KILROY REALTY CORP
Form 10-Q
October 26, 2010

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

(Mark One)

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

For the quarterly period ended September 30, 2010

OR

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

For the transition period from to

Commission File Number: 1-12675 (Kilroy Realty Corporation)
Commission File Number: 000-54005 (Kilroy Realty, L.P.)

KILROY REALTY CORPORATION
KILROY REALTY, L.P.
(Exact name of registrant as specified in its charter)

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

12200 W. Olympic Boulevard, Suite 200, Los Angeles, California 90064
(Address of principal executive offices) (Zip Code)
(310) 481-8400
(Registrant s telephone number, including area code)
N/A
(Former name, former address and former fiscal year, if changed since last report)

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

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

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 þ No o
Kilroy Realty, L.P. Yes o No o

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

Kilroy Realty Corporation

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

Kilroy Realty, L.P.

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

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

Kilroy Realty Corporation Yes o No þ

Kilroy Realty, L.P. Yes o No þ

As of October 22, 2010, 52,349,670 shares of Kilroy Realty Corporation common stock, par value $.01 per share, were outstanding.

EXPLANATORY NOTE

This report combines the quarterly report on Form 10-Q for the period ended September 30, 2010 of Kilroy Realty Corporation and Kilroy Realty, L.P. Unless stated otherwise or the context otherwise requires, references to Kilroy Realty Corporation or the Company mean Kilroy Realty Corporation, a Maryland corporation, and its controlled and consolidated subsidiaries and references to Kilroy Realty, L.P. or the Operating Partnership mean Kilroy Realty, L.P., a Delaware limited partnership, and its controlled and consolidated subsidiaries. The terms the Company, we, our, and us refer to the Company or the Company and the Operating Partnership together, as the text requires.

The Company is a real estate investment trust, or REIT, and the general partner of the Operating Partnership. As of September 30, 2010, the Company owned an approximate 96.8% common general partnership interest in the Operating Partnership. The remaining approximate 3.2% common limited partnership interests are owned by non-affiliated investors and certain directors and officers of the Company. As the sole general partner of the Operating Partnership, the Company exercises exclusive and complete discretion over the Operating Partnership s day-to-day management and control and can cause it to enter into certain major transactions including acquisitions, dispositions, and refinancings and cause changes in its line of business, capital structure, and distribution policies.

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

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

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

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

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

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

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

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

- consolidated financial statements;

the following notes to the consolidated financial statements:

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

Stockholders Equity of the Company and Partners Capital of the Operating Partnership;

Net (Loss) Income Available to Common Stockholders per Share and Net (Loss) Income Available to Unitholders;

Pro Forma Results of the Company and Pro Forma Results of the Operating Partnership; and

Liquidity and Capital Resources in Item 2: Management s Discussion and Analysis of Financial Condition and Results of Operations.

This report also includes separate Item 4. Controls and Procedures sections and separate Exhibit 31 and 32 certifications for each of the Company and the Operating Partnership in order 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 and 18 U.S.C. §1350.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
QUARTERLY REPORT FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2010
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ITEM 1. FINANCIAL STATEMENTS OF KILROY REALTY CORPORATION
KILROY REALTY CORPORATION
CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	September 30, 2010 (unaudited)	December 31, 2009
ASSETS		
REAL ESTATE ASSETS:		
Land and improvements (Note 2)	$ 432,289	$ 335,932
Buildings and improvements (Note 2)	2,245,618	1,920,543
Undeveloped land and construction in progress	286,522	263,608
Total real estate held for investment	2,964,429	2,520,083
Accumulated depreciation and amortization	(652,675)	(605,976)
Total real estate assets, net	2,311,754	1,914,107
CASH AND CASH EQUIVALENTS	8,313	9,883
RESTRICTED CASH (Note 2)	3,265	2,059
MARKETABLE SECURITIES (Note 11)	4,481	3,452
CURRENT RECEIVABLES, NET (Note 4)	4,055	3,236
DEFERRED RENT RECEIVABLES, NET (Note 4)	83,563	74,392
NOTE RECEIVABLE (Notes 4 and 11)		10,679
DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLE ASSETS, NET (Note 3)	96,691	51,832
DEFERRED FINANCING COSTS, NET (Note 6)	14,574	8,334
PREPAID EXPENSES AND OTHER ASSETS, NET	8,988	6,307
TOTAL ASSETS	$ 2,535,684	$ 2,084,281
LIABILITIES, NONCONTROLLING INTEREST AND EQUITY		
LIABILITIES:		
Secured debt, net (Notes 5, 6, and 11)	$ 315,150	$ 294,574
Exchangeable senior notes, net (Notes 5, 6, and 11)	298,295	436,442
Unsecured senior notes, net (Notes 5, 6, and 11)	330,941	144,000
Unsecured line of credit (Notes 5, 6, and 11)	205,000	97,000
Accounts payable, accrued expenses and other liabilities	66,814	52,533
Accrued distributions (Note 17)	20,383	17,136
Deferred revenue and acquisition-related intangible liabilities, net (Note 3)	68,251	66,890
Rents received in advance and tenant security deposits	23,776	18,230
Total liabilities	1,328,610	1,126,805
COMMITMENTS AND CONTINGENCIES (Note 13)		
NONCONTROLLING INTEREST (Note 7):		
	73,638	73,638

