which includes the results for both periods presented of the ten properties disposed of in 2015, the four properties held for sale at December 31, 2015, and expenses for certain of our in-process, near-term and future development projects.

The following table sets forth certain information regarding the property groups within our stabilized portfolio as of December 31, 2015:

| Group   | # of Buildings | Rentable Square Feet |
|---|----------------|----------------------|
| Same Store Properties                               | 86             | 10,818,177           |
| Stabilized Development and Redevelopment Properties | 10             | 1,806,642            |
| 2014 Acquisition Properties                         | 5              | 407,587              |
| Total Stabilized Portfolio                          | 101            | 13,032,406           |

The following tables summarize the Net Operating Income, as defined, for our total portfolio for the years ended December 31, 2015 and 2014.

|  | Year Ended December 31, |            | Dollar Change | Percentage Change |   |
|--|-------------------------|------------|---------------|-------------------|---|
|  | 2015                    | 2014       |               |                   |   |
|  | (\$ in thousands)       |            |               |                   |   |
| Reconciliation to Net Income:                      |                         |            |               |                   |   |
| Net Operating Income, as defined                   | \$422,033               | \$372,881  | \$49,152      | 13.2              | % |
| Unallocated (expense) income:                      |                         |            |               |                   |   |
| General and administrative expenses                | (48,265 )               | (46,152 )  | (2,113 )      | 4.6               |   |
| Acquisition-related expenses                       | (497 )                  | (1,479 )   | 982           | (66.4 )           |   |
| Depreciation and amortization                      | (204,294 )              | (202,417 ) | (1,877 )      | 0.9               |   |
| Interest income and other net investment gains     | 243                     | 561        | (318 )        | (56.7 )           |   |
| Interest expense                                   | (57,682 )               | (67,571 )  | 9,889         | (14.6 )           |   |
| Gains on sale of land, net                         | 17,116                  | 3,490      | 13,626        | 390.4             |   |
| Gains on sales of depreciable operating properties | 109,950                 | —          | 109,950       | 100.0             |   |
| Income from continuing operations                  | 238,604                 | 59,313     | 179,291       | 302.3             |   |
| Income from discontinued operations <sup>(1)</sup> | —                       | 124,495    | (124,495 )    | (100.0 )          |   |
| Net income   | \$238,604               | \$183,808  | \$54,796      | 29.8              | % |

The Company adopted ASU 2014-08 effective January 1, 2015 (see Note 2 “Basis of Presentation and Significant Accounting Policies” to our consolidated financial statements included in this report for additional information). As a result, results of operations for properties classified as held for sale and/or disposed of subsequent to January 1, 2015 are presented in continuing operations. Prior to January 1, 2015, properties classified as held for sale and/or disposed of are presented in discontinued operations.

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The following tables summarize the Net Operating Income, as defined, for our total portfolio for the years ended December 31, 2015 and 2014.

|                                  | Year Ended December 31, 2015 |  |                   |   |           | 2014           |  |                   |   |           |
|----------------------------------|------------------------------|--|-------------------|---|-----------|----------------|--|-------------------|---|-----------|
|                                  | Same Store                   | Stabilized Development & Redevelopment | 2014 Acquisitions | 2015 Held for Sale Dispositions & Other | Total     | Same Store     | Stabilized Development & Redevelopment | 2014 Acquisitions | 2015 Held for Sale Dispositions & Other | Total     |
|                                  | (in thousands)               |  |                   |   |           | (in thousands) |  |                   |   |           |
| Operating revenues:              |                              |  |                   |   |           |                |  |                   |   |           |
| Rental income                    | \$411,089                    | \$73,949                               | \$15,621          | \$24,696                                | \$525,355 | \$392,567      | \$31,625                               | \$7,153           | \$34,983                                | \$466,328 |
| Tenant reimbursements            | 37,144                       | 9,827                                  | 2,566             | 4,237                                   | 53,774    | 38,673         | 1,850                                  | 593               | 5,601                                   | 46,717    |
| Other property income            | 2,021                        | 112                                    | —                 | 13                                      | 2,146     | 8,498          | 2                                      | —                 | 180                                     | 8,680     |
| Total                            | 450,254                      | 83,888                                 | 18,187            | 28,946                                  | 581,275   | 439,738        | 33,477                                 | 7,746             | 40,764                                  | 521,725   |
| Property and related expenses:   |                              |  |                   |   |           |                |  |                   |   |           |
| Property expenses                | 93,868                       | 6,049                                  | 1,054             | 4,407                                   | 105,378   | 91,526         | 3,529                                  | 289               | 5,170                                   | 100,514   |
| Real estate taxes                | 35,851                       | 9,546                                  | 1,328             | 3,498                                   | 50,223    | 36,516         | 3,569                                  | 336               | 4,776                                   | 45,197    |
| Provision for bad debts          | 695                          | (98)                                   | —                 | (52)                                    | 545       | (103)          | 98                                     | —                 | 63                                      | 58        |
| Ground leases                    | 3,096                        | —                                      | —                 | —                                       | 3,096     | 3,075          | —                                      | —                 | —                                       | 3,075     |
| Total                            | 133,510                      | 15,497                                 | 2,382             | 7,853                                   | 159,242   | 131,014        | 7,196                                  | 625               | 10,009                                  | 148,844   |
| Net Operating Income, as defined | \$316,744                    | \$68,391                               | \$15,805          | \$21,093                                | \$422,033 | \$308,724      | \$26,281                               | \$7,121           | \$30,755                                | \$372,881 |

Year Ended December 31, 2015 as compared to the Year Ended December 31, 2014

|                                | Same Store        |                | Stabilized Development & Redevelopment |                | 2014 Acquisitions |                | 2015 Held for Sale, Dispositions & Other |                | Total         |                |
|--------------------------------|-------------------|----------------|--|----------------|-------------------|----------------|--|----------------|---------------|----------------|
|                                | Dollar Change     | Percent Change | Dollar Change                          | Percent Change | Dollar Change     | Percent Change | Dollar Change                            | Percent Change | Dollar Change | Percent Change |
|                                | (\$ in thousands) |                |  |                |                   |                |  |                |               |                |
| Operating revenues:            |                   |                |  |                |                   |                |  |                |               |                |
| Rental income                  | \$18,522          | 4.7 %          | \$42,324                               | 133.8 %        | \$8,468           | 118.4 %        | \$(10,287)                               | (29.4) %       | \$59,027      | 12.7 %         |
| Tenant reimbursements          | (1,529)           | (4.0)          | 7,977                                  | 431.2          | 1,973             | 332.7          | (1,364)                                  | (24.4)         | 7,057         | 15.1           |
| Other property income          | (6,477)           | (76.2)         | 110                                    | 5,500.0        | —                 | —              | (167)                                    | (92.8)         | (6,534)       | (75.3)         |
| Total                          | 10,516            | 2.4            | 50,411                                 | 150.6          | 10,441            | 134.8          | (11,818)                                 | (29.0)         | 59,550        | 11.4           |
| Property and related expenses: |                   |                |  |                |                   |                |  |                |               |                |
| Property expenses              | 2,342             | 2.6            | 2,520                                  | 71.4           | 765               | 264.7          | (763)                                    | (14.8)         | 4,864         | 4.8            |
| Real estate taxes              | (665)             | (1.8)          | 5,977                                  | 167.5          | 992               | 295.2          | (1,278)                                  | (26.8)         | 5,026         | 11.1           |
|                                | 798               | (774.8)        | (196)                                  | (200.0)        | —                 | —              | (115)                                    | (182.5)        | 487           | 839.7          |

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|                                  |         |     |            |       |           |        |            |          |          |        |
|----------------------------------|---------|-----|------------|-------|-----------|--------|------------|----------|----------|--------|
| Provision for bad debts          |         |     |            |       |           |        |            |          |          |        |
| Ground leases                    | 21      | 0.7 | —          | —     | —         | —      | —          | —        | 21       | 0.7    |
| Total                            | 2,496   | 1.9 | 8,301      | 115.4 | 1,757     | 281.1  | (2,156 )   | (21.5 )  | 10,398   | 7.0    |
| Net Operating Income, as defined | \$8,020 | 2.6 | % \$42,110 | 160.2 | % \$8,684 | 121.9% | \$(9,662 ) | (31.4 )% | \$49,152 | 13.2 % |

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Net Operating Income increased \$49.2 million, or 13.2%, for the year ended December 31, 2015 as compared to the year ended December 31, 2014 primarily resulting from:

• An increase of \$42.1 million attributable to the Stabilized Development and Redevelopment Properties primarily due to the following:

• \$6.3 million increase from the properties completed and/or stabilized in the fourth quarter of 2015;

• \$13.8 million increase from the properties completed and/or stabilized in the fourth quarter of 2014;

• \$18.6 million increase from the properties completed and/or stabilized in the third quarter of 2014; and

• \$3.4 million increase from the properties completed and/or stabilized in the first quarter of 2014;

• An increase of \$8.0 million attributable to the Same Store Properties primarily resulting from:

• An increase in rental income of \$18.5 million primarily due to the following:

• \$16.7 million increase due to new leases at higher rates and increased occupancy;

• \$1.0 million increase due to amortization of tenant funded improvements revenue; and

• \$1.0 million increase in parking income resulting from increased occupancy and rates at certain of our buildings;

• A partially offsetting decrease in tenant reimbursements of \$1.5 million primarily due to base year resets for a number of tenants across the portfolio;

• A partially offsetting decrease in other property income of \$6.5 million due to \$6.8 million of lease termination fees, primarily related to one tenant, that were recognized during the year ended December 31, 2014; and

• A partially offsetting increase in property and related expenses of \$2.5 million primarily resulting from:

• An increase of \$2.3 million in property expenses primarily resulting from:

• \$3.3 million increase in certain recurring operating costs related to security, parking, other contract services, repairs and maintenance, and various other reimbursable expenses;

• A partially offsetting decrease of \$1.0 million due to a property damage settlement received in 2015 and lower non-recurring legal fees in 2015; and

• An increase of \$0.8 million in provision for bad debts primarily related to two tenants;

• A partially offsetting net decrease of \$0.7 million in real estate taxes primarily due to property tax refunds related to successful assessment reductions net of customary annual property tax increases at other properties; and

• An increase of \$8.7 million attributable to the 2014 Acquisition Properties.



## Other Expenses and Income

### General and Administrative Expenses

General and administrative expenses increased by approximately \$2.1 million, or 4.6%, for the year ended December 31, 2015 compared to the year ended December 31, 2014 primarily due to the following:

• An increase of \$3.3 million in compensation related expense primarily related to the growth of the Company; partially offset by

• A decrease of \$1.2 million primarily related to a decrease in professional services fees.

### Depreciation and Amortization

Depreciation and amortization increased by approximately \$1.9 million, or 0.9%, for the year ended December 31, 2015 compared to the year ended December 31, 2014, primarily due to an increase from the Stabilized Development and Redevelopment Properties partially offset by 2015 dispositions and certain specific lease-related intangible assets being fully amortized during 2015.

### Interest Expense

The following table sets forth our gross interest expense, including debt discounts/premiums and loan cost amortization, net of capitalized interest, including capitalized debt discounts/premiums and loan cost amortization for the years ended December 31, 2015 and 2014.

|                        | Year Ended December 31, |           | Dollar    | Percentage |
|------------------------|-------------------------|-----------|-----------|------------|
|                        | 2015                    | 2014      | Change    | Change     |
|                        | (\$ in thousands)       |           |           |            |
| Gross interest expense | \$109,647               | \$114,661 | \$(5,014) | (4.4)%     |
| Capitalized interest   | (51,965)                | (47,090)  | (4,875)   | (10.4)%    |
| Interest expense       | \$57,682                | \$67,571  | \$(9,889) | (14.6)%    |

Gross interest expense, before the effect of capitalized interest, decreased \$5.0 million, or 4.4%, for the year ended December 31, 2015 compared to the year ended December 31, 2014, primarily due to a decrease in our weighted average interest rate, including loan fee amortization, from 4.9% for the year ended December 31, 2014 to 4.6% for the year ended December 31, 2015 as a result of the repayment of the Company's 4.25% Exchangeable Notes in November 2014.

Capitalized interest increased \$4.9 million, or 10.4%, for the year ended December 31, 2015 compared to the year ended December 31, 2014, primarily attributable to an increase in our development activity, which resulted in higher average asset balances qualifying for interest capitalization during 2015 as compared to 2014.

### Comparison of the Year Ended December 31, 2014 to the Year Ended December 31, 2013

Management evaluated Net Operating Income for the year ended December 31, 2014 compared to the year ended December 31, 2013 by evaluating the performance from the following property groups:

• Same Store Properties – which includes the results of all of the office properties that were owned and included in our stabilized portfolio for two comparable reporting periods, i.e., owned and included in our stabilized portfolio as of

January 1, 2013 and still owned and included in the stabilized portfolio as of December 31, 2014;

Acquisition Properties – which includes the results, from the dates of acquisition through the periods presented, for the four office buildings we acquired during 2013 and the five office buildings we acquired during the year ended December 31, 2014;

Stabilized Development and Redevelopment Properties – which includes the results generated by the following:

One development project comprising three office buildings that was completed and stabilized in the third quarter of 2014;

One development project consisting of two office buildings that was completed and stabilized in the fourth quarter of 2014;

One redevelopment property that was stabilized in 2014 following its one year lease-up period; and

Two office redevelopment buildings and one office development building that were stabilized in 2013.

Other Properties – which includes the results of three office properties and certain of our in-process and future development projects.

The following table sets forth certain information regarding the property groups within our stabilized portfolio as of December 31, 2014:

| Group   | # of Buildings | Rentable Square Feet |
|---|----------------|----------------------|
| Same Store Properties                               | 93             | 11,309,444           |
| Acquisition Properties                              | 9              | 946,925              |
| Stabilized Development and Redevelopment Properties | 9              | 1,840,248            |
| Total Stabilized Portfolio                          | 111            | 14,096,617           |

The following tables summarize the Net Operating Income, as defined, for our total portfolio for the year ended December 31, 2014 and 2013.

|  | Year Ended December 31, |           | Dollar    | Percentage |   |
|--|-------------------------|-----------|-----------|------------|---|
|  | 2014                    | 2013      | Change    | Change     |   |
|  | (\$ in thousands)       |           |           |            |   |
| Reconciliation to Net Income:                  |                         |           |           |            |   |
| Net Operating Income, as defined               | \$372,881               | \$319,679 | \$53,202  | 16.6       | % |
| Unallocated (expense) income:                  |                         |           |           |            |   |
| General and administrative expenses            | (46,152)                | (39,660)  | (6,492)   | 16.4       | ) |
| Acquisition-related expenses                   | (1,479)                 | (1,962)   | 483       | (24.6)     | ) |
| Depreciation and amortization                  | (202,417)               | (188,887) | (13,530)  | 7.2        | ) |
| Interest income and other net investment gains | 561                     | 1,635     | (1,074)   | (65.7)     | ) |
| Interest expense                               | (67,571)                | (75,870)  | 8,299     | (10.9)     | ) |
| Gain on sale of land                           | 3,490                   | —         | 3,490     | 100.0      | ) |
| Income from continuing operations              | 59,313                  | 14,935    | 44,378    | 297.1      | ) |
| Income from discontinued operations            | 124,495                 | 29,630    | 94,865    | 320.2      | ) |
| Net income                                     | \$183,808               | \$44,565  | \$139,243 | 312.4      | % |

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The following tables summarize the Net Operating Income, as defined, for our total portfolio for the year ended December 31, 2014 and 2013.

|                                  | Year Ended December 31,<br>2014 |                   |                                  |         |           | 2013                         |                   |                                  |         |           |
|----------------------------------|---------------------------------|-------------------|----------------------------------|---------|-----------|------------------------------|-------------------|----------------------------------|---------|-----------|
|                                  | Same Store<br>(in thousands)    | Acqui-<br>sitions | Stabilized<br>Redevel-<br>opment | Other   | Total     | Same Store<br>(in thousands) | Acqui-<br>sitions | Stabilized<br>Redevel-<br>opment | Other   | Total     |
| Operating revenues:              |                                 |                   |                                  |         |           |                              |                   |                                  |         |           |
| Rental income                    | \$386,456                       | \$29,423          | \$49,617                         | \$832   | \$466,328 | \$370,128                    | \$14,810          | \$23,685                         | \$3,276 | \$411,899 |
| Tenant reimbursements            | 38,264                          | 5,182             | 3,151                            | 120     | 46,717    | 33,704                       | 2,981             | 937                              | 425     | 38,047    |
| Other property income            | 8,656                           | —                 | 11                               | 13      | 8,680     | 7,155                        | 7                 | 1                                | 2       | 7,165     |
| Total                            | 433,376                         | 34,605            | 52,779                           | 965     | 521,725   | 410,987                      | 17,798            | 24,623                           | 3,703   | 457,111   |
| Property and related expenses:   |                                 |                   |                                  |         |           |                              |                   |                                  |         |           |
| Property expenses                | 90,468                          | 2,695             | 6,818                            | 533     | 100,514   | 86,844                       | 1,953             | 4,170                            | 1,148   | 94,115    |
| Real estate taxes                | 35,583                          | 2,996             | 5,482                            | 1,136   | 45,197    | 34,331                       | 1,397             | 2,124                            | 1,565   | 39,417    |
| Provision for bad debts          | (181)                           | ) 13              | 226                              | —       | 58        | 383                          | 13                | —                                | —       | 396       |
| Ground leases                    | 2,932                           | —                 | 143                              | —       | 3,075     | 2,900                        | —                 | 604                              | —       | 3,504     |
| Total                            | 128,802                         | 5,704             | 12,669                           | 1,669   | 148,844   | 124,458                      | 3,363             | 6,898                            | 2,713   | 137,432   |
| Net Operating Income, as defined | \$304,574                       | \$28,901          | \$40,110                         | \$(704) | \$372,881 | \$286,529                    | \$14,435          | \$17,725                         | \$990   | \$319,679 |

Year Ended December 31, 2014 as compared to the Year Ended December 31, 2013

|                                | Same Store        |                   | Acquisitions     |                   | Stabilized<br>Redevelopment |                   | Other            |                   | Total            |                   |
|--------------------------------|-------------------|-------------------|------------------|-------------------|-----------------------------|-------------------|------------------|-------------------|------------------|-------------------|
|                                | Dollar<br>Change  | Percent<br>Change | Dollar<br>Change | Percent<br>Change | Dollar<br>Change            | Percent<br>Change | Dollar<br>Change | Percent<br>Change | Dollar<br>Change | Percent<br>Change |
|                                | (\$ in thousands) |                   |                  |                   |                             |                   |                  |                   |                  |                   |
| Operating revenues:            |                   |                   |                  |                   |                             |                   |                  |                   |                  |                   |
| Rental income                  | \$16,328          | 4.4 %             | \$14,613         | 98.7 %            | \$25,932                    | 109.5 %           | \$(2,444)        | (74.6 %)          | \$54,429         | 13.2 %            |
| Tenant reimbursements          | 4,560             | 13.5              | 2,201            | 73.8              | 2,214                       | 236.3             | (305)            | (71.8)            | 8,670            | 22.8              |
| Other property income          | 1,501             | 21.0              | (7)              | (100.0)           | 10                          | 1,000.0           | 11               | 550.0             | 1,515            | 21.1              |
| Total                          | 22,389            | 5.4               | 16,807           | 94.4              | 28,156                      | 114.3             | (2,738)          | (73.9)            | 64,614           | 14.1              |
| Property and related expenses: |                   |                   |                  |                   |                             |                   |                  |                   |                  |                   |
| Property expenses              | 3,624             | 4.2               | 742              | 38.0              | 2,648                       | 63.5              | (615)            | (53.6)            | 6,399            | 6.8               |
| Real estate taxes              | 1,252             | 3.6               | 1,599            | 114.5             | 3,358                       | 158.1             | (429)            | (27.4)            | 5,780            | 14.7              |
| Provision for bad debts        | (564)             | (147.3)           | —                | —                 | 226                         | 100.0             | —                | —                 | (338)            | (85.4)            |

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|  |          |     |            |       |            |         |             |          |          |        |          |
|--|----------|-----|------------|-------|------------|---------|-------------|----------|----------|--------|----------|
| Ground leases                          | 32       | 1.1 | —          | —     | (461       | ) (76.3 | )           | —        | —        | (429   | ) (12.2) |
| Total                                  | 4,344    | 3.5 | 2,341      | 69.6  | 5,771      | 83.7    | (1,044      | ) (38.5  | )        | 11,412 | 8.3      |
| Net Operating<br>Income,<br>as defined | \$18,045 | 6.3 | % \$14,466 | 100.2 | % \$22,385 | 126.3   | % \$(1,694) | (171.1)% | \$53,202 | 16.6   | %        |

Net Operating Income increased \$53.2 million, or 16.6%, for the year ended December 31, 2014 as compared to the year ended December 31, 2013 primarily resulting from:

An increase of \$22.4 million attributable to the Stabilized Development and Redevelopment Properties, of which \$17.0 million was attributable to the properties completed and/or stabilized in September and October of 2014 and \$5.4 million was attributable to properties completed and/or stabilized in 2013;

• An increase of \$18.0 million attributable to the Same Store Properties primarily resulting from:

An increase in rental income of \$16.3 million primarily resulting from an increase in tenant renewals and new leases at higher rental rates;

An increase in tenant reimbursements of \$4.6 million primarily due to higher reimbursable property expenses and real estate taxes and increased occupancy;

An increase in other property income of \$1.5 million. During the year ended December 31, 2014, we recognized lease termination fees of \$6.3 million. During the year ended December 31, 2013, we received a \$5.2 million property damage settlement payment at one of our properties;

A partially offsetting increase in property and related expenses of \$4.3 million primarily resulting from:

An increase of \$3.6 million in property expenses primarily as a result of a \$2.6 million increase in certain recurring operating costs related to utilities, parking, janitorial, repairs and maintenance, and other service-related costs and \$1.0 million of non-recurring expenses related to a property damage settlement;

A net increase in real estate taxes of \$1.3 million primarily as a result of higher assessment of value at several properties; and

A decrease in the provision for bad debt of \$0.6 million primarily due to an improvement in collections of tenant receivables.