7.45% Series A Cumulative Redeemable Preferred units of the Operating Partnership		
EQUITY:		
Stockholders Equity (Note 8):		
Preferred stock, $.01 par value, 30,000,000 shares authorized:		
7.45% Series A Cumulative Redeemable Preferred stock, $.01 par value, 1,500,000 shares authorized, none issued and outstanding		
7.80% Series E Cumulative Redeemable Preferred stock, $.01 par value, 1,610,000 shares authorized, issued and outstanding ($40,250 liquidation preference)	38,425	38,425
7.50% Series F Cumulative Redeemable Preferred stock, $.01 par value, 3,450,000 shares authorized, issued and outstanding ($86,250 liquidation preference)	83,157	83,157
Common stock, $.01 par value, 150,000,000 shares authorized, 52,349,670 and 43,148,762 shares issued and outstanding, respectively	523	431
Additional paid-in capital	1,209,673	913,657
Distributions in excess of earnings	(230,215)	(180,722)
Total stockholders equity	1,101,563	854,948
Noncontrolling interest (Note 7):		
Common units of the Operating Partnership	31,873	28,890
Total equity	1,133,436	883,838
TOTAL LIABILITIES, NONCONTROLLING INTEREST AND EQUITY	$ 2,535,684	$ 2,084,281

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
REVENUES:				
Rental income	$ 72,608	$ 61,297	$ 198,302	$ 186,959
Tenant reimbursements	6,211	6,843	18,412	21,898
Other property income	985	354	2,325	3,198
Total revenues	79,804	68,494	219,039	212,055
EXPENSES:				
Property expenses	15,845	12,699	42,408	37,611
Real estate taxes	7,614	5,988	20,132	18,260
Provision for bad debts (Note 13)	(857)	243	(843)	395
Ground leases	336	398	648	1,227
General and administrative expenses	7,273	7,662	21,096	22,023
Acquisition-related expenses	354		1,624	
Depreciation and amortization	30,054	21,968	74,714	66,608
Total expenses	60,619	48,958	159,779	146,124
OTHER (EXPENSES) INCOME:				
Interest income and other net investment gains	337	501	703	1,074
Interest expense (Note 6)	(15,853)	(10,926)	(40,897)	(35,041)
Gain (loss) on early extinguishment of debt (Note 6)		3,119	(4,564)	3,119
Total other (expenses) income	(15,516)	(7,306)	(44,758)	(30,848)
INCOME FROM CONTINUING OPERATIONS	3,669	12,230	14,502	35,083
DISCONTINUED OPERATIONS				
Loss from discontinued operations				(224)
Net gain on discontinued operations				2,485
Total income from discontinued operations				2,261
NET INCOME	3,669	12,230	14,502	37,344
Net loss (income) attributable to noncontrolling common units of the Operating Partnership	4	(320)	(128)	(1,144)
NET INCOME ATTRIBUTABLE TO KILROY REALTY CORPORATION	3,673	11,910	14,374	36,200

PREFERRED DISTRIBUTIONS AND DIVIDENDS:				
Distributions to noncontrolling cumulative redeemable preferred units of the Operating Partnership	(1,397)	(1,397)	(4,191)	(4,191)
Preferred dividends	(2,402)	(2,402)	(7,206)	(7,206)
Total preferred distributions and dividends	(3,799)	(3,799)	(11,397)	(11,397)
NET (LOSS) INCOME AVAILABLE TO COMMON STOCKHOLDERS	$ (126)	$ 8,111	$ 2,977	$ 24,803
(Loss) income from continuing operations available to common stockholders per common share-basic (Note 15)	$ (0.01)	$ 0.17	$ 0.04	$ 0.58
(Loss) income from continuing operations available to common stockholders per common share-diluted (Note 15)	$ (0.01)	$ 0.17	$ 0.04	$ 0.58
Net (loss) income available to common stockholders per share-basic (Note 15)	$ (0.01)	$ 0.17	$ 0.04	$ 0.64
Net (loss) income available to common stockholders per share-diluted (Note 15)	$ (0.01)	$ 0.17	$ 0.04	$ 0.64
Weighted average common shares outstanding-basic (Note 15)	52,274,316	42,934,796	48,561,614	37,279,250
Weighted average common shares outstanding-diluted (Note 15)	52,274,316	42,935,475	48,565,028	37,296,931
Dividends declared per common share	$ 0.35	$ 0.35	$ 1.05	$ 1.28

See accompanying notes to consolidated financial statements.