An increase of \$14.5 million was attributable to the Acquisition Properties, of which \$7.4 million was attributable to properties acquired in 2013, \$6.1 million was attributable to a property acquired in the first quarter of 2014 and \$1.0 million was attributable to a property acquired in the fourth quarter of 2014.

## Other Expenses and Income

### General and Administrative Expenses

General and administrative expenses increased \$6.5 million, or 16.4%, for the year ended December 31, 2014 compared to the year ended December 31, 2013, primarily attributable to an increase in compensation expense related to higher payroll costs and other professional services associated with the growth of the Company.

### Depreciation and Amortization

Depreciation and amortization increased by \$13.5 million, or 7.2%, for the year ended December 31, 2014 compared to the year ended December 31, 2013, primarily related to the Acquisition Properties and Stabilized Development and Redevelopment Properties.

### Interest Expense

The following table sets forth our gross interest expense, including debt discounts/premiums and loan cost amortization, net of capitalized interest, including capitalized debt discounts/premiums and loan cost amortization for the year ended December 31, 2014 and 2013.

| Year Ended December 31,<br>2014 | 2013 | Dollar<br>Change | Percentage<br>Change |
|---------------------------------|------|------------------|----------------------|
| (\$ in thousands)               |      |                  |                      |

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|                        |           |           |           |         |    |
|------------------------|-----------|-----------|-----------|---------|----|
| Gross interest expense | \$114,661 | \$111,238 | \$3,423   | 3.1     | %  |
| Capitalized interest   | (47,090   | ) (35,368 | ) (11,722 | ) 33.1  |    |
| Interest expense       | \$67,571  | \$75,870  | \$(8,299  | ) (10.9 | )% |

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Gross interest expense, before the effect of capitalized interest, increased \$3.4 million, or 3.1%, for the year ended December 31, 2014 compared to the year ended December 31, 2013 resulting primarily from an increase in our average outstanding debt balances due to increased development and acquisitions and growth of the Company.

Capitalized interest increased \$11.7 million, or 33.1%, for the year ended December 31, 2014 compared to the year ended December 31, 2013, primarily attributable to an increase in our development and redevelopment activity, which resulted in higher average asset balances qualifying for interest capitalization during 2014 as compared to 2013.

## Liquidity and Capital Resources of the Company

In this “Liquidity and Capital Resources of the Company” section, the term the “Company” refers only to Kilroy Realty Corporation on an unconsolidated basis and excludes the Operating Partnership and all other subsidiaries.

The Company’s business is operated primarily through the Operating Partnership. Distributions from the Operating Partnership are the Company’s primary source of capital. The Company believes the Operating Partnership’s sources of working capital, specifically its cash flow from operations and borrowings available under its unsecured revolving credit facility, are adequate for it to make its distribution payments to the Company and, in turn, for the Company to make its dividend payments to its preferred and common stockholders for the next twelve months. Cash flows from operating activities generated by the Operating Partnership for the year ended December 31, 2015 were sufficient to cover the Company’s payment of cash dividends to its stockholders. However, there can be no assurance that the Operating Partnership’s sources of capital will continue to be available at all or in amounts sufficient to meet its needs, including its ability to make distributions to the Company. The unavailability of capital could adversely affect the Operating Partnership’s ability to make distributions to the Company, which would in turn, adversely affect the Company’s ability to pay cash dividends to its stockholders.

The Company is a well-known seasoned issuer and the Company and the Operating Partnership have an effective shelf registration statement that provides for the public offering and sale from time to time by the Company of its preferred stock, common stock, depositary shares, warrants and guarantees of debt securities and by the Operating Partnership of its debt securities, in each case in unlimited amounts. The Company evaluates the capital markets on an ongoing basis for opportunities to raise capital, and, as circumstances warrant, the Company and the Operating Partnership may issue securities of all of these types in one or more offerings at any time and from time to time on an opportunistic basis, depending upon, among other things, market conditions, available pricing and capital needs. When the Company receives proceeds from the sales of its preferred or common stock, it generally contributes the net proceeds from those sales to the Operating Partnership in exchange for corresponding preferred or common partnership units of the Operating Partnership. The Operating Partnership may use these proceeds and proceeds from the sale of its debt securities to repay debt, including borrowings under its unsecured revolving credit facility, to develop new or existing properties, to make acquisitions of properties or portfolios of properties, or for general corporate purposes.

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

## Distribution Requirements

The Company is required to distribute 90% of its taxable income (subject to certain adjustments and excluding net capital gain) on an annual basis to maintain qualification as a REIT for federal income tax purposes and is required to pay income tax at regular corporate rates to the extent it distributes less than 100% of its taxable income (including capital gains). As a result of these distribution requirements, the Operating Partnership cannot rely on retained earnings to fund its on-going operations to the same extent as other companies whose parent companies are not REITs. In addition, the Company may be required to use borrowings under the Operating Partnership’s revolving credit facility, if necessary, to meet REIT distribution requirements and maintain its REIT status. The Company may also need to continue to raise capital in the equity markets to fund the Operating Partnership’s working capital needs,

as well as potential developments of new or existing properties or acquisitions.

The Company intends to continue to make, but has not committed to make, regular quarterly cash distributions to common stockholders and, through the Operating Partnership, common unitholders from the Operating Partnership's cash flow from operating activities. All such distributions are at the discretion of the board of directors. The Company has historically distributed amounts in excess of its taxable income resulting in a return of capital to its stockholders. However, while the 2015 regular quarterly distributions were sufficient to distribute 100% of the Company's 2015

taxable income, they did not result in return of capital to its stockholders. As the Company intends to maintain distributions at a level sufficient to meet the REIT distribution requirements and minimize the potential of any income or excise taxes, it will continue to evaluate whether the current levels of distribution are sufficient to do so for 2016. In addition, in the event that the Company is unable to identify and complete the acquisition of suitable replacement properties to effect Section 1031 Exchanges or is unable to successfully complete Section 1031 Exchanges to defer some or all of the taxable gains related to property dispositions completed to date in 2016 or future property dispositions, the Company may elect to distribute a special dividend to its common shareholders and common unitholders in order to minimize income taxes on such gains. The Company considers market factors and its performance in addition to REIT requirements in determining its distribution levels. Amounts accumulated for distribution to stockholders are invested primarily in interest-bearing accounts and short-term interest-bearing securities, which are consistent with the Company's intention to maintain its qualification as a REIT. Such investments may include, for example, obligations of the Government National Mortgage Association, other governmental agency securities, certificates of deposit, and interest-bearing bank deposits.

On December 15, 2015, the Board of Directors declared a regular quarterly cash dividend of \$0.35 per share of common stock payable on January 13, 2016 to stockholders of record on December 31, 2015 and caused a \$0.35 per Operating Partnership unit cash distribution to be paid in respect of the Operating Partnership's common limited partnership interests, including those owned by the Company. The total cash quarterly dividends and distributions paid on January 13, 2016 were \$32.9 million.

On December 15, 2015, the Board of Directors declared a dividend of \$0.42969 per share on the Series G Preferred Stock and \$0.39844 per share on the Series H Preferred Stock for the period commencing on and including November 15, 2015 and ending on and including February 14, 2016. The dividend will be payable on February 15, 2016 to Series G Preferred and Series H Preferred stockholders of record on January 31, 2016. As January 31, 2016 fell on a Sunday, the effective record date for the dividend was Friday, January 29, 2016. The quarterly dividends payable on February 15, 2016 to Series G and Series H Preferred stockholders is expected to total \$3.3 million.

#### Debt Covenants

The covenants contained within the unsecured revolving credit facility, unsecured term loan facility and unsecured term loan generally prohibit the Company from paying dividends in excess of 95% of FFO.

## Capitalization

As of December 31, 2015, our total debt as a percentage of total market capitalization was 26.7% and our total debt and liquidation value of our preferred equity as a percentage of total market capitalization was 29.1%, which was calculated based on the closing price per share of the Company's common stock of \$63.28 on December 31, 2015 as shown in the following table:

|  | Shares/Units at<br>December 31, 2015 | Aggregate<br>Principal<br>Amount or<br>\$ Value<br>Equivalent | % of Total<br>Market<br>Capitalization |   |
|--|--------------------------------------|---|--|---|
|  | (\$ in thousands)                    |   |  |   |
| Debt:  |                                      |   |  |   |
| Unsecured Term Loan Facility   |                                      | \$ 150,000  | 1.8                                    | % |
| Unsecured Term Loan  |                                      | 39,000  | 0.4                                    |   |
| Unsecured Senior Notes due 2018 <sup>(1)</sup>                       |                                      | 325,000   | 3.9                                    |   |
| Unsecured Senior Notes due 2020 <sup>(1)</sup>                       |                                      | 250,000   | 3.0                                    |   |
| Unsecured Senior Notes due 2023 <sup>(1)</sup>                       |                                      | 300,000   | 3.6                                    |   |
| Unsecured Senior Notes due 2025 <sup>(1)</sup>                       |                                      | 400,000   | 4.8                                    |   |
| Unsecured Senior Notes due 2029 <sup>(1)</sup>                       |                                      | 400,000   | 4.8                                    |   |
| Secured debt <sup>(1) (2)</sup>                                      |                                      | 375,696   | 4.4                                    |   |
| Total debt   |                                      | 2,239,696   | 26.7                                   |   |
| Equity and Noncontrolling Interests:                                 |                                      |   |  |   |
| 6.875% Series G Cumulative Redeemable Preferred stock <sup>(3)</sup> | 4,000,000                            | 100,000   | 1.2                                    |   |
| 6.375% Series H Cumulative Redeemable Preferred stock <sup>(3)</sup> | 4,000,000                            | 100,000   | 1.2                                    |   |
| Common limited partnership units outstanding <sup>(4)(5)</sup>       | 1,764,775                            | 111,675   | 1.3                                    |   |
| Shares of common stock outstanding <sup>(5)</sup>                    | 92,258,690                           | 5,838,130   | 69.6                                   |   |
| Total equity and noncontrolling interests                            |                                      | 6,149,805   | 73.3                                   |   |
| Total Market Capitalization  |                                      | \$ 8,389,501  | 100.0                                  | % |

Represents gross aggregate principal amount due at maturity before the effect of net unamortized discounts as of (1) December 31, 2015. The aggregate net unamortized discounts totaled approximately \$1.2 million as of December 31, 2015.

(2) Excludes \$0.6 million of secured debt related to real estate assets held for sale as of December 31, 2015.

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

(4) Represents common units not owned by the Company.

(5) Value based on closing price per share of our common stock of \$63.28 as of December 31, 2015.

## Liquidity and Capital Resources of the Operating Partnership

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

## General

Our primary liquidity sources and uses are as follows:

## Liquidity Sources

Net cash flow from operations;

Borrowings under the Operating Partnership's unsecured revolving credit facility and term loan facility;

Proceeds from additional secured or unsecured debt financings;

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

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Proceeds from the disposition of assets through our capital recycling program.

#### Liquidity Uses

Development and redevelopment costs;  
Property or undeveloped land acquisitions;  
Property operating and corporate expenses;  
Capital expenditures, tenant improvement and leasing costs;  
Debt service and principal payments, including debt maturities;  
Distributions to common and preferred security holders;  
Repurchases of outstanding common stock of the Company; and  
Outstanding debt repayments.

#### General Strategy

Our general strategy is to maintain a conservative balance sheet with a strong credit profile and to maintain a capital structure that allows for financial flexibility and diversification of capital resources. We manage our capital structure to reflect a long-term investment approach and utilize multiple sources of capital to meet our long-term capital requirements. We believe that our current projected liquidity requirements for the next twelve-month period, as set forth above under the caption “—Liquidity Uses,” will be satisfied using a combination of the liquidity sources listed above, although there can be no assurance in this regard. We believe our conservative leverage and staggered debt maturities provide us with financial flexibility and enhances our ability to obtain additional sources of liquidity if necessary, and, therefore, we are well-positioned to refinance or repay maturing debt and to pursue our strategy of seeking attractive acquisition opportunities, which we may finance, as necessary, with future public and private issuances of debt and equity securities.

#### Summary of 2015 Funding Transactions

We continue to be active in the capital markets to finance our acquisition and development activity and our continued desire to extend our debt maturities and lower our overall weighted average cost of capital. This was primarily a result of the following transactions:

#### Capital Markets / Debt Transactions

During 2015, we issued and sold a total of 1,866,267 shares of our common stock under our at-the-market stock offering programs at a weighted average price of \$75.06 per share before selling commissions. The net offering proceeds (after deducting underwriting discounts) were approximately \$138.2 million (see “—Liquidity Sources” below for additional information).

In July 2015, we issued and sold 3,773,766 shares of common stock at a price of \$66.19 per share for aggregate net proceeds after offering costs of \$249.6 million through a registered direct placement with an institutional investor.

In September 2015, the Operating Partnership issued unsecured senior notes in an underwritten public offering with an aggregate principal balance of \$400.0 million that are scheduled to mature in October 2025. The unsecured senior notes require semi-annual interest payments each April and October based on a stated annual interest rate of 4.375%.

In November 2015, we repaid unsecured senior notes with an outstanding principal balance of \$325.0 million upon maturity (see Note 8 “Secured and Unsecured Debt of the Operating Partnership” to our consolidated financial statements included in this report for additional information). During 2015, we also repaid \$150.1 million of secured

debt at par.

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In May 2015, we received an upgrade in our debt ratings from Moody's and S&P to Baa2 and BBB, respectively.

### Capital Recycling Program

During the year ended December 31, 2015, we completed the sale of ten operating properties and one undeveloped land parcel to unaffiliated third parties for gross sales proceeds of \$335.2 million. In January 2016, we also completed the sale of four operating properties located in San Diego, California and one land parcel located in Carlsbad, California that were classified as held for sale at December 31, 2015 for gross sales proceeds of \$266.8 million.

After the effect of these aforementioned transactions, as of February 10, 2016, we had approximately \$20 million of unrestricted cash on hand, approximately \$260 million of restricted cash and approximately \$25 million outstanding on our unsecured revolving credit facility.

### Liquidity Sources

#### Unsecured Revolving Credit Facility

The following table summarizes the balance and terms of our unsecured revolving credit facility as of December 31, 2015 and December 31, 2014:

|   | December 31, 2015 | December 31, 2014 |
|---|-------------------|-------------------|
|   | (in thousands)    |                   |
| Outstanding borrowings                  | \$—               | \$ 140,000        |
| Remaining borrowing capacity            | 600,000           | 460,000           |
| Total borrowing capacity <sup>(1)</sup> | \$600,000         | \$600,000         |
| Interest rate <sup>(2)</sup>            | —                 | % 1.41            |
| Facility fee-annual rate <sup>(3)</sup> | 0.200%            | 0.250%            |
| Maturity date                           | July 2019         |                   |

We may elect to borrow, subject to bank approval and obtaining commitments for any additional borrowing (1) capacity, up to an additional \$311.0 million under an accordion feature under the terms of the unsecured revolving credit facility and unsecured term loan facility.

(2) Our unsecured revolving credit facility interest rate was calculated based on an annual rate of LIBOR plus 1.050% as of December 31, 2015 and LIBOR plus 1.250% as of December 31, 2014.

(3) Our facility fee is paid on a quarterly basis and is calculated based on the total borrowing capacity. In addition to the facility fee, we incurred debt origination and legal costs. As of December 31, 2015, \$4.6 million of deferred financing costs remains to be amortized through the amended maturity date of our unsecured revolving credit facility.

We intend to borrow under the unsecured revolving credit facility from time to time for general corporate purposes, to finance development and redevelopment expenditures, to fund potential acquisitions and to potentially repay long-term debt.

### Capital Recycling Program

In connection with our capital recycling program, we continuously evaluate opportunities for the potential disposition of properties and undeveloped land in our portfolio with the intent of recycling the proceeds generated from the disposition of less strategic or lower return assets into capital used to finance development expenditures, to fund new

acquisitions, to repay long-term debt and for other general corporate purposes. As part of this strategy, we attempt to enter into Section 1031 Exchanges, when possible, to defer some or all of the taxable gains on the sales, if any, for federal and state income tax purposes.

In connection with our capital recycling strategy, through December 31, 2015, we completed the sale of the properties and land noted above (see Note 4 “Dispositions and Real Estate Held for Sale” to our consolidated financial

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statements included in this report for additional information) for gross sales proceeds totaling approximately \$335.2 million. In January 2016, we also completed the sale of four operating properties located in San Diego, California and one land parcel located in Carlsbad, California that were classified as held for sale at December 31, 2015 for gross sales proceeds of \$266.8 million. During 2014, we completed the sale of 17 properties and one undeveloped land parcel to unaffiliated third parties in six separate transactions for gross sales proceeds totaling approximately \$432.6 million. See “—Factors that May Influence Future Operations” for additional information.

We currently anticipate that in 2016 we could raise additional capital through our dispositions program ranging from approximately \$300 million to \$600 million, with a midpoint of \$450 million, including the \$266.8 million we completed in January 2016 as discussed above. However, any potential future disposition transactions will depend on market conditions and other factors including but not limited to our capital needs and our ability to defer some or all of the taxable gains on the sales. In addition, we cannot assure you that we will dispose of any additional properties or that we will be able to identify and complete the acquisition of suitable replacement properties to effect Section 1031 Exchanges to defer some or all of the taxable capital gains related to our capital recycling program. However, any potential future disposition transactions will depend on market conditions and other factors including but not limited to our capital needs and our ability to defer some or all of the taxable gains on the sales. In addition, we cannot assure you that we will dispose of any additional properties or that we will be able to identify and complete the acquisition of suitable replacement properties to effect Section 1031 Exchanges to defer some or all of the taxable capital gains related to our capital recycling program.