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

	Preferred Stock	Common Stock Number of Shares	Common Stock Common Stock	Additional Paid-in Capital	Distributions in Excess of Earnings	Total Stock-holders Equity	Noncontrol-ling Interests - Common Units of the Operating Partnership	Total Equity
BALANCE AS OF DECEMBER 31, 2008	$ 121,582	33,086,148	$ 331	$ 700,122	$ (137,052)	$ 684,983	$ 29,903	$ 714,886
Net income					36,200	36,200	1,144	37,344
Issuance of common stock		10,062,500	100	191,566		191,666		191,666
Repurchase of common stock and restricted stock units		(86,482)		(2,725)		(2,725)		(2,725)
Issuance of share-based compensation awards		55,998		7,535		7,535		7,535
Noncash amortization of share-based compensation awards				8,768		8,768		8,768
Allocation to the equity component of cash paid upon repurchase of 3.25% Exchangeable Notes				(814)		(814)		(814)
Exchange of common units of the Operating Partnership		30,598		516		516	(516)	
Adjustment for noncontrolling interest				(925)		(925)	925	

Preferred distributions and dividends					(11,397)	(11,397)		(11,397)
Dividends declared per common share and common unit ($1.28 per share/unit)					(50,142)	(50,142)	(2,223)	(52,365)
BALANCE AS OF SEPTEMBER 30, 2009	$ 121,582	43,148,762	$ 431	$ 904,043	$ (162,391)	$ 863,665	$ 29,233	$ 892,898

		Common Stock						
	Preferred Stock	Number of Shares	Common Stock	Additional Paid-in Capital	Distributions in Excess of Earnings	Total Stock-holders Equity	Noncontrol-ling Interests - Common Units of the Operating Partnership	Total Equity
BALANCE AS OF DECEMBER 31, 2009	$ 121,582	43,148,762	$ 431	$ 913,657	$ (180,722)	$ 854,948	$ 28,890	$ 883,838
Net income					14,374	14,374	128	14,502
Issuance of common stock (Note 8)		9,200,000	92	299,755		299,847		299,847
Settlement of restricted stock units for shares of common stock (Note 10)		53,451		(1,296)		(1,296)		(1,296)
Repurchase of common stock and restricted stock units		(59,782)		(2,121)		(2,121)		(2,121)
Issuance of share-based compensation awards (Note 10)		3,239		1,904		1,904		1,904
Noncash amortization of				5,050		5,050		5,050

share-based compensation								
Exercise of stock options		4,000		83		83		83
Allocation to the equity component of cash paid upon repurchase of 3.25% Exchangeable Notes (Note 6)				(2,694)		(2,694)		(2,694)
Adjustment for noncontrolling interest				(4,665)		(4,665)	4,665	
Preferred distributions and dividends					(11,397)	(11,397)		(11,397)
Dividends declared per common share and common unit ($1.05 per share/unit)					(52,470)	(52,470)	(1,810)	(54,280)
BALANCE AS OF SEPTEMBER 30, 2010	$ 121,582	52,349,670	$ 523	$ 1,209,673	$ (230,215)	$ 1,101,563	$ 31,873	$ 1,133,436

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 14,502	$ 37,344
Adjustments to reconcile net income to net cash provided by operating activities (including discontinued operations):		
Depreciation and amortization of building and improvements and leasing costs	74,049	66,018
(Decrease) increase in provision for bad debts	(843)	395
Depreciation of furniture, fixtures and equipment	665	615
Noncash amortization of share-based compensation awards	5,328	7,914
Noncash amortization of deferred financing costs and exchangeable debt discounts	9,098	7,543
Noncash amortization of above/(below) market rents	696	(349)
Net gain on dispositions of discontinued operations		(2,485)
Loss (gain) on early extinguishment of debt (Note 6)	4,564	(3,119)
Noncash amortization of deferred revenue related to tenant-funded tenant improvements	(7,108)	(7,431)
Changes in assets and liabilities:		
Marketable securities	(1,029)	(1,341)
Current receivables	(706)	2,213
Deferred rent receivables	(8,441)	(5,473)
Other deferred leasing costs	(2,516)	(450)
Prepaid expenses and other assets	(2,765)	(1,924)
Accounts payable, accrued expenses and other liabilities	3,049	135
Deferred revenue	5,546	(646)
Rents received in advance and tenant security deposits	839	(959)
Net cash provided by operating activities	94,928	98,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for acquisition of operating properties (Note 2)	(373,574)	
Expenditures for operating properties	(56,393)	(25,047)
Expenditures for development and redevelopment properties	(14,681)	(15,129)
Net proceeds received from dispositions of operating properties		4,933
Increase in escrow deposits	(2,002)	
Decrease (increase) in restricted cash (Note 2)	1,316	(2,264)
Receipt of principal payments on note receivable (Note 4)	10,679	108
Net cash used in investing activities	(434,655)	(37,399)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock (Note 8)	299,847	191,666
Borrowings on unsecured line of credit (Note 6)	553,000	102,000
Repayments on unsecured line of credit (Note 6)	(445,000)	(228,000)
Principal payments on secured debt	(101,653)	(19,552)

Repurchase of exchangeable senior notes (Note 6)	(151,097)	(35,333)
Proceeds from issuance of secured debt (Note 6)	71,000	
Proceeds from issuance of unsecured debt (Note 6)	247,870	
Repayments of unsecured debt (Note 6)	(61,000)	
Financing costs	(11,200)	(1,447)
Decrease in loan deposit	1,420	
Repurchase of common stock	(3,417)	(2,725)
Proceeds from exercise of stock options	83	
Dividends and distributions paid to common stockholders and common unitholders	(50,299)	(56,101)
Dividends and distributions paid to preferred stockholders and preferred unitholders	(11,397)	(11,397)
Net cash provided by (used in) financing activities	338,157	(60,889)
Net decrease in cash and cash equivalents	(1,570)	(288)
Cash and cash equivalents, beginning of period	9,883	9,553
Cash and cash equivalents, end of period	$ 8,313	$ 9,265

KILROY REALTY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS -(Continued)
(unaudited, in thousands)

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Cash paid for interest, net of capitalized interest of $6,140 and $5,362 as of September 30, 2010 and 2009, respectively	$ 26,182	$ 27,051
NONCASH INVESTING TRANSACTIONS:		
Accrual for expenditures for operating properties and development and redevelopment properties	$ 13,614	$ 6,089
Tenant improvements funded directly by tenants to third parties	$ 2,520	$ 1,477
Assumption of secured debt with property acquisition (Notes 2 and 6)	$ 51,079	
Assumption of other liabilities with property acquisitions (Note 2)	$ 6,369	
NONCASH FINANCING TRANSACTIONS:		
Accrual of dividends and distributions payable to common stockholders and common unitholders	$ 18,925	$ 15,705
Accrual of dividends and distributions payable to preferred stockholders and preferred unitholders	$ 1,909	$ 1,909
Issuance of share-based compensation awards (Note 10)	$ 5,418	$ 17,783
Exchange of common units of the Operating Partnership into shares of the Company s common stock		$ 516

See accompanying notes to consolidated financial statements.

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

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

	September 30, 2010 (unaudited)	December 31, 2009
ASSETS		
REAL ESTATE ASSETS:		
Land and improvements (Note 2)	$ 432,289	$ 335,932
Buildings and improvements (Note 2)	2,245,618	1,920,543
Undeveloped land and construction in progress	286,522	263,608
Total real estate held for investment	2,964,429	2,520,083
Accumulated depreciation and amortization	(652,675)	(605,976)
Total real estate assets, net	2,311,754	1,914,107
CASH AND CASH EQUIVALENTS	8,313	9,883
RESTRICTED CASH (Note 2)	3,265	2,059
MARKETABLE SECURITIES (Note 11)	4,481	3,452
CURRENT RECEIVABLES, NET (Note 4)	4,055	3,236
DEFERRED RENT RECEIVABLES, NET (Note 4)	83,563	74,392
NOTE RECEIVABLE (Notes 4 and 11)		10,679
DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLE ASSETS, NET (Note 3)	96,691	51,832
DEFERRED FINANCING COSTS, NET (Note 6)	14,574	8,334
PREPAID EXPENSES AND OTHER ASSETS, NET	8,988	6,307
TOTAL ASSETS	$ 2,535,684	$ 2,084,281
LIABILITIES AND CAPITAL		
LIABILITIES:		
Secured debt, net (Notes 5, 6, and 11)	$ 315,150	$ 294,574
Exchangeable senior notes, net (Notes 5, 6, and 11)	298,295	436,442
Unsecured senior notes, net (Notes 5, 6, and 11)	330,941	144,000
Unsecured line of credit (Notes 5, 6, and 11)	205,000	97,000
Accounts payable, accrued expenses and other liabilities	66,814	52,533
Accrued distributions (Note 17)	20,383	17,136
Deferred revenue and acquisition-related intangible liabilities, net (Note 3)	68,251	66,890
Rents received in advance and tenant security deposits	23,776	18,230
Total liabilities	1,328,610	1,126,805
COMMITMENTS AND CONTINGENCIES (Note 13)		
7.45% SERIES A CUMULATIVE REDEEMABLE PREFERRED UNITS	73,638	73,638
CAPITAL:		
Partners Capital (Note 9):		

7.80% Series E Cumulative Redeemable Preferred units, 1,610,000 units issued and outstanding ($40,250 liquidation preference)	38,425	38,425
7.50% Series F Cumulative Redeemable Preferred units, 3,450,000 units issued and outstanding ($86,250 liquidation preference)	83,157	83,157
Common units, 52,349,670 and 43,148,762 held by the general partner and 1,723,131 and 1,723,131 held by common limited partners issued and outstanding, respectively	1,010,242	760,756
Noncontrolling interests in consolidated subsidiaries	1,612	1,500
Total capital	1,133,436	883,838
TOTAL LIABILITIES AND CAPITAL	$ 2,535,684	$ 2,084,281

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30, 2010	Three Months Ended September 30, 2009	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
REVENUES:				
Rental income	$ 72,608	$ 61,297	$ 198,302	$ 186,959
Tenant reimbursements	6,211	6,843	18,412	21,898
Other property income	985	354	2,325	3,198
Total revenues	79,804	68,494	219,039	212,055
EXPENSES:				
Property expenses	15,845	12,699	42,408	37,611
Real estate taxes	7,614	5,988	20,132	18,260
Provision for bad debts (Note 13)	(857)	243	(843)	395
Ground leases	336	398	648	1,227
General and administrative expenses	7,273	7,662	21,096	22,023
Acquisition-related expenses	354		1,624	
Depreciation and amortization	30,054	21,968	74,714	66,608
Total expenses	60,619	48,958	159,779	146,124
OTHER (EXPENSES) INCOME:				
Interest income and other net investment gains	337	501	703	1,074
Interest expense (Note 6)	(15,853)	(10,926)	(40,897)	(35,041)
Gain (loss) on early extinguishment of debt (Note 6)		3,119	(4,564)	3,119
Total other (expenses) income	(15,516)	(7,306)	(44,758)	(30,848)
INCOME FROM CONTINUING OPERATIONS	3,669	12,230	14,502	35,083
DISCONTINUED OPERATIONS				
Loss from discontinued operations				(224)
Net gain on dispositions of discontinued operations				2,485
Total income from discontinued operations				2,261
NET INCOME	3,669	12,230	14,502	37,344
Net income attributable to noncontrolling interests in consolidated subsidiaries	(41)	(61)	(138)	(195)
NET INCOME ATTRIBUTABLE TO KILROY REALTY, L.P.	3,628	12,169	14,364	37,149