#### At-The-Market Stock Offering Program

The following table sets forth information regarding sales of our common stock under our July 2011 and December 2014 at-the-market offering programs for the years ended December 31, 2015 and 2014:

|   | Year Ended December 31,                        |           |
|---|--|-----------|
|   | 2015   | 2014      |
|   | (in millions, except share and per share data) |           |
| Shares of common stock sold during the year         | 1,866,267                                      | 1,599,123 |
| Weighted average price per common share             | \$75.06  | \$65.49   |
| Aggregate gross proceeds                            | \$140.1  | \$104.7   |
| Aggregate net proceeds after underwriting discounts | \$138.2  | \$103.1   |

The proceeds from sales were used to fund development expenditures, acquisitions, and general corporate purposes, including repayment of borrowings under the unsecured revolving credit facility. Since commencement of the December 2014 program, through December 31, 2015, we have sold 2,007,767 shares of common stock having a gross sales price of \$150.1 million and approximately \$149.9 million remains available to be sold under this program. Actual future sales will depend upon a variety of factors, including, but not limited to market conditions, the trading price of the Company’s common stock and our capital needs. We have no obligation to sell the remaining shares available for sale under this program.

#### Common Stock Issuance

On July 1, 2015, the Company issued and sold 3,773,766 shares of its common stock for net proceeds of \$249.6 million through a registered direct placement with an institutional investor.

#### Shelf Registration Statement

As discussed above under “—Liquidity and Capital Resources of the Company,” the Company is a well-known seasoned issuer and the Company and the Operating Partnership have an effective shelf registration statement that provides for the public offering and sale from time to time by the Company of its preferred stock, common stock, depository shares and guarantees of debt securities and by the Operating Partnership of its debt securities, in each case in unlimited amounts. The Company evaluates the capital markets on an ongoing basis for opportunities to raise capital, and, as circumstances warrant, the Company and the Operating Partnership may issue securities of all of these types in one or more offerings at any time and from time to time on an opportunistic basis, depending upon, among other

things, market conditions, available pricing and capital needs. When the Company receives proceeds from the sales of its preferred or common stock, it generally contributes the net proceeds from those sales to the Operating Partnership in exchange for corresponding preferred or common partnership units of the Operating Partnership. The Operating Partnership may use these proceeds and proceeds from the sale of its debt securities to repay debt, including borrowings under its unsecured revolving credit facility, to develop new or existing properties, to make acquisitions of properties or portfolios of properties, or for general corporate purposes.

#### Unsecured and Secured Debt

The aggregate principal amount of our unsecured and secured debt of the Operating Partnership outstanding as of December 31, 2015 was as follows:

|  | Aggregate Principal<br>Amount Outstanding<br>(in thousands) |
|--|---|
| Unsecured Term Loan Facility                 | \$150,000   |
| Unsecured Term Loan                          | 39,000  |
| Unsecured Senior Notes due 2018              | 325,000   |
| Unsecured Senior Notes due 2020              | 250,000   |
| Unsecured Senior Notes due 2023              | 300,000   |
| Unsecured Senior Notes due 2025              | 400,000   |
| Unsecured Senior Notes due 2029              | 400,000   |
| Secured Debt <sup>(1)</sup>                  | 375,696   |
| Total Unsecured and Secured Debt             | 2,239,696   |
| Less: Unamortized Net Discounts              | (1,188)   |
| Total Debt, Net of Unamortized Net Discounts | \$2,238,508   |

(1) Excludes \$0.6 million of secured debt related to real estate assets held for sale as of December 31, 2015.

#### Debt Composition

The composition of the Operating Partnership's aggregate debt balances between secured and unsecured and fixed-rate and variable-rate debt as of December 31, 2015 and December 31, 2014 was as follows:

|   | Percentage of Total Debt |                   | Weighted Average Interest Rate <sup>(1)</sup> |                   |   |
|---|--------------------------|-------------------|---|-------------------|---|
|   | December<br>31, 2015     | December 31, 2014 | December<br>31, 2015                          | December 31, 2014 |   |
| Secured vs. unsecured:                            |                          |                   |   |                   |   |
| Unsecured <sup>(2)</sup>                          | 83.2                     | % 78.3            | % 4.3   | % 4.2             | % |
| Secured   | 16.8                     | 21.7              | 5.1   | % 5.2             | % |
| Variable-rate vs. fixed-rate:                     |                          |                   |   |                   |   |
| Variable-rate                                     | 8.4                      | 13.4              | 1.4   | % 1.5             | % |
| Fixed-rate <sup>(2)</sup>                         | 91.6                     | 86.6              | 4.7   | % 4.9             | % |
| Stated rate <sup>(2)</sup>                        |                          |                   | 4.5   | % 4.4             | % |
| GAAP effective rate <sup>(3)</sup>                |                          |                   | 4.4   | % 4.3             | % |
| GAAP effective rate including debt issuance costs |                          |                   | 4.6   | % 4.5             | % |

(1) As of the end of the period presented.

(2) Excludes the impact of the amortization of any debt discounts/premiums.

(3) Includes the impact of the amortization of any debt discounts/premiums, excluding debt issuance costs.

## Liquidity Uses

## Contractual Obligations

The following table provides information with respect to our contractual obligations as of December 31, 2015. The table: (i) indicates the maturities and scheduled principal repayments of our secured and unsecured debt and unsecured revolving credit facility; (ii) indicates the scheduled interest payments of our fixed-rate and variable-rate debt as of December 31, 2015; (iii) provides information about the minimum commitments due in connection with our ground lease obligations and other lease and contractual commitments; and (iv) provides estimated development commitments as of December 31, 2015. Note that the table does not reflect our available debt maturity extension options and reflects gross aggregate principal amounts before the effect of unamortized discounts/premiums.

|  | Payment Due by Period         |                          |                          |                                      | Total       |
|--|-------------------------------|--------------------------|--------------------------|--------------------------------------|-------------|
|  | Less than<br>1 Year<br>(2016) | 2-3 Years<br>(2017-2018) | 4-5 Years<br>(2019-2020) | More than<br>5 Years<br>(After 2020) |             |
|  | (in thousands)                |                          |                          |                                      |             |
| Principal payments: secured debt <sup>(1)</sup>        | \$9,734                       | \$ 198,447               | \$ 78,317                | \$ 89,198                            | \$375,696   |
| Principal payments: unsecured debt <sup>(2)</sup>      | —                             | 325,000                  | 439,000                  | 1,100,000                            | 1,864,000   |
| Interest payments: fixed-rate debt <sup>(3)</sup>      | 97,083                        | 172,929                  | 125,411                  | 277,886                              | 673,309     |
| Interest payments: variable-rate debt <sup>(4)</sup>   | 2,654                         | 5,308                    | 1,316                    | —                                    | 9,278       |
| Ground lease obligations <sup>(5)</sup>                | 3,144                         | 6,288                    | 6,288                    | 151,738                              | 167,458     |
| Lease and other contractual commitments <sup>(6)</sup> | 76,967                        | 24,178                   | —                        | —                                    | 101,145     |
| Development commitments <sup>(7)</sup>                 | 230,000                       | 99,000                   | —                        | —                                    | 329,000     |
| Total  | \$419,582                     | \$ 831,150               | \$ 650,332               | \$1,618,822                          | \$3,519,886 |

(1) Represents gross aggregate principal amount before the effect of the unamortized premium of approximately \$6.2 million as of December 31, 2015.

(2) Represents gross aggregate principal amount before the effect of the unamortized discount of approximately \$7.4 million as of December 31, 2015.

As of December 31, 2015, 91.6% of our debt was contractually fixed. The information in the table above reflects (3) our projected interest rate obligations for these fixed-rate payments based on the contractual interest rates on accrual basis and scheduled maturity dates.

As of December 31, 2015, 8.4% of our debt bore interest at variable rates which was incurred under the unsecured term loan facility and unsecured term loan. The variable interest rate payments are based on LIBOR plus a spread (4) of 1.150% as of December 31, 2015. 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, 2015, the scheduled interest payment dates and the contractual maturity dates.

(5) Reflects minimum lease payments through the contractual lease expiration date before the impact of extension options.

Amounts represent commitments under signed leases and contracts for operating properties, excluding (6) tenant-funded tenant improvements, and for other contractual commitments. The timing of these expenditures may fluctuate.

Amounts represent commitments under signed leases for pre-leased development projects and contractual (7) commitments for projects under construction as of December 31, 2015. The timing of these expenditures may fluctuate based on the ultimate progress of construction. We may start additional construction in 2016 (see “—Development” for additional information).

Other Liquidity Uses

Development

As of December 31, 2015, we had five development projects under construction. These projects have a total estimated investment of approximately \$1.2 billion, of which we have incurred approximately \$774.7 million and committed an additional \$329.0 million as of December 31, 2015. Ultimate timing of these expenditures may fluctuate given construction progress and leasing status of the projects. In addition, depending on market condition, we currently estimate we could potentially spend an additional \$0 - \$250 million on these and additional development projects that we may commence construction on in 2016. We expect that any material additional development activities will be funded with borrowings under the unsecured revolving credit facility, the public or private issuance of debt securities or the disposition of assets under our capital recycling program.

### Potential Future Acquisitions

During the year ended December 31, 2015, we acquired two development opportunities for approximately \$127.5 million in cash. In 2014, we acquired five office buildings and three undeveloped land sites for approximately \$351.0 million in cash. These transactions were funded through various capital raising activities and, in selected instances, the assumption of existing indebtedness and issuance of common stock.

As part of our growth strategy, which is highly dependent on market conditions and business cycles, among other factors, we continue to evaluate strategic opportunities and remain a disciplined buyer of development and redevelopment opportunities as well as value-add operating properties. We continue to focus on growth opportunities in West Coast markets populated by knowledge and creative based tenants in a variety of industries, including technology, media, healthcare, entertainment and professional services. Against the backdrop of market volatility, we expect to manage a strong balance sheet, execute on our development program and selectively evaluate opportunities that either add immediate Net Operating Income to our portfolio or play a strategic role in our future growth. We expect that any material acquisitions will be funded with borrowings under the unsecured revolving credit facility, the public or private issuance of debt or equity securities, the disposition of assets under our capital recycling program or through the assumption of existing debt.

### Debt Maturities

As of December 31, 2015, \$9.7 million in principal payments will be paid during the year ended December 31, 2016 and our next debt maturity of \$64.3 million of secured debt will occur in February 2017. We believe our conservative leverage and staggered debt maturities provide us with financial flexibility and enhance our ability to obtain additional sources of liquidity if necessary, and, therefore, we believe we are well-positioned to refinance or repay maturing debt and to pursue our strategy of seeking attractive acquisition opportunities, which we may finance, as necessary, with future public and private issuances of debt and equity securities.

### Potential Future Leasing Costs and Capital Improvements

The amounts we incur for tenant improvements and leasing costs depend on leasing activity in each period. Tenant improvements and leasing costs generally fluctuate in any given period depending on factors such as the type and condition of the 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.

For properties within our stabilized portfolio, excluding our development properties, we believe we could spend approximately \$25.0 million to \$50.0 million in capital improvements, tenant improvements and leasing costs in 2016, in addition to the lease and contractual commitments included in our capital commitments table above. The amount we ultimately spend will depend on leasing activity during 2016.

The following tables set forth our historical actual capital expenditures, and tenant improvements and leasing costs for deals commenced, excluding tenant-funded tenant improvements, for renewed and re-tenanted space within our stabilized portfolio for each of the three years during the period ended December 31, 2015 on a per square foot basis.

|   | Year Ended December 31, |           |           |
|---|-------------------------|-----------|-----------|
|   | 2015                    | 2014      | 2013      |
| Office Properties: <sup>(1)</sup>                   |                         |           |           |
| Capital Expenditures:                               |                         |           |           |
| Capital expenditures per square foot                | \$1.23                  | \$0.84    | \$0.73    |
| Tenant Improvement and Leasing Costs <sup>(2)</sup> |                         |           |           |
| Replacement tenant square feet <sup>(3)</sup>       | 797,560                 | 741,573   | 850,295   |
| Tenant improvements per square foot commenced       | \$42.25                 | \$39.06   | \$39.24   |
| Leasing commissions per square foot commenced       | \$14.53                 | \$11.42   | \$12.25   |
| Total per square foot                               | \$56.78                 | \$50.48   | \$51.48   |
| Renewal tenant square feet                          | 627,783                 | 1,333,231 | 1,188,308 |
| Tenant improvements per square foot commenced       | \$18.44                 | \$14.23   | \$16.90   |
| Leasing commissions per square foot commenced       | \$9.36                  | \$9.71    | \$10.32   |
| Total per square foot                               | \$27.80                 | \$23.94   | \$27.22   |
| Total per square foot per year                      | \$7.34                  | \$5.81    | \$5.97    |
| Average remaining lease term (in years)             | 6.0                     | 5.8       | 6.3       |

(1) Excludes development properties.

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

(3) Excludes leases for which the space was vacant for longer than one year, or vacant when the property was acquired by the Company.

Capital expenditures per square foot generally increased in 2015 as compared to 2014 due to the mix of leases executed and/or commenced during 2015. We currently anticipate capital expenditures, tenant improvement and leasing costs for 2016 to be generally consistent with 2015 levels, however the ultimate costs incurred will depend upon market conditions and actual leasing activity.

#### Distribution Requirements

For a discussion of our dividend and distribution requirements, see “Liquidity and Capital Resources of the Company —Distribution Requirements.”

#### Other Potential Liquidity Uses

The amounts we are required to spend on tenant improvements and leasing costs we ultimately incur 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 or improve our properties.

As of December 31, 2015, an aggregate of 988,025 shares remained eligible for repurchase pursuant to a share repurchase program approved by our Board of Directors in prior periods. Under this program, repurchases may be made in open market transactions at prevailing prices or through privately negotiated transactions. We may elect to repurchase shares of our common stock under this program in the future depending upon various factors, including

market conditions, the trading price of our common stock and our other uses of capital. This program does not have a termination date, and repurchases may be discontinued at any time. We intend to fund repurchases, if any, primarily with the proceeds from property dispositions.

#### Factors That May Influence Future Sources of Capital and Liquidity of the Company and the Operating Partnership

We continue to evaluate sources of financing for our business activities, including borrowings under the unsecured revolving credit facility, issuance of public and private equity securities, unsecured debt and fixed-rate secured mortgage financing, and proceeds from the disposition of selective assets through our capital recycling program. However, our

ability to obtain new financing or refinance existing borrowings on favorable terms could be impacted by various factors, including the state of the macro economy, the state of the credit and equity markets, significant tenant defaults, a decline in the demand for office properties, a decrease in market rental rates or market values of real estate assets in our submarkets, and the amount of our future borrowings. These events could result in the following:

- Decreases in our cash flows from operations, which could create further dependence on the unsecured revolving credit facility;

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

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

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

#### Debt Covenants

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

| Unsecured Credit Facility, Unsecured Term Loan Facility and Unsecured Term Loan (as defined in the applicable Credit Agreements): | Covenant Level     | Actual Performance as of December 31, 2015 |
|---|--------------------|--|
| Total debt to total asset value   | less than 60%      | 27%  |
| Fixed charge coverage ratio   | greater than 1.5x  | 2.5x                                       |
| Unsecured debt ratio  | greater than 1.67x | 3.25x                                      |
| Unencumbered asset pool debt service coverage   | greater than 1.75x | 3.55x                                      |

#### Unsecured Senior Notes due 2018, 2020, 2023, 2025 and 2029 (as defined in the applicable Indentures):

|   |                   |      |
|---|-------------------|------|
| Total debt to total asset value                 | less than 60%     | 34%  |
| Interest coverage                               | greater than 1.5x | 6.7x |
| Secured debt to total asset value               | less than 40%     | 6%   |
| Unencumbered asset pool value to unsecured debt | greater than 150% | 309% |

The Operating Partnership was in compliance with all its debt covenants as of December 31, 2015. Our current expectation is that the Operating Partnership will continue to meet the requirements of its debt covenants in both the short and long term. However, in the event of an economic slowdown or continued volatility in the credit markets, there is no certainty that the Operating Partnership will be able to continue to satisfy all the covenant requirements.

#### Consolidated Historical Cash Flow Summary

The following summary discussion of our consolidated historical cash flow is based on the consolidated statements of cash flows in Item 15. "Exhibits and Financial Statement Schedules" and is not meant to be an all-inclusive discussion of the changes in our cash flow for the periods presented below. The cash flow amounts shown below include the activities of discontinued operations. Our historical cash flow activity for the year ended December 31, 2015 as compared to the year ended December 31, 2014 is as follows:

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|   | Year Ended December 31, |            | Dollar<br>Change | Percentage<br>Change |    |
|---|-------------------------|------------|------------------|----------------------|----|
|   | 2015                    | 2014       |                  |                      |    |
|   | (\$ in thousands)       |            |                  |                      |    |
| Net cash provided by operating activities | \$272,008               | \$245,253  | \$26,755         | 10.9                 | %  |
| Net cash used in investing activities     | (262,752 )              | (501,436 ) | 238,684          | (47.6                | )% |
| Net cash provided by financing activities | 23,471                  | 244,587    | (221,116 )       | (90.4                | )% |

#### Operating Activities

Our cash flows from operating activities depend on numerous factors including the occupancy level of our portfolio, the rental rates achieved on our leases, the collectability of rent and recoveries from our tenants, the level of operating expenses, the impact of property acquisitions, completed development projects and related financing activities, and other general and administrative costs. Our net cash provided by operating activities increased by \$26.8 million, or 10.9%, for the year ended December 31, 2015 compared to the year ended December 31, 2014 primarily as a result of an increase in cash Net Operating Income generated from our Same Store, Acquisition, and Stabilized Development and Redevelopment Portfolios. See additional information under the caption “—Results of Operations.”

#### Investing Activities

Our cash flows from investing activities is generally used to fund development and operating property acquisitions, expenditures for development projects, and recurring and nonrecurring capital expenditures for our operating properties, net of proceeds received from dispositions of real estate assets. Our net cash used in investing activities decreased by \$238.7 million, or 47.6%, for the year ended December 31, 2015 compared to the year ended December 31, 2014, primarily due to no operating property acquisitions in the year ended December 31, 2015 as compared to the year ended December 31, 2014.

#### Financing Activities

Our cash flows from financing activities is principally impacted by our capital raising activities, net of dividends and distributions paid to common and preferred security holders. Net cash provided by financing activities decreased by \$221.1 million, or 90.4%, for the year ended December 31, 2015 compared to the year ended December 31, 2014 primarily due to higher net debt repayments during the year ended December 31, 2015 as compared to the year ended December 31, 2014, partially offset by higher equity issuance activity during the year ended December 31, 2015.

#### Off-Balance Sheet Arrangements

As of December 31, 2015 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, gains and losses from sales of depreciable real estate and impairment write-downs associated with depreciable real estate, 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. Our calculation of FFO includes the amortization of deferred revenue related to tenant-funded tenant improvements and excludes the depreciation of the related tenant improvement assets. We also add back net income attributable to noncontrolling common units of the Operating Partnership because we report FFO attributable to common stockholders and common unitholders.

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 because 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, 2015, 2014, 2013, 2012 and 2011:

|   | Year ended December 31, |            |           |            |           |
|---|-------------------------|------------|-----------|------------|-----------|
|   | 2015                    | 2014       | 2013      | 2012       | 2011      |
|   | (in thousands)          |            |           |            |           |
| Net income available to common stockholders   | \$220,831               | \$166,969  | \$30,630  | \$249,826  | \$50,819  |
| Adjustments:  |                         |            |           |            |           |
| Net income attributable to noncontrolling common units of the Operating Partnership | 4,339                   | 3,589      | 685       | 6,187      | 1,474     |
| Depreciation and amortization of real estate assets                                 | 201,392                 | 202,108    | 199,558   | 168,687    | 135,467   |
| Gains on sale of depreciable real estate  | (109,950 )              | (121,922 ) | (12,252 ) | (259,245 ) | (51,587 ) |
| Funds From Operations <sup>(1)</sup>  | \$316,612               | \$250,744  | \$218,621 | \$165,455  | \$136,173 |

<sup>(1)</sup> Includes amortization of deferred revenue related to tenant-funded tenant improvements of \$13.3 million, \$11.0 million, \$10.7 million, \$9.1 million and \$9.3 million for the years ended December 31, 2015, 2014, 2013, 2012 and 2011, respectively. Reported amounts are attributable to common stockholders and common unitholders.



The following table presents our weighted average shares of common stock and common units outstanding for the years ended December 31, 2015, 2014, 2013, 2012 and 2011:

|  | Year Ended December 31, |            |            |            |            |
|--|-------------------------|------------|------------|------------|------------|
|  | 2015                    | 2014       | 2013       | 2012       | 2011       |
| Weighted average shares of common stock outstanding  | 89,854,096              | 83,090,235 | 77,343,853 | 69,639,623 | 56,717,121 |
| Weighted average common units outstanding  | 1,791,482               | 1,804,263  | 1,822,407  | 1,763,635  | 1,720,323  |
| Effect of participating securities – nonvested shares and restricted stock units                   | 1,170,571               | 1,228,807  | 1,224,208  | 1,127,534  | 924,747    |
| Total basic weighted average shares / units outstanding  | 92,816,149              | 86,123,305 | 80,390,468 | 72,530,792 | 59,362,191 |
| Effect of dilutive securities – Exchangeable Notes, stock options and contingently issuable shares | 541,679                 | 1,877,485  | 1,765,025  | 1,123,482  | 187,134    |
| Total diluted weighted average shares / units outstanding  | 93,357,828              | 88,000,790 | 82,155,493 | 73,654,274 | 59,549,325 |

#### Inflation

The majority of the Company's leases require tenants to pay for recoveries and escalation charges based upon the tenant's proportionate share of, and/or increases in, real estate taxes and certain operating costs, which reduce the Company's exposure to increases in operating costs resulting from inflation.

#### New Accounting Pronouncements

For a discussion of new accounting pronouncements see Note 2 "Basis of Presentation and Significant Accounting Policies" to our consolidated financial statements included in this report.

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary market risk we face is interest rate risk. We seek to 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, 2015 and 2014, we did not have any interest-rate sensitive derivative assets or liabilities. Information about our changes in interest rate risk exposures from December 31, 2014 to December 31, 2015 is incorporated herein by reference from “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Liquidity and Capital Resources of the Operating Partnership.”

## Market Risk

As of December 31, 2015, approximately 8.4% of our total outstanding debt of \$2.2 billion was subject to variable interest rates. The remaining 91.6% 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.

We generally determine the fair value of our secured debt, unsecured revolving credit facility, unsecured term loan facility and unsecured term loan by performing discounted cash flow analyses using an appropriate market discount 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. We calculate the market rate of our unsecured revolving credit facility and unsecured term loan facility by obtaining the period-end LIBOR rate and then adding an appropriate credit spread based on information obtained from third-party financial institutions. These credit spreads take into account factors, including but not limited to, our credit profile, the tenure of the debt, amortization period, whether the debt is secured or unsecured, and the loan-to-value ratio of the debt to the collateral. These calculations are significantly affected by the assumptions used, including the discount rate, credit spreads, and estimates of future cash flow. We determine the fair value of each of our publicly traded unsecured senior notes based on their quoted trading price at the end of the reporting period. See Note 17 “Fair Value Measurements and Disclosures” in the consolidated financial statements included in this report for additional information on the fair value of our financial assets and liabilities as of December 31, 2015 and December 31, 2014.

As of December 31, 2015, the total outstanding balance of our variable-rate debt was comprised of borrowings on our unsecured term loan facility and unsecured term loan of \$189.0 million, which were indexed to LIBOR plus a spread of 1.15% (weighted average interest rate of 1.40%), respectively. As of December 31, 2014, the total outstanding balance of our variable-rate debt was comprised of borrowings on our unsecured revolving credit facility of \$140.0 million and borrowings on our unsecured term loan facility of \$189.0 million, which were indexed to LIBOR plus a spread of 1.250% (weighted average interest rate of 1.41%) and 1.40% (weighted average interest rate of 1.56%), respectively. Assuming no changes in the outstanding balance of our existing variable-rate debt as of December 31, 2015, a 100 basis point increase in the LIBOR rate would increase our projected annual interest expense, before the effect of capitalization, by approximately \$1.9 million. Comparatively, if interest rates were 100 basis points higher as of December 31, 2014, our projected annual interest expense, before the effect of capitalization, would have been \$3.3 million higher.

The total carrying value of our fixed-rate debt was approximately \$2.0 billion and \$2.1 billion as of December 31, 2015 and 2014, respectively. The total estimated fair value of our fixed-rate debt was approximately \$2.1 billion

and \$2.2 billion as of December 31, 2015 and 2014, 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 \$117.1 million, or 5.6%, as of December 31, 2015. 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 \$104.4 million, or 4.7%, as of December 31, 2014.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the index included at Item 15. "Exhibits and Financial Statement Schedules."

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

Not applicable.

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## ITEM 9A. CONTROLS AND PROCEDURES

### Kilroy Realty Corporation

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

As required by SEC Rule 13a-15(b), the Company 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 December 31, 2015, the end of the period covered by this report. Based on the foregoing, the Company's 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 most recent year covered by this report in the Company's internal control over financial reporting identified in connection with the evaluation referenced above that has materially affected, or is reasonably likely to materially affect, 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, our Chief Executive Officer and Chief Financial Officer and effected by our board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of assets that could have a material effect on the consolidated financial statements.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is supported by written policies and procedures and by an appropriate segregation of responsibilities and duties. The Company has used the criteria set forth in the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission to assess our internal control over financial reporting. Based upon this assessment, management concluded that internal control over financial reporting operated effectively as of December 31, 2015.

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



REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Kilroy Realty Corporation (the “Company”) as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) 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, 2015, based on the criteria established in Internal Control – Integrated Framework (2013) 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, 2015, of the Company and our report dated February 12, 2016, expressed an unqualified opinion on those financial statements and financial statement schedules and included an explanatory paragraph regarding the

adoption of Accounting Standards Update No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California

February 12, 2016

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Kilroy Realty, L.P.

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

As required by SEC Rule 13a-15(b), the Operating Partnership carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer of its general partner, of the effectiveness of the design and operation of the disclosure controls and procedures as of December 31, 2015, the end of the period covered by this report. Based on the foregoing, the Chief Executive Officer and Chief Financial Officer of its general partner concluded, as of that time, that the Operating Partnership's 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 most recent year covered by this report in the Operating Partnership's internal control over financial reporting identified in connection with the evaluation referenced above that has materially affected, or is reasonably likely to materially affect, the Operating Partnership's internal control over financial reporting.

#### Management's Report on Internal Control Over Financial Reporting

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

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is supported by written policies and procedures and by an appropriate segregation of responsibilities and duties. The Operating Partnership has used the criteria set forth in the Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission to assess our internal control over financial reporting. Based upon this assessment, management concluded that internal control over financial reporting operated effectively as of December 31, 2015.

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

internal control over financial reporting.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the internal control over financial reporting of Kilroy Realty L.P. (the “Operating Partnership”) as of December 31, 2015, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Operating Partnership’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Operating Partnership’s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Operating Partnership maintained, in all material respects, effective internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control – Integrated Framework (2013) 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, 2015, of the Operating Partnership and our report dated February 12, 2016, expressed an unqualified opinion on those financial statements and financial statement schedules and included an explanatory paragraph

regarding the adoption of Accounting Standards Update No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California

February 12, 2016

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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 2016.

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 2016.

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 2016.

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 2016.

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 2016.

## 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 – Kilroy Realty Corporation</u>                                    | <u>F - 2</u>  |
| <u>Consolidated Balance Sheets as of December 31, 2015 and 2014 – Kilroy Realty Corporation</u>                               | <u>F - 3</u>  |
| <u>Consolidated Statements of Operations for the Years ended December 31, 2015, 2014 and 2013 – Kilroy Realty Corporation</u> | <u>F - 4</u>  |
| <u>Consolidated Statements of Equity for the Years ended December 31, 2015, 2014 and 2013 – Kilroy Realty Corporation</u>     | <u>F - 5</u>  |
| <u>Consolidated Statements of Cash Flows for the Years ended December 31, 2015, 2014 and 2013 – Kilroy Realty Corporation</u> | <u>F - 6</u>  |
| <u>Report of Independent Registered Public Accounting Firm – Kilroy Realty, L.P.</u>  | <u>F - 7</u>  |
| <u>Consolidated Balance Sheets as of December 31, 2015 and 2014 – Kilroy Realty, L.P.</u>                                     | <u>F - 8</u>  |
| <u>Consolidated Statements of Operations for the Years ended December 31, 2015, 2014 and 2013 – Kilroy Realty, L.P.</u>       | <u>F - 9</u>  |
| <u>Consolidated Statements of Capital for the Years ended December 31, 2015, 2014 and 2013 – Kilroy Realty, L.P.</u>          | <u>F - 10</u> |
| <u>Consolidated Statements of Cash Flows for the Years ended December 31, 2015, 2014 and 2013 – Kilroy Realty, L.P.</u>       | <u>F - 11</u> |
| <u>Notes to Consolidated Financial Statements</u>   | <u>F - 12</u> |
| <u>Schedule II – Valuation and Qualifying Accounts</u>  | <u>F - 59</u> |
| <u>Schedule III – Real Estate and Accumulated Depreciation</u>  | <u>F - 60</u> |

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

## (3) Exhibits

| Exhibit Number | Description   |
|----------------|---|
| 3.(i)1         | Kilroy Realty Corporation Articles of Restatement (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended June 30, 2012)  |
| 3.(i)2         | Certificate of Limited Partnership of Kilroy Realty, L.P. (previously filed by Kilroy Realty, L.P., as an exhibit to the General Form for Registration of Securities on Form 10 as filed with the Securities and Exchange Commission on August 18, 2010)                  |
| 3.(i)3         | Amendment to the Certificate of Limited Partnership of Kilroy Realty, L.P. (previously filed by Kilroy Realty, L.P., as an exhibit to the General Form for Registration of Securities on Form 10 as filed with the Securities and Exchange Commission on August 18, 2010) |
| 3.(i)4         | Articles Supplementary designating Kilroy Realty Corporation's 6.375% Series H Cumulative Redeemable Preferred Stock (previously filed by Kilroy Realty Corporation on Form 8-A as filed with the Securities and Exchange Commission on August 10, 2012)                  |
| 3.(ii)1        | Third Amended and Restated Bylaws of Kilroy Realty Corporation (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange   |

Commission on December 11, 2014)

3.(ii)2 Seventh Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P. dated August 15, 2012, as amended (previously filed by Kilroy Realty Corporation on Form 10-Q for the quarter ended June 30, 2014)

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| Exhibit Number | Description  |
|----------------|--|
| 4.1            | Kilroy Realty Corporation Form of Certificate for Common Stock (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Amendment No. 3 to Form S-11 (No. 333-15553))   |
| 4.2            | Specimen Certificate for Kilroy Realty Corporation's 6.875% Series G Cumulative Redeemable Preferred Stock (previously filed by Kilroy Realty Corporation on Form 8-A as filed with the Securities and Exchange Commission on March 22, 2012)  |
| 4.3            | Specimen Certificate for Kilroy Realty Corporation's 6.375% Series H Cumulative Redeemable Preferred Stock (previously filed by Kilroy Realty Corporation on Form 8-A as filed with the Securities and Exchange Commission on August 10, 2012)   |
| 4.4            | Registration Rights Agreement, dated January 31, 1997 (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Amendment No. 3 to Form S-11 (No. 333-15553))  |
| 4.5            | Registration Rights Agreement, dated October 31, 1997 (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K/A as filed with the Securities and Exchange Commission on December 19, 1997)  |
| 4.6            | Registration Rights Agreement, dated October 6, 2000 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-K for the year ended December 31, 2000)   |
| 4.7            | Form of Certificate for Partnership Units of Kilroy Realty, L.P. (previously filed by Kilroy Realty, L.P., as an exhibit to the General Form for Registration of Securities on Form 10 as filed with the Securities and Exchange Commission on August 18, 2010)  |
| 4.8            | Indenture, dated May 24, 2010, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, including the form of 6.625% Senior Notes due 2020 and the form of the related guarantee (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on May 25, 2010)  |
| 4.9            | Registration Rights Agreement, dated May 24, 2010, among Kilroy Realty, L.P., Kilroy Realty Corporation, J.P. Morgan Securities Inc., Banc of America Securities LLC and Barclays Capital Inc. (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on May 25, 2010)  |
| 4.10           | Officers' Certificate pursuant to Sections 101, 201, 301 and 303 of the Indenture dated March 1, 2011, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, establishing a series of securities entitled "4.800% Notes due 2018," including the form of 4.800% Notes due 2018 and the form of related guarantee (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on July 6, 2011)     |
| 4.11           | Registration Rights Agreement, dated July 31, 2012 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended June 30, 2012)  |
| 4.12           | Officers' Certificate pursuant to Sections 101, 201, 301 and 303 of the Indenture dated March 1, 2011, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, establishing a series of securities entitled "3.800% Notes due 2023," including the form of 3.800% Notes due 2023 and the form of related guarantee (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on January 14, 2013) |
| 4.13           | Indenture, dated March 1, 2011, by and among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit to the Registration Statement on Form S-3 as filed with the Securities and Exchange Commission on October 2, 2013)   |
| 4.14           |  |

4.15 Supplemental Indenture, dated July 5, 2011, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit to the Registration Statement on Form S-3 as filed with the Securities and Exchange Commission on October 2, 2013) Officers' Certificate pursuant to Sections 102, 201, 301 and 303 of the Indenture dated March 1, 2011, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, establishing a series of securities entitled "4.25% Senior Notes due 2029," including the form of 4.25% Senior Notes due 2029 and the form of related guarantee (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on August 6, 2014)

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| Exhibit Number | Description   |
|----------------|---|
| 4.16           | Officers' Certificate, dated September 16, 2015, pursuant to Sections 102, 201, 301 and 303 of the Indenture dated March 1, 2011, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, establishing a series of securities entitled "4.375% Senior Notes due 2025," including the form of 4.375% Senior Notes due 2025 and the form of related guarantee (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on September 16, 2015) |
| 4.17           | 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  |
| 10.1           | Pledge Agreement by and among Kilroy Realty, L.P., John B. Kilroy, Sr., John B. Kilroy, Jr. and Kilroy Industries (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Amendment No. 3 to Form S-11 (No. 333-15553))   |
| 10.2†          | 1997 Stock Option and Incentive Plan of the Registrant and Kilroy Realty, L.P. (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Amendment No. 3 to Form S-11 (No. 333-15553))  |
| 10.3           | 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 (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Amendment No. 2 to Form S-11 (No. 333-15553))   |
| 10.4           | 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 (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Amendment No. 2 to Form S-11 (No. 333-15553))   |
| 10.5           | Second Amendment to Lease Agreement, dated April 28, 1997, by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase I   |
| 10.6           | Third Amendment to Lease Agreement, dated June 20, 2002, by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase I   |
| 10.7           | 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 (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Form S-11 (No. 333-15553))  |
| 10.8           | 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 (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Form S-11 (No. 333-15553))   |
| 10.9           | Second Amendment to Lease Agreement, dated April 28, 1997, by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase II  |
| 10.10          | 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 (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Form S-11 (No. 333-15553))   |
| 10.11          | 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 (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Form S-11 (No. 333-15553))   |
| 10.12          | 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 (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Form S-11 (No. 333-15553))   |
| 10.13          |   |

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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 (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Form S-11 (No. 333-15553))

10.14

Fourth Amendment to Lease Agreement, dated June 20, 2002, by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III

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| Exhibit Number | Description  |
|----------------|--|
| 10.15          | Development Agreement by and between Kilroy Long Beach Associates and the City of Long Beach (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Form S-11 (No. 333-15553))  |
| 10.16          | Amendment No. 1 to Development Agreement by and between Kilroy Long Beach Associates and the City of Long Beach (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Form S-11 (No. 333-15553))   |
| 10.17          | License Agreement by and among the Registrant and the other persons named therein (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Amendment No. 4 to Form S-11 (No. 333-15553))  |
| 10.18          | Contribution Agreement, dated October 21, 1997, by and between Kilroy Realty, L.P., Kilroy Realty Corporation, The Allen Group and the Allens (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on November 21, 1997)  |
| 10.19          | Amendment to the Contribution Agreement, dated October 14, 1998, by and between Kilroy Realty, L.P., Kilroy Realty Corporation, The Allen Group and the Allens dated October 21, 1997 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended September 30, 1998)  |
| 10.20†         | Form of Restricted Stock Award Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on February 8, 2007)  |
| 10.21†         | Kilroy Realty Corporation 2007 Deferred Compensation Plan (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended June 30, 2007)   |
| 10.22†         | Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Tyler H. Rose effective as of January 1, 2007 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended June 30, 2007)  |
| 10.23†         | 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 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-K for the year ended December 31, 2008)  |
| 10.24†         | Kilroy Realty Corporation Stock Award Deferral Program (previously filed by Kilroy Realty Corporation as an exhibit to Form 8-K as filed with the Securities and Exchange Commission on January 2, 2008)   |
| 10.25†         | Form of Indemnification Agreement of Kilroy Realty Corporation with certain officers and directors (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-K for the year ended December 31, 2009)   |
| 10.26†         | Separation Agreement and Release, dated December 16, 2009, by and between Richard E. Moran Jr., Kilroy Realty, L.P. and Kilroy Realty Corporation (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-K for the year ended December 31, 2009)  |
| 10.27          | 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 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-K for the year ended December 31, 2009) |
| 10.28          | Promissory Note, dated January 12, 2011, executed by Kilroy Realty 303, LLC (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on January 13, 2011)   |
| 10.29          | Deed of Trust, Security Agreement and Fixture Filing, dated January 12, 2011, executed by Kilroy Realty 303, LLC (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on January 13, 2011)  |

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- 10.30 Guaranty, dated January 12, 2011, executed by Kilroy Realty, L.P. (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on January 13, 2011)
- 10.31 Unsecured Indemnity Agreement, dated January 12, 2011, executed by Kilroy Realty 303, LLC (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on January 13, 2011)

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| Exhibit Number | Description   |
|----------------|---|
| 10.32†         | Kilroy Realty Corporation Form of Stock Option Grant Notice and Stock Option Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on February 24, 2012)  |
| 10.33†         | Amended and Restated Employment Agreement by and between Kilroy Realty Corporation, Kilroy Realty, L.P. and John B. Kilroy, Jr. (previously filed by Kilroy Realty Corporation on Form 8-K as filed with the Securities and Exchange Commission on April 4, 2012)   |
| 10.34†         | Noncompetition Agreement by and between Kilroy Realty Corporation, Kilroy Realty, L.P. and John B. Kilroy, Jr. (previously filed by Kilroy Realty Corporation on Form 8-K as filed with the Securities and Exchange Commission on April 4, 2012)  |
| 10.35          | Term Loan Agreement, dated March 29, 2012 (previously filed by Kilroy Realty Corporation on Form 8-K as filed with the Securities and Exchange Commission on April 2, 2012)   |
| 10.36          | First Amendment to Term Loan Agreement, dated November 28, 2012 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-K for the year ended December 31, 2012)   |
| 10.37          | Guaranty of Payment of Kilroy Realty Corporation, dated March 29, 2012 (previously filed by Kilroy Realty Corporation on Form 8-K as filed with the Securities and Exchange Commission on April 2, 2012)  |
| 10.38          | Promissory Note, dated June 28, 2012 (previously filed by Kilroy Realty Corporation on Form 8-K as filed with the Securities and Exchange Commission on July 5, 2012)   |
| 10.39          | Loan Agreement, dated June 28, 2012, by and between KR MML 12701, LLC and Massachusetts Mutual Life Insurance Company (previously filed by Kilroy Realty Corporation on Form 8-K as filed with the Securities and Exchange Commission on July 5, 2012)  |
| 10.40          | Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing (Irvine) for 2211 Michelson Drive, Irvine, California, dated June 28, 2012 (previously filed by Kilroy Realty Corporation on Form 8-K as filed with the Securities and Exchange Commission on July 5, 2012)                  |
| 10.41          | Deed of Trust, Assignment of Leases and Rents, Security Agreement and Fixture Filing (Santa Monica) for 2100-2110 Colorado Avenue, Santa Monica, California, dated June 28, 2012 (previously filed by Kilroy Realty Corporation on Form 8-K as filed with the Securities and Exchange Commission on July 5, 2012) |
| 10.42          | Recourse Guaranty Agreement, dated June 28, 2012 (previously filed by Kilroy Realty Corporation on Form 8-K as filed with the Securities and Exchange Commission on July 5, 2012)   |
| 10.43          | Environmental Indemnification Agreement, dated June 28, 2012 (previously filed by Kilroy Realty Corporation on Form 8-K as filed with the Securities and Exchange Commission on July 5, 2012)   |
| 10.44†         | Kilroy Realty Corporation 2006 Incentive Award Plan Restricted Stock Unit Agreement by and between Kilroy Realty Corporation and Jeffrey C. Hawken, dated April 4, 2013 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended June 30, 2013)                            |
| 10.45†         | Kilroy Realty Corporation 2006 Incentive Award Plan Restricted Stock Unit Agreement by and between Kilroy Realty Corporation and John Kilroy, Jr., dated March 30, 2012 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended June 30, 2013)                            |
| 10.46†         | Form of Restricted Stock Unit Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended June 30, 2013)  |
| 10.47†         | Form of Stock Award Deferral Program Restricted Stock Unit Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended June 30, 2013)   |
| 10.48†         | Form of Performance-Vest Restricted Stock Unit Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2014)  |
| 10.49†         | Form of Restricted Stock Unit Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2014)   |
| 10.50†         |   |