PREFERRED DISTRIBUTIONS		(3,799)		(3,799)		(11,397)		(11,397)
NET (LOSS) INCOME AVAILABLE TO COMMON UNITHOLDERS	$	(171)	$	8,370	$	2,967	$	25,752
(Loss) income from continuing operations available to common unitholders per unit-basic (Note 16)	$	(0.01)	$	0.17	$	0.04	$	0.57
(Loss) income from continuing operations available to common unitholders per unit-diluted (Note 16)	$	(0.01)	$	0.17	$	0.04	$	0.57
Net (loss) income available to common unitholders per unit-basic (Note 16)	$	(0.01)	$	0.17	$	0.04	$	0.63
Net (loss) income available to common unitholders per unit-diluted (Note 16)	$	(0.01)	$	0.17	$	0.04	$	0.63
Weighted average common units outstanding-basic (Note 16)		53,997,447		44,657,927		50,284,745		39,013,029
Weighted average common units outstanding-diluted (Note 16)		53,997,447		44,658,606		50,288,159		39,030,710
Distributions declared per common unit	$	0.35	$	0.35	$	1.05	$	1.28

See accompanying notes to consolidated financial statements.

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

	Partners						
		Capital					
	Preferred Units	Number of Common Units	Common Units	Total Partners Capital	Noncontrolling Interests in Consolidated Subsidiaries	Total Capital
BALANCE AS OF DECEMBER 31, 2008	$ 121,582	34,839,877	$ 591,394	$ 712,976	$ 1,910	$ 714,886
Net income			37,149	37,149	195	37,344
Issuance of common units		10,062,500	191,666	191,666		191,666
Repurchase of common units and restricted stock units		(86,482)	(2,725)	(2,725)		(2,725)
Issuance of share-based compensation awards		55,998	7,535	7,535		7,535
Noncash amortization of share-based compensation			8,768	8,768		8,768
Allocation to the equity component of cash paid upon repurchase of 3.25% Exchangeable Notes			(814)	(814)		(814)
Other			169	169	(169)	
Preferred distributions			(11,397)	(11,397)		(11,397)
Distributions declared per common unit ($1.28 per unit)			(52,365)	(52,365)		(52,365)
BALANCE AS OF SEPTEMBER 30, 2009	$ 121,582	44,871,893	$ 769,380	$ 890,962	$ 1,936	$ 892,898

	Partners					
		Capital				
	Preferred Units	Number of Common Units	Common Units	Total Partners Capital	Noncontrolling Interests in Consolidated Subsidiaries	Total Capital
BALANCE AS OF DECEMBER 31, 2009	$ 121,582	44,871,893	$ 760,756	$ 882,338	$ 1,500	$ 883,838
Net income			14,364	14,364	138	14,502
Issuance of common units (Note 9)		9,200,000	299,847	299,847		299,847
Settlement of restricted stock units for shares of common stock (Note 10)		53,451	(1,296)	(1,296)		(1,296)
Repurchase of common units and restricted stock		(59,782)	(2,121)	(2,121)		(2,121)

units						
Issuance of share-based compensation awards (Note 10)		3,239	1,904	1,904		1,904
Noncash amortization of share-based compensation			5,050	5,050		5,050
Exercise of stock options		4,000	83	83		83
Allocation to the equity component of cash paid upon repurchase of 3.25% Exchangeable Notes (Note 6)			(2,694)	(2,694)		(2,694)
Other			26	26	(26)	
Preferred distributions			(11,397)	(11,397)		(11,397)
Distributions declared per common unit ($1.05 per unit)			(54,280)	$ (54,280)		(54,280)
BALANCE AS OF SEPTEMBER 30, 2010	$ 121,582	54,072,801	$ 1,010,242	$ 1,131,824	$ 1,612	1,133,436