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Form of Restricted Stock Unit Agreement for Non-Employee Members of the Board of Directors  
(previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended  
March 31, 2014)

10.51†

Kilroy Realty 2006 Incentive Award Plan (previously filed by Kilroy Realty Corporation on Form  
8-K as filed with the Securities and Exchange Commission on May 21, 2015)

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| Exhibit Number | Description   |
|----------------|---|
| 10.52          | Amended and Restated Revolving Credit Agreement, dated June 23, 2014 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended June 30, 2014)   |
| 10.53          | Amended and Restated Guaranty, dated June 23, 2014 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended June 30, 2014)   |
| 10.54          | Term Loan Agreement, dated July 31, 2014 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended September 30, 2014)  |
| 10.55          | Guaranty, dated July 31, 2014 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended September 30, 2014)   |
| 10.56          | Sales Agreement, dated December 12, 2014, between Kilroy Realty Corporation, Kilroy Realty, L.P. and RBC Capital Markets, LLC (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 12, 2014)     |
| 10.57          | Sales Agreement, dated December 12, 2014, between Kilroy Realty Corporation, Kilroy Realty, L.P. and Jefferies LLC (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 12, 2014)                |
| 10.58          | Sales Agreement, dated December 12, 2014, between Kilroy Realty Corporation, Kilroy Realty, L.P. and KeyBanc Capital Markets Inc. (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 12, 2014) |
| 10.59          | Sales Agreement, dated December 12, 2014, between Kilroy Realty Corporation, Kilroy Realty, L.P. and BNP Paribas Securities Corp. (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 12, 2014) |
| 10.60          | Sales Agreement, dated December 12, 2014, between Kilroy Realty Corporation, Kilroy Realty, L.P. and J.P. Morgan Securities LLC (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 12, 2014)   |
| 10.61          | Sales Agreement, dated December 12, 2014, between Kilroy Realty Corporation, Kilroy Realty, L.P. and Barclays Capital Inc. (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 12, 2014)        |
| 10.62†         | Form of Performance-Vest Restricted Stock Unit Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2015)  |
| 10.63†         | Form of Restricted Stock Unit Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2015)   |
| 10.64†         | Form of Restricted Stock Unit Agreement for Non-Employee Members of the Board of Directors (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-Q for the quarter ended March 31, 2015)  |
| 10.65†*        | Amended and Restated Employment Agreement and Non-Competition Agreement by and between Kilroy Realty Corporation, Kilroy Realty, L.P. and Jeffrey C. Hawken effective as of December 31, 2015   |
| 10.66†*        | Kilroy Realty Corporation Director Compensation Policy effective as of January 1, 2016  |
| 12.1*          | Statement of Computation of Consolidated Ratio of Earnings to Fixed Charges and Consolidated Ratio of Earnings to Combined Fixed Charges and Preferred Dividends of Kilroy Realty Corporation   |
| 12.2*          | Statement of Computation of Consolidated Ratio of Earnings to Fixed Charges of Kilroy Realty, L.P.  |
| 21.1*          | List of Subsidiaries of Kilroy Realty Corporation   |
| 21.2*          | List of Subsidiaries of Kilroy Realty, L.P.   |
| 23.1*          | Consent of Deloitte & Touche LLP for Kilroy Realty Corporation  |
| 23.2*          | Consent of Deloitte & Touche LLP for Kilroy Realty, L.P.  |
| 24.1*          | Power of Attorney (included on the signature page of this Form 10-K)  |

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- 31.1\* Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of Kilroy Realty Corporation
- 31.2\* Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Kilroy Realty Corporation
- 31.3\* Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer of Kilroy Realty, L.P.
- 31.4\* Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer of Kilroy Realty, L.P.

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| Exhibit<br>Number | Description   |
|-------------------|---|
| 32.1*             | Section 1350 Certification of Chief Executive Officer of Kilroy Realty Corporation  |
| 32.2*             | Section 1350 Certification of Chief Financial Officer of Kilroy Realty Corporation  |
| 32.3*             | Section 1350 Certification of Chief Executive Officer of Kilroy Realty, L.P.  |
| 32.4*             | Section 1350 Certification of Chief Financial Officer of Kilroy Realty, L.P.  |
| 101.1             | The following Kilroy Realty Corporation and Kilroy Realty, L.P. financial information for the year ended December 31, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Changes in Equity, (iv) Consolidated Statements of Capital, (v) Consolidated Statements of Cash Flows and (vi) Notes to the Consolidated Financial Statements. <sup>(1)</sup> |

\* Filed herewith

† Management contract or compensatory plan or arrangement.

(1) Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Exchange Act of 1934 and otherwise are not subject to liability under these sections.

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Kilroy Realty Corporation has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 12, 2016.

## KILROY REALTY CORPORATION

By /s/ Heidi R. Roth  
Heidi R. Roth  
Executive Vice President, Chief Accounting Officer and  
Controller

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that we, the undersigned directors and officers of Kilroy Realty Corporation, do hereby severally constitute and appoint John Kilroy, Jeffrey C. Hawken, Tyler H. Rose and Heidi R. Roth, and each of them, as our true and lawful attorneys-in-fact and agents, each with full powers of substitution, to do any and all acts and things in our name and behalf in our capacities as directors and officers and to execute any and all instruments for us and in our names in the capacities indicated below, which said attorneys-in-fact and agents, or any of them, may deem necessary or advisable to enable Kilroy Realty Corporation to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with this Annual Report on Form 10-K, including specifically, but without limitation, the power and authority to sign for us or any of us, in our names in the capacities indicated below, any and all amendments hereto; and we do each hereby ratify and confirm all that said attorneys-in-fact and agents or their substitutes, or any one of them, shall do or cause to be done by virtue hereof.

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

| Name   | Title  | Date              |
|--|--|-------------------|
| /s/ John Kilroy<br>John Kilroy                           | Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)       | February 12, 2016 |
| /s/ Tyler H. Rose<br>Tyler H. Rose                       | Executive Vice President and Chief Financial Officer (Principal Financial Officer)               | February 12, 2016 |
| /s/ Heidi R. Roth<br>Heidi R. Roth                       | Executive Vice President, Chief Accounting Officer and Controller (Principal Accounting Officer) | February 12, 2016 |
| /s/ Edward F. Brennan, Ph.D.<br>Edward F. Brennan, Ph.D. | Director   | February 11, 2016 |
| /s/ Jolie Hunt<br>Jolie Hunt                             | Director   | February 11, 2016 |
| /s/ Scott S. Ingraham<br>Scott S. Ingraham               | Director   | February 11, 2016 |

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/s/ Gary R. Stevenson  
Gary R. Stevenson  
/s/ Peter B. Stoneberg  
Peter B. Stoneberg

Director

February 11, 2016

Director

February 11, 2016

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## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Kilroy Realty, L.P. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 12, 2016.

## KILROY REALTY, L.P.

By /s/ Heidi R. Roth  
Heidi R. Roth  
Executive Vice President, Chief Accounting Officer and  
Controller

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that we, the undersigned directors and officers of Kilroy Realty Corporation, as sole general partner and on behalf of Kilroy Realty, L.P., do hereby severally constitute and appoint John Kilroy, Jeffrey C. Hawken, Tyler H. Rose and Heidi R. Roth, and each of them, as our true and lawful attorneys-in-fact and agents, each with full powers of substitution, to do any and all acts and things in our name and behalf in our capacities as directors and officers and to execute any and all instruments for us and in our names in the capacities indicated below, which said attorneys-in-fact and agents, or any of them, may deem necessary or advisable to enable Kilroy Realty Corporation, as sole general partner and on behalf of Kilroy Realty, L.P., to comply with the Securities Exchange Act of 1934, as amended, and any rules, regulations and requirements of the Securities and Exchange Commission, in connection with this Annual Report on Form 10-K, including specifically, but without limitation, the power and authority to sign for us or any of us, in our names in the capacities indicated below, any and all amendments hereto; and we do each hereby ratify and confirm all that said attorneys-in-fact and agents or their substitutes, or any one of them, shall do or cause to be done by virtue hereof.

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

| Name   | Title  | Date              |
|--|--|-------------------|
| /s/ John Kilroy<br>John Kilroy                           | Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)       | February 12, 2016 |
| /s/ Tyler H. Rose<br>Tyler H. Rose                       | Executive Vice President and Chief Financial Officer (Principal Financial Officer)               | February 12, 2016 |
| /s/ Heidi R. Roth<br>Heidi R. Roth                       | Executive Vice President, Chief Accounting Officer and Controller (Principal Accounting Officer) | February 12, 2016 |
| /s/ Edward F. Brennan, Ph.D.<br>Edward F. Brennan, Ph.D. | Director   | February 11, 2016 |
| /s/ Jolie Hunt<br>Jolie Hunt                             | Director   | February 11, 2016 |
| /s/ Scott S. Ingraham<br>Scott S. Ingraham               | Director   | February 11, 2016 |

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/s/ Gary R. Stevenson  
Gary R. Stevenson  
/s/ Peter B. Stoneberg  
Peter B. Stoneberg

Director

February 11, 2016

Director

February 11, 2016

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KILROY REALTY CORPORATION AND KILROY REALTY, L.P.

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2015 AND 2014  
AND FOR THE THREE YEARS ENDED DECEMBER 31, 2015

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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 and subsidiaries (the “Company”) as of December 31, 2015 and 2014, and the related consolidated statements of operations, equity, and cash flows for each of the three years in the period ended December 31, 2015. 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, 2015 and 2014, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, 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 2 to the consolidated financial statements, the Company has changed its method of accounting for and disclosure of discontinued operations for the year ended December 31, 2015 due to the adoption of Accounting Standards Update No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.

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, 2015, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 12, 2016, expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP  
Los Angeles, California  
February 12, 2016

KILROY REALTY CORPORATION  
CONSOLIDATED BALANCE SHEETS  
(in thousands, except share data)

|   | December 31, 2015   | December 31, 2014   |
|---|---------------------|---------------------|
| <b>ASSETS</b>   |                     |                     |
| REAL ESTATE ASSETS (Notes 3 and 4):   |                     |                     |
| Land and improvements   | \$ 875,794          | \$ 877,633          |
| Buildings and improvements  | 4,091,012           | 4,059,639           |
| Undeveloped land and construction in progress   | 1,361,340           | 1,120,660           |
| Total real estate held for investment   | 6,328,146           | 6,057,932           |
| Accumulated depreciation and amortization   | (994,241            | ) (947,664          |
| Total real estate held for investment, net (\$187,254 and \$211,755 of VIE, Note 2)   | 5,333,905           | 5,110,268           |
| REAL ESTATE ASSETS AND OTHER ASSETS HELD FOR SALE, NET (Note 4)   | 117,666             | 8,211               |
| CASH AND CASH EQUIVALENTS   | 56,508              | 23,781              |
| RESTRICTED CASH (Note 4)  | 696                 | 75,185              |
| MARKETABLE SECURITIES (Notes 14 and 17)   | 12,882              | 11,971              |
| CURRENT RECEIVABLES, NET (Note 6)   | 11,153              | 7,229               |
| DEFERRED RENT RECEIVABLES, NET (Note 6)   | 189,704             | 156,416             |
| DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLE ASSETS, NET (Notes 3 and 5)   | 176,683             | 201,926             |
| DEFERRED FINANCING COSTS, NET (Notes 2 and 8)   | 17,628              | 18,374              |
| PREPAID EXPENSES AND OTHER ASSETS, NET  | 22,644              | 20,375              |
| <b>TOTAL ASSETS</b>   | <b>\$ 5,939,469</b> | <b>\$ 5,633,736</b> |
| <b>LIABILITIES AND EQUITY</b>   |                     |                     |
| <b>LIABILITIES:</b>   |                     |                     |
| Secured debt (Notes 3, 7, 8 and 17)   | \$ 381,918          | \$ 546,292          |
| Unsecured debt, net (Notes 7, 8 and 17)   | 1,856,590           | 1,783,121           |
| Unsecured line of credit (Notes 7, 8 and 17)  | —                   | 140,000             |
| Accounts payable, accrued expenses and other liabilities (Note 16)  | 246,323             | 225,830             |
| Accrued dividends and distributions (Note 11)   | 34,992              | 32,899              |
| Deferred revenue and acquisition-related intangible liabilities, net (Notes 3, 5 and 9)   | 128,156             | 132,239             |
| Rents received in advance and tenant security deposits  | 49,361              | 49,363              |
| Liabilities and deferred revenue of real estate assets held for sale (Note 4)   | 7,543               | 56                  |
| Total liabilities   | 2,704,883           | 2,909,800           |
| <b>COMMITMENTS AND CONTINGENCIES (Note 16)</b>  |                     |                     |
| <b>EQUITY (Notes 10 and 11):</b>  |                     |                     |
| Stockholders' Equity:   |                     |                     |
| 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 preference)  | 96,256              | 96,256              |

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|  |             |             |
|--|-------------|-------------|
| Common stock, \$.01 par value, 150,000,000 shares authorized,<br>92,258,690 and 86,259,684 shares issued and outstanding, respectively | 923         | 863         |
| Additional paid-in capital   | 3,047,894   | 2,635,900   |
| Distributions in excess of earnings  | (70,262     | ) (162,964  |
| Total stockholders' equity   | 3,170,966   | 2,666,210   |
| Noncontrolling Interests:  |             |             |
| Common units of the Operating Partnership  | 57,100      | 51,864      |
| Noncontrolling interest in consolidated subsidiary (Notes 2 and 10)  | 6,520       | 5,862       |
| Total noncontrolling interests   | 63,620      | 57,726      |
| Total equity   | 3,234,586   | 2,723,936   |
| TOTAL LIABILITIES AND EQUITY   | \$5,939,469 | \$5,633,736 |

See accompanying notes to consolidated financial statements.

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## KILROY REALTY CORPORATION

## CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except share and per share data)

|   | Year Ended December 31, |                  |                 |
|---|-------------------------|------------------|-----------------|
|   | 2015                    | 2014             | 2013            |
| <b>REVENUES:</b>  |                         |                  |                 |
| Rental income   | \$525,355               | \$466,328        | \$411,899       |
| Tenant reimbursements   | 53,774                  | 46,717           | 38,047          |
| Other property income (Notes 16 and 18)   | 2,146                   | 8,680            | 7,165           |
| Total revenues  | 581,275                 | 521,725          | 457,111         |
| <b>EXPENSES:</b>  |                         |                  |                 |
| Property expenses   | 105,378                 | 100,514          | 94,115          |
| Real estate taxes   | 50,223                  | 45,197           | 39,417          |
| Provision for bad debts   | 545                     | 58               | 396             |
| Ground leases (Note 5 and 16)   | 3,096                   | 3,075            | 3,504           |
| General and administrative expenses   | 48,265                  | 46,152           | 39,660          |
| Acquisition-related expenses  | 497                     | 1,479            | 1,962           |
| Depreciation and amortization (Notes 2 and 5)                                       | 204,294                 | 202,417          | 188,887         |
| Total expenses  | 412,298                 | 398,892          | 367,941         |
| <b>OTHER (EXPENSES) INCOME:</b>   |                         |                  |                 |
| Interest income and other net investment gains (Note 17)                            | 243                     | 561              | 1,635           |
| Interest expense (Note 8)   | (57,682)                | (67,571)         | (75,870)        |
| Total other (expenses) income   | (57,439)                | (67,010)         | (74,235)        |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE GAINS ON SALES OF REAL ESTATE</b>       | <b>111,538</b>          | <b>55,823</b>    | <b>14,935</b>   |
| Gains on sale of land, net (Note 4)   | 17,116                  | 3,490            | —               |
| Gains on sales of depreciable operating properties (Note 4)                         | 109,950                 | —                | —               |
| <b>INCOME FROM CONTINUING OPERATIONS</b>  | <b>238,604</b>          | <b>59,313</b>    | <b>14,935</b>   |
| <b>DISCONTINUED OPERATIONS (Note 19)</b>  |                         |                  |                 |
| Income from discontinued operations   | —                       | 2,573            | 17,378          |
| Net gain on dispositions of discontinued operations                                 | —                       | 121,922          | 12,252          |
| Total income from discontinued operations   | —                       | 124,495          | 29,630          |
| <b>NET INCOME</b>   | <b>238,604</b>          | <b>183,808</b>   | <b>44,565</b>   |
| Net income attributable to noncontrolling common units of the Operating Partnership | (4,339)                 | (3,589)          | (685)           |
| Net income attributable to noncontrolling interest in consolidated subsidiary       | (184)                   | —                | —               |
| Total income attributable to noncontrolling interests                               | (4,523)                 | (3,589)          | (685)           |
| <b>NET INCOME ATTRIBUTABLE TO KILROY REALTY CORPORATION</b>                         | <b>234,081</b>          | <b>180,219</b>   | <b>43,880</b>   |
| <b>PREFERRED DIVIDENDS (NOTE 11)</b>  | <b>(13,250)</b>         | <b>(13,250)</b>  | <b>(13,250)</b> |
| <b>NET INCOME AVAILABLE TO COMMON STOCKHOLDERS</b>                                  | <b>\$220,831</b>        | <b>\$166,969</b> | <b>\$30,630</b> |
| Income from continuing operations available to common stockholders per share of     |                         |                  |                 |
| common stock – basic (Note 20)  | \$2.44                  | \$0.52           | \$0.00          |
| Income from continuing operations available to common stockholders per share of     |                         |                  |                 |
| common stock – diluted (Note 20)  | \$2.42                  | \$0.51           | \$0.00          |

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|   |            |            |            |
|---|------------|------------|------------|
| Net income available to common stockholders per share – basic (Note 20)   | \$2.44     | \$1.99     | \$0.37     |
| Net income available to common stockholders per share – diluted (Note 20) | \$2.42     | \$1.95     | \$0.37     |
| Weighted average shares of common stock outstanding – basic (Note 20)     | 89,854,096 | 83,090,235 | 77,343,853 |
| Weighted average shares of common stock outstanding – diluted (Note 20)   | 90,395,775 | 84,967,720 | 77,343,853 |

See accompanying notes to consolidated financial statements.