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30, 2010	Nine Months Ended September 30, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 14,502	$ 37,344
Adjustments to reconcile net income to net cash provided by operating activities (including discontinued operations):		
Depreciation and amortization of building and improvements and leasing costs	74,049	66,018
(Decrease) increase in provision for bad debts	(843)	395
Depreciation of furniture, fixtures and equipment	665	615
Noncash amortization of share-based compensation awards	5,328	7,914
Noncash amortization of deferred financing costs and exchangeable debt discounts	9,098	7,543
Noncash amortization of above/(below) market rents	696	(349)
Net gain on dispositions of discontinued operations		(2,485)
Loss (gain) on early extinguishment of debt (Note 6)	4,564	(3,119)
Noncash amortization of deferred revenue related to tenant-funded tenant improvements	(7,108)	(7,431)
Changes in assets and liabilities:		
Marketable securities	(1,029)	(1,341)
Current receivables	(706)	2,213
Deferred rent receivables	(8,441)	(5,473)
Other deferred leasing costs	(2,516)	(450)
Prepaid expenses and other assets	(2,765)	(1,924)
Accounts payable, accrued expenses and other liabilities	3,049	135
Deferred revenue	5,546	(646)
Rents received in advance and tenant security deposits	839	(959)
Net cash provided by operating activities	94,928	98,000
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for acquisition of operating properties (Note 2)	(373,574)	
Expenditures for operating properties	(56,393)	(25,047)
Expenditures for development and redevelopment properties	(14,681)	(15,129)
Net proceeds received from dispositions of operating properties		4,933
Decrease (increase) in restricted cash (Note 2)	1,316	(2,264)
Increase in escrow deposits	(2,002)	
Receipt of principal payments on note receivable (Note 4)	10,679	108
Net cash used in investing activities	(434,655)	(37,399)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common units (Note 9)	299,847	191,666
Borrowings on unsecured line of credit	553,000	102,000
Repayments on unsecured line of credit	(445,000)	(228,000)
Principal payments on secured debt	(101,653)	(19,552)

Repurchase of exchangeable senior notes (Note 6)	(151,097)	(35,333)
Proceeds from issuance of secured debt (Note 6)	71,000	
Proceeds from issuance of unsecured debt, net (Note 6)	247,870	
Repayments of unsecured debt (Note 6)	(61,000)	
Financing costs	(11,200)	(1,447)
Decrease in loan deposit	1,420	
Repurchase of common units	(3,417)	(2,725)
Proceeds from exercise of stock options	83	
Distributions paid to common unitholders	(50,299)	(56,101)
Distributions paid to preferred unitholders	(11,397)	(11,397)
Net cash provided by (used in) financing activities	338,157	(60,889)
Net decrease in cash and cash equivalents	(1,570)	(288)
Cash and cash equivalents, beginning of period	9,883	9,553
Cash and cash equivalents, end of period	$ 8,313	$ 9,265

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

	Nine Months Ended September 30,	
	2010	**2009**
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Cash paid for interest, net of capitalized interest of $6,140 and $5,362 as of September 30, 2010 and 2009, respectively	$ 26,182	$ 27,051
NONCASH INVESTING TRANSACTIONS:		
Accrual for expenditures for operating properties and development and redevelopment properties	$ 13,614	$ 6,089
Tenant improvements funded directly by tenants to third parties	$ 2,520	$ 1,477
Assumption of secured debt with property acquisition (Notes 2 and 6)	$ 51,079	
Assumption of other liabilities with property acquisition (Note 2)	$ 6,369	
NONCASH FINANCING TRANSACTIONS:		
Accrual of distributions payable to common unitholders	$ 18,925	$ 15,705
Accrual of distributions payable to preferred unitholders	$ 1,909	$ 1,909
Issuance of share-based compensation awards (Note 10)	$ 5,418	$ 17,783

See accompanying notes to consolidated financial statements.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Nine Months Ended September 30, 2010 and 2009
(unaudited)

1. Organization and Basis of Presentation

Organization

Kilroy Realty Corporation owns, operates, develops, and acquires office and industrial real estate located in California. We qualify and operate as a self-administered real estate investment trust (REIT) under the Internal Revenue Code of 1986, as amended. As of September 30, 2010, all but one of our properties are located in Southern California.

The following table of office buildings (the Office Properties) and industrial buildings (the Industrial Properties) summarizes our stabilized portfolio of operating properties as of September 30, 2010:

	Number of Buildings	Rentable Square Feet	Number of Tenants	Percentage Occupied
Office Properties [1]	99	9,809,506	347	84.8%
Industrial Properties	41	3,654,463	60	90.6%
Total Stabilized Portfolio	140	13,463,969	407	86.4%

(1) Includes one office property acquired in March 2010, one office property acquired in May 2010, and five office properties acquired in June 2010 (see Note 2 for additional information).

Our stabilized portfolio excludes undeveloped land, development and redevelopment properties currently under construction, lease-up properties, and one industrial property that we are in the process of repositioning for residential use. We define lease-up properties as properties we recently developed or redeveloped that have not yet reached 95% occupancy and are within one year following cessation of major construction activities. As of September 30, 2010, we had no properties that were in the lease-up phase. During the quarter ended September 30, 2010, we received notification that the zoning to allow high density residential improvements on the land underlying the industrial property that we are in the process of repositioning was adopted by the City of Irvine. We are currently evaluating strategic alternatives for this property. During the quarter ended September 30, 2010, we commenced redevelopment on one of our properties that was previously occupied by a single tenant for over 25 years. The property encompasses approximately 300,000 rentable square feet of office space and is located in the El Segundo submarket of Los Angeles county.

We own our interests in all of our Office Properties and Industrial Properties through Kilroy Realty, L.P. (the Operating Partnership) and Kilroy Realty Finance Partnership, L.P. (the Finance Partnership). We conduct substantially all of our operations through the Operating Partnership. Accordingly, the descriptions of our business, employees, and properties are also descriptions of the business, employees, and properties of the Operating Partnership. Unless the context indicates otherwise, the term Company refers to Kilroy Realty Corporation and its consolidated subsidiaries and the term Operating Partnership refers to Kilroy Realty, L.P. and its consolidated subsidiaries. The terms we , our and us refer to the Company or the Company and the Operating Partnership together, as the text requires.