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KILROY REALTY CORPORATION  
CONSOLIDATED STATEMENTS OF EQUITY  
(in thousands, except share and per share/unit data)

|  | Common Stock |            |        |             | Distributions | Total       | Noncontrolling | Total       |
|--|--------------|------------|--------|-------------|---------------|-------------|----------------|-------------|
|  | Preferred    | Number     | Common | Additional  | in Excess     | Stock-      | Interests      | Equity      |
|  | Stock        | of         | Stock  | Paid-in     | of            | holders'    |                |             |
|  |              | Shares     |        | Capital     | Earnings      | Equity      |                |             |
| BALANCE AT DECEMBER 31, 2012   | \$192,411    | 74,926,981 | \$749  | \$2,126,005 | \$(129,535)   | \$2,189,630 | \$46,303       | \$2,235,933 |
| Net income   |              |            |        |             | 43,880        | 43,880      | 685            | 44,565      |
| Issuance of common stock   |              | 7,215,838  | 72     | 349,879     |               | 349,951     |                | 349,951     |
| Issuance of share-based compensation awards  |              | —          |        | 1,448       |               | 1,448       |                | 1,448       |
| Noncash amortization of share-based compensation                                     |              |            |        | 9,563       |               | 9,563       |                | 9,563       |
| Repurchase of common stock and restricted stock units                                |              | (42,896 )  |        | (2,521 )    |               | (2,521 )    |                | (2,521 )    |
| Settlement of restricted stock units for shares of common stock                      |              | 37,245     | 1      | —           |               | 1           |                | 1           |
| Exercise of stock options  |              | 473        |        | 128         |               | 128         |                | 128         |
| Exchange of common units of the Operating Partnership                                |              | 16,303     |        | 450         |               | 450         | (450 )         | —           |
| Adjustment for noncontrolling interest in the Operating Partnership                  |              |            |        | (5,977 )    |               | (5,977 )    | 5,977          | —           |
| Contribution by noncontrolling interest in the Operating Partnership                 |              |            |        |             |               |             | 4,885          | 4,885       |
| Preferred dividends and distributions  |              |            |        |             | (13,250 )     | (13,250 )   |                | (13,250 )   |
| Dividends declared per share of common stock and common unit (\$1.40 per share/unit) |              |            |        |             | (111,991 )    | (111,991 )  | (2,552 )       | (114,543 )  |
| BALANCE AT DECEMBER 31, 2013   | 192,411      | 82,153,944 | 822    | 2,478,975   | (210,896 )    | 2,461,312   | 54,848         | 2,516,160   |
| Net income   |              |            |        |             | 180,219       | 180,219     | 3,589          | 183,808     |
| Issuance of common stock   |              | 1,950,599  | 20     | 123,840     |               | 123,860     |                | 123,860     |
|  |              |            |        | 1,692       |               | 1,692       |                | 1,692       |

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|   |            |            |          |           |            |            |          |            |  |
|---|------------|------------|----------|-----------|------------|------------|----------|------------|--|
| Issuance of share-based compensation awards   |            |            |          |           |            |            |          |            |  |
| Noncash amortization of share-based compensation                                      |            |            | 14,471   |           | 14,471     |            |          | 14,471     |  |
| Exercise of stock options   | 495,000    | 5          | 21,087   |           | 21,092     |            |          | 21,092     |  |
| Repurchase of common stock and restricted stock units                                 | (58,045 )  |            | (3,533 ) |           | (3,533 )   |            |          | (3,533 )   |  |
| Settlement of restricted stock units for shares of common stock                       | 141,205    | —          | (1 )     |           | (1 )       |            |          | (1 )       |  |
| Common shares issued in connection with settlement of 4.25% Exchangeable Senior Notes | 2,091,323  | 21         | 202      |           | 223        |            |          | 223        |  |
| Common shares received in connection with capped call option transactions             | (515,342 ) | (5 )       | 5        |           | —          |            |          | —          |  |
| Exchange of common units of the Operating Partnership                                 | 1,000      |            | 28       |           | 28         | (28 )      |          | —          |  |
| Adjustment for noncontrolling interest in the Operating Partnership                   |            |            | (866 )   |           | (866 )     | 866        |          | —          |  |
| Contribution by noncontrolling interest in consolidated subsidiary                    |            |            |          |           |            | 977        |          | 977        |  |
| Preferred dividends and distributions   |            |            |          |           | (13,250 )  | (13,250 )  |          | (13,250 )  |  |
| Dividends declared per share of common stock and common unit (\$1.40 per share/unit)  |            |            |          |           | (119,037 ) | (119,037 ) | (2,526 ) | (121,563 ) |  |
| 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  |            |            |          |           | 234,081    | 234,081    | 4,523    | 238,604    |  |
| Issuance of common stock (Note 11)  | 5,640,033  | 56         | 387,342  |           | 387,398    |            |          | 387,398    |  |
| Issuance of share-based compensation awards (Note 13)                                 |            |            | 1,692    |           | 1,692      |            |          | 1,692      |  |
| Noncash amortization of share-based compensation (Note 13)                            |            |            | 18,869   |           | 18,869     |            |          | 18,869     |  |

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|  |            |            |                   |             |                                  |
|--|------------|------------|-------------------|-------------|----------------------------------|
| Exercise of stock options (Note 13)  | 342,000    | 4          | 14,569            | 14,573      | 14,573                           |
| Repurchase of common stock, stock options and restricted stock units (Note 13)       | (101,389 ) | —          | (7,081 )          | (7,081 )    | (7,081 )                         |
| Settlement of restricted stock units for shares of common stock (Note 13)            | 78,937     | —          | (1 )              | (1 )        | (1 )                             |
| Exchange of common units of the Operating Partnership                                | 39,425     |            | 1,223             | 1,223       | (1,223 ) —                       |
| Adjustment for noncontrolling interest in the Operating Partnership (Note 2)         |            |            | (4,619 )          | (4,619 )    | 4,619 —                          |
| Contribution by noncontrolling interest in consolidated subsidiary (Note 2)          |            |            |                   |             | 474 474                          |
| Preferred dividends  |            |            |                   | (13,250 )   | (13,250 ) (13,250 )              |
| Dividends declared per share of common stock and common unit (\$1.40 per share/unit) |            |            |                   | (128,129 )  | (128,129 ) (2,499 ) (130,628 )   |
| BALANCE AS OF DECEMBER 31, 2015  | \$192,411  | 92,258,690 | \$923 \$3,047,894 | \$(70,262 ) | \$3,170,966 \$63,620 \$3,234,586 |

See accompanying notes to consolidated financial statements.

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

|   | Year Ended December 31, |            |            |
|---|-------------------------|------------|------------|
|   | 2015                    | 2014       | 2013       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                         |            |            |
| Net income  | \$ 238,604              | \$ 183,808 | \$ 44,565  |
| Adjustments to reconcile net income to net cash provided by operating activities (including discontinued operations): |                         |            |            |
| Depreciation and amortization of buildings and improvements and leasing costs   | 201,482                 | 202,108    | 199,558    |
| Increase in provision for bad debts   | 545                     | 58         | 396        |
| Depreciation of furniture, fixtures and equipment   | 2,812                   | 2,370      | 1,929      |
| Noncash amortization of share-based compensation awards (Note 13)   | 15,537                  | 12,095     | 8,616      |
| Noncash amortization of deferred financing costs and debt discounts and premiums                                      | 1,853                   | 4,315      | 5,315      |
| Noncash amortization of net below market rents (Note 5)   | (8,449                  | ) (8,328   | ) (7,777   |
| Net gain on dispositions of depreciable operating properties (Note 4)   | (109,950                | ) —        | —          |
| Net gain on dispositions of discontinued operations (Note 19)   | —                       | (121,922   | ) (12,252  |
| Net gain on sales of land (Note 4)  | (17,116                 | ) (3,490   | ) —        |
| Noncash amortization of deferred revenue related to tenant-funded tenant improvements (Note 9)                        | (13,338                 | ) (10,979  | ) (10,713  |
| Straight-line rents   | (44,383                 | ) (31,782  | ) (24,135  |
| Net change in other operating assets  | (8,085                  | ) 367      | (4,615     |
| Net change in other operating liabilities   | 12,496                  | 16,633     | 40,137     |
| Insurance proceeds received for property damage and other, net  | —                       | —          | (448       |
| Net cash provided by operating activities   | 272,008                 | 245,253    | 240,576    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                         |            |            |
| Expenditures for development and redevelopment properties and undeveloped land  | (407,969                | ) (417,784 | ) (320,141 |
| Expenditures for acquisitions of development and redevelopment properties (Note 3)                                    | (139,073                | ) (147,182 | ) (102,769 |
| Expenditures for operating properties   | (99,557                 | ) (132,080 | ) (129,873 |
| Expenditures for acquisitions of operating properties, net of cash acquired (Note 3)                                  | —                       | (204,546   | ) (202,682 |
| Net proceeds received from dispositions of operating properties and land (Notes 4 and 19)                             | 319,639                 | 427,544    | 21,178     |
| Issuance of note receivable   | (3,000                  | ) —        | —          |
| Net decrease (increase) in acquisition-related deposits   | 1,998                   | (1,983     | ) (2,596   |
| Net decrease (increase) in restricted cash (Note 4)   | 65,210                  | (25,405    | ) 229,915  |
| Insurance proceeds received for property damage   | —                       | —          | 448        |
| Net cash used in investing activities   | (262,752                | ) (501,436 | ) (506,520 |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                         |            |            |
| Net proceeds from issuance of common stock (Note 11)  | 387,398                 | 102,229    | 349,951    |
| Borrowings on unsecured line of credit  | 250,000                 | 505,000    | 55,000     |
| Repayments on unsecured line of credit  | (390,000                | ) (410,000 | ) (195,000 |
| Proceeds from the issuance of unsecured debt (Note 8)   | 397,776                 | 395,528    | 299,901    |
| Repayments of unsecured debt (Note 8)   | (325,000                | ) (83,000  | ) —        |
| Principal payments and repayments of secured debt (Note 8)  | (159,766                | ) (9,845   | ) (93,688  |

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|  |          |            |              |
|--|----------|------------|--------------|
| Repayments of exchangeable senior notes (Note 8)                                     | —        | (172,500   | ) —          |
| Borrowings on unsecured debt (Note 8)  | —        | 39,000     | —            |
| Financing costs  | (4,814   | ) (8,648   | ) (4,384 )   |
| Proceeds from exercise of stock options (Note 13)                                    | 14,573   | 21,092     | 128          |
| Repurchase of common stock and restricted stock units                                | (7,081   | ) (3,533   | ) (2,520 )   |
| Contributions from noncontrolling interests in consolidated subsidiary (Note 2)      | 474      | 977        | —            |
| Dividends and distributions paid to common stockholders and common unitholders       | (126,839 | ) (118,463 | ) (111,517 ) |
| Dividends and distributions paid to preferred stockholders and preferred unitholders | (13,250  | ) (13,250  | ) (13,250 )  |
| Net cash provided by financing activities  | 23,471   | 244,587    | 284,621      |
| Net increase (decrease) in cash and cash equivalents                                 | 32,727   | (11,596    | ) 18,677     |
| Cash and cash equivalents, beginning of year   | 23,781   | 35,377     | 16,700       |
| Cash and cash equivalents, end of year   | \$56,508 | \$23,781   | \$35,377     |

See accompanying notes to consolidated financial statements.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Kilroy Realty, L.P. and subsidiaries (the “Operating Partnership”) as of December 31, 2015 and 2014, and the related consolidated statements of operations, capital, and cash flows for each of the three years in the period ended December 31, 2015. 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 Operating Partnership’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 Operating Partnership as of December 31, 2015 and 2014, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2015, 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 2 to the consolidated financial statements, the Operating Partnership has changed its method of accounting for and disclosure of discontinued operations for the year ended December 31, 2015 due to the adoption of Accounting Standards Update No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Operating Partnership’s internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 12, 2016, expressed an unqualified opinion on the Operating Partnership’s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP  
Los Angeles, California  
February 12, 2016

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

|  | December 31, 2015   | December 31, 2014   |
|--|---------------------|---------------------|
| <b>ASSETS</b>  |                     |                     |
| <b>REAL ESTATE ASSETS (Notes 3 and 4):</b>   |                     |                     |
| Land and improvements  | \$ 875,794          | \$ 877,633          |
| Buildings and improvements   | 4,091,012           | 4,059,639           |
| Undeveloped land and construction in progress  | 1,361,340           | 1,120,660           |
| Total real estate held for investment  | 6,328,146           | 6,057,932           |
| Accumulated depreciation and amortization  | (994,241            | ) (947,664          |
| Total real estate held for investment, net (\$187,254 and \$211,755 of VIE, Note 2)  | 5,333,905           | 5,110,268           |
| <b>REAL ESTATE ASSETS AND OTHER ASSETS HELD FOR SALE, NET (Note 4)</b>   | <b>117,666</b>      | <b>8,211</b>        |
| <b>CASH AND CASH EQUIVALENTS</b>   | <b>56,508</b>       | <b>23,781</b>       |
| <b>RESTRICTED CASH (Note 4)</b>  | <b>696</b>          | <b>75,185</b>       |
| <b>MARKETABLE SECURITIES (Notes 14 and 17)</b>   | <b>12,882</b>       | <b>11,971</b>       |
| <b>CURRENT RECEIVABLES, NET (Note 6)</b>   | <b>11,153</b>       | <b>7,229</b>        |
| <b>DEFERRED RENT RECEIVABLES, NET (Note 6)</b>   | <b>189,704</b>      | <b>156,416</b>      |
| <b>DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLE ASSETS, NET (Notes 3 and 5)</b>                                     | <b>176,683</b>      | <b>201,926</b>      |
| <b>DEFERRED FINANCING COSTS, NET (Notes 2 and 8)</b>   | <b>17,628</b>       | <b>18,374</b>       |
| <b>PREPAID EXPENSES AND OTHER ASSETS, NET</b>  | <b>22,644</b>       | <b>20,375</b>       |
| <b>TOTAL ASSETS</b>  | <b>\$ 5,939,469</b> | <b>\$ 5,633,736</b> |
| <b>LIABILITIES AND CAPITAL</b>   |                     |                     |
| <b>LIABILITIES:</b>  |                     |                     |
| Secured debt (Notes 3, 8 and 17)   | \$ 381,918          | \$ 546,292          |
| Unsecured debt, net (Notes 8 and 17)   | 1,856,590           | 1,783,121           |
| Unsecured line of credit (Notes 8 and 17)  | —                   | 140,000             |
| Accounts payable, accrued expenses and other liabilities (Note 16)   | 246,323             | 225,830             |
| Accrued distributions (Note 12)  | 34,992              | 32,899              |
| Deferred revenue and acquisition-related intangible liabilities, net (Notes 3, 5 and 9)  | 128,156             | 132,239             |
| Rents received in advance and tenant security deposits   | 49,361              | 49,363              |
| Liabilities and deferred revenue of real estate assets held for sale (Note 4)  | 7,543               | 56                  |
| Total liabilities  | 2,704,883           | 2,909,800           |
| <b>COMMITMENTS AND CONTINGENCIES (Note 16)</b>   |                     |                     |
| <b>CAPITAL (Notes 10 and 12):</b>  |                     |                     |
| <b>Partners' Capital:</b>  |                     |                     |
| 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 outstanding (\$100,000 liquidation preference) | 96,256              | 96,256              |
| Common units, 92,258,690 and 86,259,684 held by the general partner and 1,764,775  | 3,031,609           | 2,521,900           |

and 1,804,200 held by common limited partners issued and outstanding,  
 respectively

|  |             |             |
|--|-------------|-------------|
| Total Partners' Capital  | 3,224,020   | 2,714,311   |
| Noncontrolling interests in consolidated subsidiaries (Note 2) | 10,566      | 9,625       |
| Total capital  | 3,234,586   | 2,723,936   |
| TOTAL LIABILITIES AND CAPITAL                                  | \$5,939,469 | \$5,633,736 |

See accompanying notes to consolidated financial statements.

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

|   | Year Ended December 31, |            |            |
|---|-------------------------|------------|------------|
|   | 2015                    | 2014       | 2013       |
| <b>REVENUES:</b>  |                         |            |            |
| Rental income   | \$525,355               | \$466,328  | \$411,899  |
| Tenant reimbursements   | 53,774                  | 46,717     | 38,047     |
| Other property income (Notes 16 and 18)   | 2,146                   | 8,680      | 7,165      |
| Total revenues  | 581,275                 | 521,725    | 457,111    |
| <b>EXPENSES:</b>  |                         |            |            |
| Property expenses   | 105,378                 | 100,514    | 94,115     |
| Real estate taxes   | 50,223                  | 45,197     | 39,417     |
| Provision for bad debts   | 545                     | 58         | 396        |
| Ground leases (Notes 5 and 16)  | 3,096                   | 3,075      | 3,504      |
| General and administrative expenses   | 48,265                  | 46,152     | 39,660     |
| Acquisition-related expenses  | 497                     | 1,479      | 1,962      |
| Depreciation and amortization (Notes 2 and 5)   | 204,294                 | 202,417    | 188,887    |
| Total expenses  | 412,298                 | 398,892    | 367,941    |
| <b>OTHER (EXPENSES) INCOME:</b>   |                         |            |            |
| Interest income and other net investment gains (Note 17)  | 243                     | 561        | 1,635      |
| Interest expense (Note 8)   | (57,682)                | (67,571)   | (75,870)   |
| Total other (expenses) income   | (57,439)                | (67,010)   | (74,235)   |
| <b>INCOME FROM CONTINUING OPERATIONS BEFORE GAINS ON SALES OF REAL ESTATE</b>                     | 111,538                 | 55,823     | 14,935     |
| Gains on sale of land, net (Note 4)   | 17,116                  | 3,490      | —          |
| Gains on sales of depreciable operating properties (Note 4)                                       | 109,950                 | —          | —          |
| <b>INCOME FROM CONTINUING OPERATIONS</b>  | 238,604                 | 59,313     | 14,935     |
| <b>DISCONTINUED OPERATIONS (Note 19)</b>  |                         |            |            |
| Income from discontinued operations   | —                       | 2,573      | 17,378     |
| Net gain on dispositions of discontinued operations   | —                       | 121,922    | 12,252     |
| Total income from discontinued operations   | —                       | 124,495    | 29,630     |
| <b>NET INCOME</b>   | 238,604                 | 183,808    | 44,565     |
| Net income attributable to noncontrolling interests in consolidated subsidiaries (Notes 2 and 10) | (467)                   | (260)      | (224)      |
| <b>NET INCOME ATTRIBUTABLE TO KILROY REALTY, L.P.</b>   | 238,137                 | 183,548    | 44,341     |
| <b>PREFERRED DISTRIBUTIONS (NOTE 12)</b>  | (13,250)                | (13,250)   | (13,250)   |
| <b>NET INCOME AVAILABLE TO COMMON UNITHOLDERS</b>   | \$224,887               | \$170,298  | \$31,091   |
| Income from continuing operations available to common unitholders per unit – basic<br>(Note 21)   | \$2.44                  | \$0.52     | \$0.00     |
| Income from continuing operations available to common unitholders per unit – diluted<br>(Note 21) | \$2.42                  | \$0.51     | \$0.00     |
| Net income available to common unitholders per unit – basic (Note 21)                             | \$2.44                  | \$1.99     | \$0.37     |
| Net income available to common unitholders per unit – diluted (Note 21)                           | \$2.42                  | \$1.94     | \$0.37     |
| Weighted average common units outstanding – basic (Note 21)                                       | 91,645,578              | 84,894,498 | 79,166,260 |
| Weighted average common units outstanding – diluted (Note 21)                                     | 92,187,257              | 86,771,983 | 79,166,260 |

See accompanying notes to consolidated financial statements.

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

|   | Partners' Capital |            |              | Total        | Noncontrolling |              |
|---|-------------------|------------|--------------|--------------|----------------|--------------|
|   | Preferred         | Number of  | Common       | Partners'    | Interests in   | Total        |
|   | Units             | Common     | Units        | Capital      | Consolidated   | Capital      |
|   |                   | Units      |              |              | Subsidiaries   |              |
| BALANCE AS OF DECEMBER 31, 2012   | \$ 192,411        | 76,753,484 | \$ 2,040,243 | \$ 2,232,654 | \$ 3,279       | \$ 2,235,933 |
| Net income  |                   |            | 44,341       | 44,341       | 224            | 44,565       |
| Issuance of common units  |                   | 7,210,838  | 349,951      | 349,951      |                | 349,951      |
| Issuance of share-based compensation awards   |                   | —          | 1,448        | 1,448        |                | 1,448        |
| Noncash amortization of share-based compensation                                      |                   |            | 9,563        | 9,563        |                | 9,563        |
| Repurchase of common units and restricted stock units                                 |                   | (42,896 )  | (2,521 )     | (2,521 )     |                | (2,521 )     |
| Settlement of restricted stock units  |                   | 37,245     | 1            | 1            |                | 1            |
| Exercise of stock options   |                   | 473        | 128          | 128          |                | 128          |
| Contribution by noncontrolling interest in consolidated subsidiary                    |                   |            |              |              | 4,885          | 4,885        |
| Preferred distributions   |                   |            | (13,250 )    | (13,250 )    |                | (13,250 )    |
| Distributions declared per common unit (\$1.40 per unit)                              |                   |            | (114,543 )   | (114,543 )   |                | (114,543 )   |
| BALANCE AS OF DECEMBER 31, 2013   | 192,411           | 83,959,144 | 2,315,361    | 2,507,772    | 8,388          | 2,516,160    |
| Net income  |                   |            | 183,548      | 183,548      | 260            | 183,808      |
| Issuance of common units  |                   | 1,950,599  | 123,860      | 123,860      |                | 123,860      |
| Issuance of share-based compensation awards   |                   |            | 1,692        | 1,692        |                | 1,692        |
| Noncash amortization of share-based compensation                                      |                   |            | 14,471       | 14,471       |                | 14,471       |
| Exercise of stock options   |                   | 495,000    | 21,092       | 21,092       |                | 21,092       |
| Repurchase of common units and restricted stock units                                 |                   | (58,045 )  | (3,533 )     | (3,533 )     |                | (3,533 )     |
| Settlement of restricted stock units  |                   | 141,205    | (1 )         | (1 )         |                | (1 )         |
| Common shares issued in connection with settlement of 4.25% Exchangeable Senior Notes |                   | 2,091.323  | 223          | 223          |                | 223          |
| Common shares received in connection with capped call option transactions             |                   | (515.342 ) |              | —            |                | —            |
| Contribution by noncontrolling interest in consolidated subsidiary                    |                   |            |              |              | 977            | 977          |
| Preferred distributions   |                   |            | (13,250 )    | (13,250 )    |                | (13,250 )    |
| Distributions declared per common unit (\$1.40 per unit)                              |                   |            | (121,563 )   | (121,563 )   |                | (121,563 )   |
|   | 192,411           | 88,063,884 | 2,521,900    | 2,714,311    | 9,625          | 2,723,936    |

## BALANCE AS OF DECEMBER

31, 2014

|   |            |            |              |              |           |              |
|---|------------|------------|--------------|--------------|-----------|--------------|
| Net income  |            |            | 238,137      | 238,137      | 467       | 238,604      |
| Issuance of common units (Note 12)  | 5,640,033  | 387,398    | 387,398      |              |           | 387,398      |
| Issuance of share-based compensation awards (Note 13)                       |            | 1,692      | 1,692        |              |           | 1,692        |
| Noncash amortization of share-based compensation (Note 13)                  |            | 18,869     | 18,869       |              |           | 18,869       |
| Exercise of stock options (Note 13)   | 342,000    | 14,573     | 14,573       |              |           | 14,573       |
| Repurchase of common units and restricted stock units (Note 13)             | (101,389 ) | (7,081 )   | (7,081 )     |              |           | (7,081 )     |
| Settlement of restricted stock units (Note 13)                              | 78,937     | (1 )       | (1 )         |              |           | (1 )         |
| Contribution by noncontrolling interest in consolidated subsidiary (Note 2) |            |            |              |              | 474       | 474          |
| Preferred distributions   |            | (13,250 )  | (13,250 )    |              |           | (13,250 )    |
| Distributions declared per common unit (\$1.40 per unit)                    |            | (130,628 ) | (130,628 )   |              |           | (130,628 )   |
| BALANCE AS OF DECEMBER 31, 2015   | \$ 192,411 | 94,023,465 | \$ 3,031,609 | \$ 3,224,020 | \$ 10,566 | \$ 3,234,586 |

See accompanying notes to consolidated financial statements.

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

|   | Year Ended December 31, |            |            |
|---|-------------------------|------------|------------|
|   | 2015                    | 2014       | 2013       |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>  |                         |            |            |
| Net income  | \$ 238,604              | \$ 183,808 | \$ 44,565  |
| Adjustments to reconcile net income to net cash provided by operating activities (including discontinued operations): |                         |            |            |
| Depreciation and amortization of buildings and improvements and leasing costs   | 201,482                 | 202,108    | 199,558    |
| Increase in provision for bad debts   | 545                     | 58         | 396        |
| Depreciation of furniture, fixtures and equipment   | 2,812                   | 2,370      | 1,929      |
| Noncash amortization of share-based compensation awards (Note 13)   | 15,537                  | 12,095     | 8,616      |
| Noncash amortization of deferred financing costs and debt discounts and premiums                                      | 1,853                   | 4,315      | 5,315      |
| Noncash amortization of net below market rents (Note 5)   | (8,449                  | ) (8,328   | ) (7,777   |
| Net gain on dispositions of depreciable operating properties (Note 4)   | (109,950                | ) —        | —          |
| Net gain on dispositions of discontinued operations (Note 19)   | —                       | (121,922   | ) (12,252  |
| Net gain on sales of land (Note 4)  | (17,116                 | ) (3,490   | ) —        |
| Noncash amortization of deferred revenue related to tenant-funded tenant improvements (Note 9)                        | (13,338                 | ) (10,979  | ) (10,713  |
| Straight-line rents   | (44,383                 | ) (31,782  | ) (24,135  |
| Net change in other operating assets  | (8,085                  | ) 367      | (4,615     |
| Net change in other operating liabilities   | 12,496                  | 16,633     | 40,137     |
| Insurance proceeds received for property damage and other, net  | —                       | —          | (448       |
| Net cash provided by operating activities   | 272,008                 | 245,253    | 240,576    |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>  |                         |            |            |
| Expenditures for development and redevelopment properties and undeveloped land  | (407,969                | ) (417,784 | ) (320,141 |
| Expenditures for acquisitions of development and redevelopment properties (Note 3)                                    | (139,073                | ) (147,182 | ) (102,769 |
| Expenditures for operating properties   | (99,557                 | ) (132,080 | ) (129,873 |
| Expenditures for acquisitions of operating properties, net of cash acquired (Note 3)                                  | —                       | (204,546   | ) (202,682 |
| Net proceeds received from dispositions of operating properties and land (Notes 4 and 19)                             | 319,639                 | 427,544    | 21,178     |
| Issuance of note receivable   | (3,000                  | ) —        | —          |
| Net decrease (increase) in acquisition-related deposits   | 1,998                   | (1,983     | ) (2,596   |
| Net decrease (increase) in restricted cash (Note 4)   | 65,210                  | (25,405    | ) 229,915  |
| Insurance proceeds received for property damage   | —                       | —          | 448        |
| Net cash used in investing activities   | (262,752                | ) (501,436 | ) (506,520 |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>  |                         |            |            |
| Net proceeds from issuance of common units (Note 12)  | 387,398                 | 102,229    | 349,951    |
| Borrowings on unsecured line of credit  | 250,000                 | 505,000    | 55,000     |
| Repayments on unsecured line of credit  | (390,000                | ) (410,000 | ) (195,000 |
| Proceeds from the issuance of unsecured debt (Note 8)   | 397,776                 | 395,528    | 299,901    |
| Repayments of unsecured debt (Note 8)   | (325,000                | ) (83,000  | ) —        |
| Principal payments and repayments of secured debt (Note 8)  | (159,766                | ) (9,845   | ) (93,688  |

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|   |            |            |            |
|---|------------|------------|------------|
| Repayments of exchangeable senior notes (Note 8)                                | —          | (172,500 ) | —          |
| Borrowings on unsecured debt (Note 8)   | —          | 39,000     | —          |
| Financing costs   | (4,814 )   | (8,648 )   | (4,384 )   |
| Proceeds from exercise of stock options (Note 13)                               | 14,573     | 21,092     | 128        |
| Repurchase of common units and restricted stock units                           | (7,081 )   | (3,533 )   | (2,520 )   |
| Contributions from noncontrolling interests in consolidated subsidiary (Note 2) | 474        | 977        | —          |
| Distributions paid to common unitholders  | (126,839 ) | (118,463 ) | (111,517 ) |
| Distributions paid to preferred unitholders                                     | (13,250 )  | (13,250 )  | (13,250 )  |
| Net cash provided by financing activities                                       | 23,471     | 244,587    | 284,621    |
| Net increase (decrease) in cash and cash equivalents                            | 32,727     | (11,596 )  | 18,677     |
| Cash and cash equivalents, beginning of year                                    | 23,781     | 35,377     | 16,700     |
| Cash and cash equivalents, end of year  | \$56,508   | \$23,781   | \$35,377   |

See accompanying notes to consolidated financial statements.

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KILROY REALTY CORPORATION AND KILROY REALTY, L.P.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 Three Years Ended December 31, 2015

### 1. Organization and Ownership

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 December 31, 2015:

|                              | Number of<br>Buildings | Rentable<br>Square Feet<br>(unaudited) | Number of<br>Tenants | Percentage<br>Occupied<br>(unaudited) |   |
|------------------------------|------------------------|--|----------------------|---------------------------------------|---|
| Stabilized Office Properties | 101                    | 13,032,406                             | 517                  | 94.8                                  | % |

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. 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.

During the year ended December 31, 2015, we stabilized a development project consisting of two office buildings encompassing 108,517 rentable square feet in Hollywood, California, and a development project consisting of two office buildings encompassing 339,987 rentable square feet in Redwood City, California. These projects were included in our stabilized portfolio as of December 31, 2015.

As of December 31, 2015, we had one office development project in the “lease-up” phase. We also had four operating properties and one land parcel classified as held for sale as of December 31, 2015. As of December 31, 2015, the following properties were excluded from our stabilized portfolio:

| Number of<br>Properties/Projects | Estimated Rentable<br>Square Feet (unaudited)<br>(1) |
|----------------------------------|--|
|----------------------------------|--|

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|   |   |           |
|---|---|-----------|
| Properties held for sale <sup>(2)</sup> | 4 | 465,812   |
| Development projects in "lease-up"      | 1 | 73,000    |
| Development projects under construction | 5 | 1,910,000 |

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(1) Estimated rentable square feet upon completion.

(2) See Note 4 "Dispositions and Real Estate Assets Held for Sale" for additional information.

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

Our stabilized portfolio also excludes our near-term and future development pipeline, which is comprised of ten potential development sites, representing approximately 99 gross acres of undeveloped land.

As of December 31, 2015, all of our real estate assets were owned and all of our business was conducted in the state of California with the exception of twelve office properties and one future development project located in the state of Washington. All of our real estate assets are 100% owned, excluding two office properties owned by Redwood City Partners, LLC (“Redwood LLC”), a consolidated subsidiary, and an undeveloped land parcel held at a qualified intermediary for potential future transactions that are intended to qualify as like-kind exchanges pursuant to Section 1031 of the Code (“Section 1031 Exchanges”) to defer taxable gains on dispositions for federal and state income tax purposes, which have been consolidated for financial reporting purposes (see Note 2 “Basis of Presentation and Significant Accounting Policies” for additional information).

As of December 31, 2015, the Company owned a 98.1% common general partnership interest in the Operating Partnership. The remaining 1.9% common limited partnership interest in the Operating Partnership as of December 31, 2015 was owned by non-affiliated investors and certain of our executive officers and directors. Both the general 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 10 “Noncontrolling Interests on the Company’s Consolidated Financial Statements” for additional information).

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.

## 2. Basis of Presentation and Significant Accounting Policies

### 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.

### Partially Owned Entities and Variable Interest Entities

At December 31, 2015, the consolidated financial statements of the Company and the Operating Partnership included two variable interest entities (“VIEs”), in which we were deemed to be the primary beneficiary. One VIE, Redwood

LLC, was established in the second quarter of 2013 in connection with an undeveloped land acquisition. The other VIE was established in the fourth quarter of 2015 to facilitate potential future Section 1031 Exchanges to defer taxable gains on dispositions for federal and state income tax purposes. The impact of consolidating the VIEs increased the Company's total assets, liabilities and noncontrolling interests by approximately \$203.3 million (of which \$187.3 million related to real estate held for investment on our consolidated balance sheet), approximately \$28.8 million and approximately \$6.5 million, respectively, as of December 31, 2015.

At 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.

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

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 Exchanges, 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.

Our accounting policy is to consolidate entities in which we have a controlling financial interest and significant decision making control over the entity's operations. In determining whether we have a controlling financial interest in a partially owned entity and the requirement to consolidate the accounts of that entity, we consider factors such as ownership interest, board representation, management representation, size of our investment (including loans), authority to control decisions, and contractual and substantive participating rights of the members. In addition to evaluating control rights, we consolidate entities in which the other members have no substantive kick-out rights to remove the Company as the managing member.

We also evaluate whether the entity is a variable interest entity ("VIE") and whether we are the primary beneficiary. VIEs are entities in which the equity investors do not have sufficient equity at risk to finance their endeavors without additional financial support or the holders of the equity investment at risk do not have a controlling financial interest. We are deemed to be the primary beneficiary of a VIE when we have the power to direct the activities of the VIE that most significantly impact the VIEs' economic performance and the obligation to absorb losses or receive benefits that could potentially be significant to the VIE.

If the requirements for consolidation are not met, the Company would account for investments under the equity method of accounting if we have the ability to exercise significant influence over the entity. Equity method investments would be initially recorded at cost and subsequently adjusted for our share of net income or loss and cash contributions and distributions each period. The Company did not have any equity method investments at December 31, 2015 or December 31, 2014.

#### Significant Accounting Policies

##### Acquisitions

We record the acquired tangible and intangible assets and assumed liabilities of acquisitions of operating properties and development and redevelopment opportunities that meet the accounting criteria to be accounted for as business combinations at fair value at the acquisition date. The acquired assets and assumed liabilities for an acquisition generally include but are not limited to (i) land and improvements, buildings and improvements, undeveloped land and construction in progress and (ii) identified tangible and intangible assets and liabilities associated with in-place leases, including tenant improvements, leasing costs, value of above-market and below-market operating leases and ground leases, acquired in-place lease values and tenant relationships, if any. Any debt assumed and equity (including common units of the Operating Partnership) issued in connection with a property acquisition is recorded at fair value on the date of acquisition.

The fair value of land and improvements is derived from comparable sales of land and improvements within the same submarket and/or region. The fair value of buildings and improvements, tenant improvements and leasing costs considers the value of the property as if it was vacant as well as current replacement costs and other relevant market

rate information.

The fair value of the above-market or below-market component of an acquired in-place operating lease is based upon the present value (calculated using a market discount rate) of the difference between (i) the contractual rents to be paid pursuant to the lease over its remaining non-cancellable lease term and (ii) our estimate of the rents that would be paid using fair market rental rates and rent escalations at the date of acquisition measured over the remaining non-cancellable term of the lease for above-market operating leases and the initial non-cancellable term plus the term of any below-market fixed rate renewal options, if applicable, for below-market operating leases. Our below-market operating leases generally do not include fixed rate or below-market renewal options. The amounts recorded for above-market operating leases are included in deferred leasing costs and acquisition-related intangible assets, net on the

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

balance sheet and are amortized on a straight-line basis as a reduction of rental income over the remaining term of the applicable leases. The amounts recorded for below-market operating leases are included in deferred revenue and acquisition-related intangible liabilities, net on the balance sheet and are amortized on a straight-line basis as an increase to rental income over the remaining term of the applicable leases plus the term of any below-market fixed rate renewal options, if applicable.

The fair value of acquired in-place leases is derived based on our assessment of lost revenue and costs incurred for the period required to lease the “assumed vacant” property to the occupancy level when purchased. The amount recorded for acquired in-place leases is included in deferred leasing costs and acquisition-related intangible assets, net on the balance sheet and amortized as an increase to depreciation and amortization expense over the remaining term of the applicable leases. Fully amortized intangible assets are written off each quarter.

We record the acquisition of undeveloped land that does not meet the accounting criteria to be accounted for as business combinations and the subsequent acquisition of the fee interest in land and improvements underlying our properties at the purchase price paid and capitalize the associated acquisition costs. During the years ended December 31, 2015, 2014 and 2013 we capitalized \$1.1 million, \$4.5 million and \$2.3 million, respectively, in acquisition costs associated with development acquisitions.

#### Operating Properties

Operating properties are generally carried at historical cost less accumulated depreciation. Properties held for sale are reported at the lower of the carrying value or the fair value less estimated cost to sell. The cost of operating properties includes the purchase price or development costs of the properties. Costs incurred for the renovation and betterment of the operating properties are capitalized to our investment in that property. Maintenance and repairs are charged to expense as incurred.

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

#### Cost Capitalization

All costs clearly associated with the development, redevelopment and construction of a property are capitalized as project costs, including internal compensation costs. In addition, the following costs are capitalized as project costs during periods in which activities necessary to prepare development and redevelopment properties for its intended use are in progress: pre-construction costs essential to the development of the property, interest, real estate taxes and

insurance.

For development and redevelopment properties that are pre-leased, we cease capitalization when revenue recognition commences, which is upon substantial completion of tenant improvements.

For development and redevelopment properties that are not pre-leased, we may not immediately build out the tenant improvements. Therefore we cease capitalization when revenue recognition commences upon substantial completion of the tenant improvements, but in any event, no later than one year after the cessation of major construction activities. We also cease capitalization on a development or redevelopment property when activities necessary to prepare the property for its intended use have been suspended.

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

For development or redevelopment properties with multiple tenants and staged leasing, we cease capitalization and begin depreciation on the portion of the development or redevelopment property for which revenue recognition has commenced.

Once major construction activity has ceased and the development or redevelopment property is in the lease-up phase, the costs capitalized to construction in progress are transferred to land and improvements, buildings and improvements, and deferred leasing costs and acquisition-related intangible assets, net on our consolidated balance sheets as the historical cost of the property.

#### Depreciation and Amortization of Buildings and Improvements

The cost of buildings and improvements and tenant improvements are depreciated using the straight-line method of accounting over the estimated useful lives set forth in the table below. Depreciation expense for buildings and improvements, including discontinued operations, for the three years ended December 31, 2015, 2014, and 2013 was \$159.5 million, \$153.8 million and \$145.3 million, respectively.

| Asset Description          | Depreciable Lives           |
|----------------------------|-----------------------------|
| Buildings and improvements | 25 – 40 years               |
| Tenant improvements        | 1 – 20 years <sup>(1)</sup> |

(1) Tenant improvements are amortized over the shorter of the lease term or the estimated useful life.

#### Real Estate Assets Held for Sale, Dispositions and Discontinued Operations

A real estate asset is classified as held for sale when certain criteria are met, including but not limited to the availability of the asset for immediate sale, the existence of an active program to locate a buyer and the probable sale or transfer of the asset within one year. If such criteria are met, we present the applicable assets and liabilities related to the real estate asset held for sale, if material, separately on the balance sheet and we would cease to record depreciation and amortization expense. Real estate assets held for sale are reported at the lower of their carrying value or their estimated fair value less the estimated costs to sell. As of December 31, 2015, we classified four operating properties and one undeveloped land parcel located in San Diego, California as held for sale. As of December 31, 2014, we had one undeveloped land parcel classified as held for sale.

Effective January 1, 2015, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2014-08 (“ASU 2014-08”), which changed the criteria for reporting discontinued operations while enhancing disclosures in this area. Under the new guidance, only property disposals representing a strategic shift that has (or will have) a major effect on an entity's operations and financial results, such as a major line of business, a major geographical area or a major equity investment, are required to be presented as discontinued operations. If we were to determine that the property disposition represents a strategic shift, the revenues, expenses and net gain (loss) on dispositions of the property would be recorded in discontinued operations for all periods presented through the date of the applicable disposition. The Company adopted and applied the new guidance on a prospective basis as required by ASU 2014-08. Therefore, properties classified as held for sale and/or disposed of subsequent to January 1, 2015 that do not represent a strategic shift are presented in continuing operations for all periods presented. In accordance with this guidance, the operations of the ten properties sold during the year ended

December 31, 2015 are presented in continuing operations for the year ended December 31, 2015.