As of September 30, 2010, the Company owned a 96.8% general partnership interest in the Operating Partnership. The remaining 3.2% common limited partnership interest in the Operating Partnership as of September 30, 2010 was owned by certain of our non-affiliated investors and certain directors and officers of the Company (see Note 7). Kilroy Realty Finance, Inc., a wholly-owned subsidiary of the Company, is the sole general partner of the Finance Partnership and owns a 1.0% general partnership interest. The Operating Partnership owns the remaining 99.0% limited partnership interest. We conduct substantially all of our development activities through Kilroy Services, LLC (KSLLC), which is a wholly-owned subsidiary of the Operating Partnership. Unless otherwise indicated, all references to the Company include the Operating Partnership, the Finance Partnership, KSLLC and all wholly-owned subsidiaries of the Company and the Operating Partnership and all references to the Operating Partnership include the Operating Partnership, the Finance Partnership, KSLLC and all wholly-owned subsidiaries of the Operating Partnership.

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, and all wholly-owned subsidiaries of the Company and the Operating Partnership. 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, and all wholly-owned subsidiaries of the Company and the Operating Partnership. All intercompany

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

balances and transactions have been eliminated in the consolidated financial statements. We also consolidate all variable interest entities (VIE) when we are deemed to be the primary beneficiary. During the period ended June 30, 2010, we were required to establish a VIE, Kilroy Realty Northside Drive, LLC, to hold the $52.6 million of assets and liabilities purchased and $51.1 million of secured debt, net, assumed in connection with the acquisition of three office buildings in San Diego, California (see Notes 2 and 6). Kilroy Realty Northside Drive, LLC is a bankruptcy-remote VIE, and the assets held by this entity are not available to satisfy the debts and other obligations of the Company or the Operating Partnership.

The accompanying interim financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America (GAAP) and in conjunction with the rules and regulations of the Securities and Exchange Commission (SEC). Certain information and footnote disclosures required for annual financial statements have been condensed or excluded pursuant to SEC rules and regulations. Accordingly, the interim financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying interim financial statements reflect all adjustments of a normal and recurring nature that are considered necessary for a fair presentation of the results for the interim periods presented. However, the results of operations for the interim periods are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. The interim financial statements for the Company should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2009. The interim financial statements for the Operating Partnership should be read in conjunction with the audited consolidated financial statements and notes there to included in the Operating Partnership s General Form for Registration of Securities on Form 10 filed with the SEC on August 18, 2010.

Change in Statements of Operations Presentation for the Company

Certain prior period amounts in the Company s consolidated statement of operations have been reclassified to conform to the current period presentation. We reclassified interest expense to be presented under Other (Expenses) Income in the Company s consolidated statements of operations for all periods presented. Interest expense had previously been presented under Expenses.

Significant Accounting Policies

Acquisitions

We record the acquired tangible and intangible assets and assumed liabilities of operating property acquisitions at fair value at the acquisition date. The acquired assets and assumed liabilities for an operating property acquisition generally include but are not limited to: land, buildings and improvements, and identified tangible and intangible assets and liabilities associated with in-place leases, including tenant improvements, leasing costs, value of above-market and below-market leases, acquired in-place lease values, and tenant relationships, if any.

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

The fair value of the above-market or below-market component of an acquired in-place lease is based upon the present value (calculated using a market discount rate) of the difference between (i) the contractual rents to be paid pursuant to the lease over its remaining term and (ii) management s estimate of the rents that would be paid using fair market rental rates and rent escalations at the date of acquisition over the remaining term of the lease. The amounts recorded for above-market leases are included in deferred leasing costs and acquisition-related intangibles, net on the balance sheet and are amortized on a straight-line basis as a reduction of rental income over the remaining term of the applicable leases. The amounts recorded for below-market leases are included in deferred revenue and acquisition-related liabilities, net on the balance sheet and are amortized on a straight-line basis as an increase to rental income over the remaining term of the applicable leases.

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. The amount recorded for acquired in-place leases is included in deferred leasing costs and acquisition-related intangibles, net on the balance sheet and amortized as an increase to depreciation and amortization expense over the remaining term of the applicable leases.

We record undeveloped land acquisitions at the purchase price paid and capitalize the associated acquisition costs.

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

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 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. We did not record any impairment losses for the periods presented.

Development and Redevelopment Properties

All costs clearly associated with the acquisition, development, and construction of a development or redevelopment property are capitalized as project costs. In addition, the following costs are capitalized as project costs during periods in which activities necessary to get the property ready for its intended use are in progress: pre-construction costs essential to the development of the property, interest, real estate taxes, insurance, and internal compensation and administrative costs that are clearly related to our development or redevelopment activities.

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 not 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 get the property ready for its intended use have been suspended.

For development or redevelopment properties with multiple tenants and staged leasing, we cease capitalization and begins 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 on our consolidated balance sheets as the historical cost of the property.