Prior to January 1, 2015, the revenues and expenses of operating properties that have been sold, if material, and the revenues and expenses of operating properties that have been classified as held for sale, if material, are reported in the consolidated statements of operations as discontinued operations for all periods presented through the date of the applicable disposition. The net gains (losses) on disposition of operating properties are reported in the consolidated statements of operations as discontinued operations in the period the properties are sold. In determining whether the revenues, expenses, and net gains (losses) on dispositions of operating properties are reported as discontinued operations, we evaluate whether we have any significant continuing involvement in the operations, leasing, or management of the sold property. If we were to determine that we had any significant continuing involvement, the revenues, expenses and

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

net gain (loss) on dispositions of the operating property would not be recorded in discontinued operations. For the year ended December 31, 2014, discontinued operations includes the income and gains on all of the properties sold in 2014. For the year ended December 31, 2013, discontinued operations includes the income and gains on all of the properties sold in 2013 and 2014.

The net gains (losses) on dispositions of non-depreciable real estate property, including land, are reported in the consolidated statements of operations as gains (losses) on sale of land within continuing operations in the period the land is sold.

#### Revenue Recognition

We recognize revenue from rent, tenant reimbursements, parking and other revenue once all of the following criteria are met: (i) the agreement has been fully executed and delivered, (ii) services have been rendered, (iii) the amount is fixed or determinable, and (iv) the collectability of the amount is reasonably assured.

Minimum annual rental revenues are recognized in rental revenues on a straight-line basis over the term of the related lease. Rental revenue recognition commences when the tenant takes possession or controls the physical use of the leased space. In order for the tenant to take possession, the leased space must be substantially complete and ready for its intended use. In order to determine whether the leased space is substantially ready for its intended use, we begin by determining whether the Company or the tenant owns the tenant improvements. When we conclude that the Company is the owner of tenant improvements, rental revenue recognition begins when the tenant takes possession of the finished space, which is generally when Company owned tenant improvements are substantially complete. In certain instances, when we conclude that the Company is not the owner (the tenant is the owner) of tenant improvements, rental revenue recognition begins when the tenant takes possession of or controls the space.

When we conclude that the Company is the owner of tenant improvements, we record the cost to construct the tenant improvements, including costs paid for or reimbursed by the tenants, as a capital asset. For these tenant improvements, we record the amount funded by or reimbursed by the tenants as deferred revenue, which is amortized on a straight-line basis as additional rental income over the term of the related lease.

When we conclude that the tenant is the owner of tenant improvements for accounting purposes, we record our contribution towards those improvements as a lease incentive, which is included in deferred leasing costs and acquisition-related intangible assets, net on our consolidated balance sheets and amortized as a reduction to rental income on a straight-line basis over the term of the lease.

#### Tenant Reimbursements

Reimbursements from tenants, consisting of amounts due from tenants for common area maintenance, real estate taxes and other recoverable costs, are recognized as revenue in the period the recoverable costs are incurred. Tenant reimbursements are recognized and recorded on a gross basis, as we are generally the primary obligor with respect to purchasing goods and services from third-party suppliers, have discretion in selecting the supplier, and have credit risk.

#### Other Property Income

Other property income primarily includes amounts recorded in connection with lease terminations and tenant bankruptcy settlement payments. Lease termination fees are amortized over the remaining lease term, if applicable. If there is no remaining lease term, they are recognized when received and realized. Other property income also includes miscellaneous income from tenants, such as fees related to the restoration of leased premises to their original condition and fees for late rental payments.

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

Allowances for Uncollectible Tenant and Deferred Rent Receivables

We carry our current and deferred rent receivables net of allowances for uncollectible amounts. Our determination of the adequacy of these allowances is based primarily upon evaluations of individual receivables, current economic conditions, historical loss experience, and other relevant factors. The allowances are increased or decreased through the provision for bad debts on our consolidated statements of operations.

Cash and Cash Equivalents

We consider all highly-liquid investments with original maturities of three months or less to be cash equivalents.

Restricted Cash

Restricted cash consists of cash proceeds from dispositions that are temporarily held at qualified intermediaries for purposes of facilitating potential Section 1031 Exchanges and cash held in escrow related to acquisition holdbacks. Restricted cash also includes cash held as collateral to provide credit enhancement for the Operating Partnership's mortgage debt, including cash reserves for capital expenditures, tenant improvements and property taxes. As of December 31, 2015, we had no restricted cash held at qualified intermediaries for the purpose of facilitating Section 1031 Exchanges. As of December 31, 2014, we had approximately \$59.2 million in restricted cash held at qualified intermediaries for the purpose of facilitating Section 1031 Exchanges.

Marketable Securities / Deferred Compensation Plan

Marketable securities reported in our consolidated balance sheets represent the assets held in connection with the Kilroy Realty Corporation 2007 Deferred Compensation Plan (the "Deferred Compensation Plan") (see Note 14 "Employee Benefit Plans" for additional information). The Deferred Compensation Plan assets are held in a limited rabbi trust and invested in various mutual and money market funds. As a result, the marketable securities are treated as trading securities for financial reporting purposes and are adjusted to fair value at the end of each accounting period, with the corresponding gains and losses recorded in interest income and other net investment gains.

At the time eligible management employees ("Participants") defer compensation or earn mandatory Company contributions, or if we were to make a discretionary contribution, we record compensation cost and a corresponding deferred compensation plan liability, which is included in accounts payable, accrued expenses, and other liabilities on our consolidated balance sheets. This liability is adjusted to fair value at the end of each accounting period based on the performance of the benchmark funds selected by each Participant, and the impact of adjusting the liability to fair value is recorded as an increase or decrease to compensation cost. The impact of adjusting the deferred compensation plan liability to fair value and the changes in the value of the marketable securities held in connection with the Deferred Compensation Plan generally offset and therefore do not significantly impact net income.

Deferred Leasing Costs

Costs incurred in connection with successful property leasing are capitalized as deferred leasing costs and classified as investment activities in the statement of cash flows. Deferred leasing costs consist primarily of leasing commissions and also include certain internal payroll costs and lease incentives, which are amortized using the straight-line method of accounting over the lives of the leases which generally range from one to 20 years. We reevaluate the remaining

useful lives of leasing costs as the creditworthiness of our tenants and economic and market conditions change. If we determine that the estimated remaining life of a lease has changed, we adjust the amortization period accordingly. Fully amortized deferred leasing costs are written off each quarter.

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

Deferred Financing Costs

Financing costs related to the origination or assumption of long-term debt are deferred and generally amortized using the straight-line method of accounting, which approximates the effective interest method, over the contractual terms of the applicable financings. Fully amortized deferred financing costs are written off when the corresponding financing is repaid. As of December 31, 2015 and 2014, deferred financing costs were reported net of accumulated amortization of \$12.3 million and \$12.2 million, respectively.

Debt Discounts and Premiums

Original issuance debt discounts and discounts/premiums related to recording debt acquired in connection with operating property acquisitions at fair value are generally amortized and accreted on a straight-line basis, which approximates the effective interest method. Discounts are recorded as additional interest expense from date of issuance or acquisition through the contractual maturity date of the related debt. Premiums are recorded as a reduction to interest expense from the date of issuance or acquisition through the contractual maturity date of the related debt. Our secured debt is presented including unamortized premiums of \$6.2 million and \$10.3 million as of December 31, 2015 and 2014, respectively. Our unsecured senior notes are presented net of unamortized discounts of \$7.4 million and \$5.9 million, as of December 31, 2015 and 2014, respectively.

Exchangeable Debt Instruments

The initial proceeds from exchangeable debt that may be settled in cash, including partial cash settlements, are bifurcated between a liability component and an equity component associated with the embedded conversion option. The liability and equity components of exchangeable debt are separately accounted for in a manner such that the interest expense on the exchangeable debt is not recorded at the stated rate of interest but rather at an effective rate that reflects the issuer's conventional debt borrowing rate at the date of issuance. A portion of this additional interest expense is capitalized to the development and redevelopment balances qualifying for interest capitalization each period.

As of December 31, 2015, we had no outstanding exchangeable debt instruments, as our exchangeable debt instruments reached their maturity in November 2014 (see Note 8 "Secured and Unsecured Debt of the Operating Partnership" for additional information).

Noncontrolling Interests in the Company's Consolidated Financial Statements

Noncontrolling interests in the Company's consolidated financial statements represent the common limited partnership interests in the Operating Partnership not held by the Company ("noncontrolling common units") and the equity interest held by an unrelated third party in our consolidated subsidiary, Redwood LLC, which was formed during 2013 in connection with a development land acquisition.

Noncontrolling common units are presented in the equity section of the Company's consolidated balance sheets and reported at their proportionate share of the net assets of the Operating Partnership. Noncontrolling interests with redemption provisions that permit the issuer to settle in either cash or shares of common stock must be further evaluated to determine whether equity or temporary equity classification on the balance sheet is appropriate. Since the common units contain such a provision, we evaluated the accounting guidance and determined that the common units

qualify for equity presentation in the Company's consolidated financial statements (see Note 10 "Noncontrolling Interests on the Company's Consolidated Financial Statements").

Net income attributable to noncontrolling common units is allocated based on their relative ownership percentage of the Operating Partnership during the reported period. The noncontrolling interest ownership percentage is determined by dividing the number of noncontrolling common units by the total number of common units outstanding. The issuance or redemption of additional shares of common stock or common units results in changes to the noncontrolling interest percentage as well as the total net assets of the Company. Net income attributable to noncontrolling interest in consolidated subsidiary is allocated in accordance with the terms of the related agreement. As a result, all equity transactions result in an allocation between equity and the noncontrolling interest in the Company's consolidated balance

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

sheets and statements of equity to account for the changes in the noncontrolling interest ownership percentage as well as the change in total net assets of the Company.

Preferred Partnership Interests on the Operating Partnership's Consolidated Balance Sheets

Preferred partnership interests of the Operating Partnership represent the issued and outstanding 4,000,000 6.875% Series G Cumulative Redeemable Preferred Units ("Series G Preferred Units") and the 4,000,000 6.375% Series H Cumulative Redeemable Preferred Units ("Series H Preferred Units") which were outstanding as of December 31, 2015 and 2014.

The Series G and Series H Preferred Units are presented in the permanent equity section of the Operating Partnership's consolidated balance sheets given that the Series G and Series H Preferred Units may only be redeemed at our option (see Note 12 "Preferred and Common Units of the Operating Partnership"). The Company is the holder of both the Series G and Series H Preferred Units and for each Series G and Series H Preferred Unit the Company has an equivalent number of shares of the Company's 6.875% Series G Cumulative Redeemable Preferred Stock and shares of the Company's 6.375% Series H Cumulative Redeemable Preferred Stock publicly issued and outstanding.

Common Partnership Interests on the Operating Partnership's Consolidated Balance Sheets

The common units held by the Company and the noncontrolling common units held by the common limited partners are both presented in the permanent equity section of the Operating Partnership's consolidated balance sheets in partners' capital. The redemption rights of the noncontrolling common units permit us to settle the redemption obligation in either cash or shares of the Company's common stock at our option (see Note 10 "Noncontrolling Interests on the Company's Consolidated Financial Statements" for additional information).

Noncontrolling Interests on the Operating Partnership's Consolidated Balance Sheets

Noncontrolling interests of the Operating Partnership represent the Company's 1.0% general partnership interest in the Finance Partnership and the equity interest in Redwood LLC held by an unrelated third party. The 1.0% general partnership interest in the Finance Partnership noncontrolling interest is presented in the permanent equity section of the Operating Partnership's consolidated balance sheets given that these interests are not convertible or redeemable into any other ownership interest of the Company or the Operating Partnership.

Equity Offerings

Underwriting commissions and offering costs incurred in connection with common equity offerings and our at-the-market stock offering program (see Note 11 "Stockholders' Equity of the Company") are reflected as a reduction of additional paid-in capital. Issuance costs incurred in connection with preferred equity offerings are reflected as a reduction of the carrying value of the preferred equity.

The Company records preferred stock issuance costs as a noncash preferred equity distribution at the time we notify the holders of preferred stock or units of our intent to redeem such shares or units.

The net proceeds from any equity offering of the Company are generally contributed to the Operating Partnership in exchange for a number of common or preferred units equivalent to the number of shares of common or preferred stock

issued and are reflected in the Operating Partnership's consolidated financial statements as an increase in partners' capital.

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

Share-based Incentive Compensation Accounting

Compensation cost for all share-based awards, including options, requires measurement at estimated fair value on the grant date. Compensation cost is recognized over the service vesting period, which represents the requisite service period, on a straight-line basis. The grant date fair value of market measure-based share-based compensation plans are calculated using a Monte Carlo simulation pricing model. The grant date fair value of stock option grants is calculated using the Black-Scholes valuation model. Equity awards settled in cash are valued at the fair value of our common stock on the period end date through the settlement date. Equity awards settled in cash are remeasured at each reporting period and are recognized as a liability in the consolidated balance sheet during the vesting period until settlement.

For share-based awards in which the performance period precedes the grant date, we recognize compensation cost over the requisite service period, which includes both the performance and service vesting periods, using the accelerated attribution expense method. The requisite service period begins on the date the Executive Compensation Committee authorizes the award and adopts any relevant performance measures.

For programs with performance-based measures, the total estimated compensation cost is based on our most recent estimate of the probable achievement of the pre-established specific corporate performance measures. These estimates are based on our latest internal forecasts for each performance measure. For programs with market measures, the total estimated compensation cost is based on the fair value of the award at the grant date.

In accordance with the provisions of our share-based incentive compensation plans, we accept the return of shares of Company common stock, at the current quoted market price, from employees to satisfy minimum statutory tax-withholding requirements related to shares that vested during the period.

For share based awards granted by the Company, the Operating Partnership issues a number of common units equal to the number of shares of common stock ultimately granted by the Company in respect of such awards.

Basic and Diluted Net Income Available to Common Stockholders per Share

Basic net income available to common stockholders per share is computed by dividing net income available to common stockholders, after preferred distributions and the allocation of income to participating securities, by the weighted-average number of shares of common stock outstanding for the period. Diluted net income available to common stockholders per share is computed by dividing net income available for common stockholders, after preferred distributions and the allocation of income to participating securities, by the sum of the weighted-average number of shares of common stock outstanding for the period plus the assumed exercise of all dilutive securities. The impact of the outstanding common units is considered in the calculation of diluted net income available to common stockholders per share. The common units are not reflected in the diluted net income available to common stockholders per share calculation because the exchange of common units into common stock is on a one for one basis, and the common units are allocated net income on a per share basis equal to the common stock (see Note 20 “Net Income Available to Common Stockholders Per Share of the Company”). Accordingly, any exchange would not have any effect on diluted net income (loss) available to common stockholders per share.

Nonvested share-based payment awards (including nonvested restricted stock units (“RSUs”), vested market-measure RSUs and vested dividend equivalents issued to holders of RSUs) containing nonforfeitable rights to dividends or

dividend equivalents are accounted for as participating securities and included in the computation of basic and diluted net income available to common stockholders per share pursuant to the two-class method. The dilutive effect of stock options are reflected in the weighted average diluted outstanding shares calculation by application of the treasury stock method. The dilutive effect of the outstanding nonvested shares of common stock (“nonvested shares”) and RSUs that have not yet been granted but are contingently issuable under the share-based compensation programs is reflected in the weighted average diluted shares calculation by application of the treasury stock method at the beginning of the quarterly period in which all necessary conditions have been satisfied. During the periods exchangeable debt instruments were outstanding prior to their maturity in November 2014, the dilutive effect of the exchangeable debt instruments was reflected in the weighted average diluted outstanding shares calculation when the average quoted trading price of the Company’s common stock on the NYSE for the periods exchangeable was above the exchangeable debt exchange prices.

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

Basic and Diluted Net Income Available to Common Unitholders per Unit

Basic net income available to common unitholders per unit is computed by dividing net income available to common unitholders, after preferred distributions and the allocation of income to participating securities, by the weighted-average number of vested common units outstanding for the period. Diluted net income available to common unitholders per unit is computed by dividing net income available to common unitholders, after preferred distributions and the allocation of income to participating securities, by the sum of the weighted-average number of common units outstanding for the period plus the assumed exercise of all dilutive securities.

The dilutive effect of stock options, outstanding nonvested shares, RSUs, and awards containing nonforfeitable rights to dividend equivalents are reflected in diluted net income available to common unitholders per unit in the same manner as noted above for net income available to common stockholders per share. During the periods exchangeable debt instruments were outstanding prior to their maturity in November 2014, the dilutive effect of the exchangeable debt instruments was reflected in the same manner as noted above for net income available to common stockholders per share.

Fair Value Measurements

The fair value of our financial assets and liabilities are disclosed in Note 17, “Fair Value Measurements and Disclosures,” to our consolidated financial statements. The only financial assets recorded at fair value on a recurring basis in our consolidated financial statements are our marketable securities. We elected not to apply the fair value option for any of our eligible financial instruments or other items.

We determine the estimated fair value of financial assets and liabilities utilizing a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market assumptions. This hierarchy requires the use of observable market data when available. The following is the fair value hierarchy:

Level 1 – quoted prices for identical instruments in active markets;

Level 2 – quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and

Level 3 – fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

We determine the fair value for the marketable securities using quoted prices in active markets for identical assets. Our other financial instruments, which are only disclosed at fair value, are comprised of secured debt, unsecured senior notes, unsecured line of credit and unsecured term loan facility.

We generally determine the fair value of our secured debt, unsecured debt, and unsecured line of credit by performing discounted cash flow analyses using an appropriate market discount rate. We calculate the market rate by obtaining

period-end treasury rates for maturities that correspond to the maturities of our fixed-rate debt and then adding an appropriate credit spread based on information obtained from third-party financial institutions. These credit spreads take into account factors, including but not limited to, our credit profile, the tenure of the debt, amortization period, whether the debt is secured or unsecured, and the loan-to-value ratio of the debt to the collateral. These calculations are significantly affected by the assumptions used, including the discount rate, credit spreads and estimates of future cash flow. We calculate the market rate of our unsecured line of credit, unsecured term loan facility, and unsecured term loan by obtaining the period-end London Interbank Offered Rate (“LIBOR”) and then adding an appropriate credit spread based on our credit ratings, and the amended terms of our unsecured line of credit, unsecured term loan facility, and unsecured term loan agreement. We determine the fair value of each of our publicly traded unsecured senior notes based on their quoted trading price at the end of the reporting period, if such prices are available.

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

Carrying amounts of our cash and cash equivalents, restricted cash and accounts payable approximate fair value due to their short-term maturities.

#### Income Taxes

We have elected to be taxed as a REIT under Sections 856 through 860 of the Code. To qualify as a REIT, we must distribute annually at least 90% of our adjusted taxable income, as defined in the Code, to our stockholders and satisfy certain other organizational and operating requirements. For distributions with respect to taxable years ended on or before December 31, 2011, Internal Revenue Service (“IRS”) guidance allows REITs to satisfy up to 90% of this requirement through the distribution of shares of common stock if certain conditions are met. We generally will not be subject to federal income taxes if we distribute 100% of our taxable income for each year to our stockholders. If we fail to qualify as a REIT in any taxable year, we will be subject to federal income taxes (including any applicable alternative minimum tax) on our taxable income at regular corporate rates and we may not be able to qualify as a REIT for four subsequent taxable years. Even if we qualify for taxation as a REIT, we may be subject to certain state and local taxes on our income and property and to federal income taxes and excise taxes on our undistributed taxable income. We believe that we have met all of the REIT distribution and technical requirements for the years ended December 31, 2015, 2014 and 2013, and we were not subject to any federal income taxes (see Note 24 “Tax Treatment of Distributions” for additional information). We intend to continue to adhere to these requirements and maintain the Company’s REIT status. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

In addition, any taxable income from our taxable REIT subsidiary, which was formed in 2002, is subject to federal, state, and local income taxes. For the years ended December 31, 2015, 2014 and 2013 the taxable REIT subsidiary had de minimis taxable income.

#### Uncertain Tax Positions

We include favorable tax positions in the calculation of tax liabilities if it is more likely than not that our adopted tax position will prevail if challenged by tax authorities.

We evaluated the potential impact of identified uncertain tax positions for all tax years still subject to audit under state and federal income tax law and concluded that we did not have any unrecognized tax benefits or any additional tax liabilities as of December 31, 2015 or 2014. As of December 31, 2015, the years still subject to audit are