2. Acquisitions

During the nine months ended September 30, 2010, we acquired the operating properties listed below from unrelated third parties. Unless otherwise noted, we funded these acquisitions principally with the net proceeds from the issuance of the 6.625% unsecured senior notes due 2020 (see Note 6), the net proceeds from the Company s public offering of common stock (see Note 8), and borrowings under the unsecured line of credit (see Note 6):

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

Property	Property Type	Date of Acquisition	Number of Buildings	Rentable Square Feet	Percentage Occupied as of September 2010	Purchase Price (in millions)[3]
2385 Northside Drive San Diego, CA [1]	Office	March 17, 2010	1	88,795	71.8%	$ 18.0
303 Second Street San Francisco, CA	Office	May 26, 2010	1	734,035	89.4%	233.3
999 Town & Country Orange, CA	Office	June 18, 2010	1	98,551	100.0%	22.3
2211 Michelson Drive Irvine, CA	Office	June 24, 2010	1	271,556	96.9%	103.2
2355, 2365, 2375 Northside Drive San Diego, CA [2]	Office	June 30, 2010	3	190,634	82.8%	52.6
Total			7	1,383,571		$ 429.4

(1) This property is a part of Mission City Corporate Center.

(2) These properties are part of Mission City Corporate Center. We assumed secured debt with an outstanding principal balance of $52.0 million, net of an initial discount of $0.9 million, in connection with this acquisition (see Notes 1 and 6).

(3) Excludes acquisition-related costs.

The related assets, liabilities, and results of operations of all acquired properties are included in the consolidated financial statements as of the date of acquisition. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the respective acquisition dates:

	303 Second Street, San Francisco, CA(1)	All Other Acquisitions(1)	Total
		(in thousands)	
Assets			
Land	$ 63,550	$ 35,309	$ 98,859
Buildings and improvements(2)	154,203	138,955	293,158
Deferred leasing costs and acquisition-related intangible assets(3)	19,828	22,151	41,979
Restricted cash(5)	2,522		2,522
Total assets acquired	240,103	196,415	436,518
Liabilities			
Deferred revenue and acquisition-related intangible liabilites(4)	3,210	2,267	5,477
Secured debt, net		51,100	51,100
Accounts payable, accrued expenses and other liabilites(5)	3,565	2,804	6,369
Total liabilities assumed	6,775	56,171	62,946
Net assets and liabilities acquired(6)	$ 233,328	$ 140,244	$ 373,572

(1) The purchase price of 303 Second Street, San Francisco, CA was greater than 10% of our total assets as of December 31, 2009. The purchase price of all other acquisitions completed during the nine months ended September 30, 2010 were individually less than 5%, and in aggregate less than 10%, of

our total assets as of December 31, 2009.

(2) Represents buildings and improvements and tenant improvements.

(3) Represents in-place leases (approximately $16.4 million), above-market leases (approximately $16.9 million), and unamortized leasing commissions (approximately $8.7 million).

(4) Represents below-market leases.

(5) Represents unfunded tenant improvements and leasing commission obligations for in-place leases of which approximately $2.5 million was held in an escrow account as restricted cash.

(6) Reflects the purchase price net of assumed secured debt and other lease related obligations.

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

3. Acquisition-related Intangibles, Net

The following table summarizes our identified acquisition-related intangible assets (acquired value of leasing costs, above-market and in-place leases) and intangible liabilities (acquired value of below-market leases) as of September 30, 2010 and December 31, 2009:

	September 30, 2010	December 31, 2009
	(in thousands)	
Acquisition-related Intangible Assets[1]:		
Deferred leasing costs	$ 11,567	$ 5,736
Accumulated amortization	(2,339)	(4,501)
Deferred leasing costs, net	9,228	1,235
Above-market leases	16,850	
Accumulated amortization	(1,063)	
Above-market leases, net	15,787	
In-place leases	22,014	5,832
Accumulated amortization	(6,716)	(5,476)
In-place leases, net	15,298	356
Total acquisition-related intangible assets, net	$ 40,313	$ 1,591
Acquisition-related Intangible Liabilities[2]:		
Below-market leases	$ 10,626	$ 5,132
Accumulated amortization	(4,754)	(4,369)
Below-market leases, net	$ 5,872	$ 763

(1) Included in deferred leasing costs and acquisition-related intangible assets, net in the consolidated balance sheets.

(2) Included in deferred revenue and

acquisition-related intangible liabilities, net in the consolidated balance sheets.

The following table sets forth amortization for the period related to acquisition-related intangibles for the three and nine months ended September 30, 2010 and September 30, 2009:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
	(in thousands)			
Deferred Leasing Costs(1)	$ 503	$ 111	$ 698	$ 451
Net Above (Below)-Market Leases(2)	664	(49)	696	(349)
In Place Leases(1)	1,220	48	1,505	417
Total	$ 2,387	$ 110	$ 2,899	$ 519

(1) Recorded to depreciation and amortization expense in the consolidated statements of operations for the periods presented.

(2) Net above-market leases are recorded as a decrease to rental income and net-below market leases are recorded as an increase to rental income in the consolidated statements of operations for the three and nine months ended September 30, 2010 and September 30, 2009, respectively.

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

The following table sets forth the estimated annual amortization related to acquisition-related intangibles as of September 30, 2010 for future periods:

Year Ending	Deferred Leasing Costs	Net Above/(Below)-Market Leases[1]	In Place Leases
		(in thousands)	
Remaining 2010	$ 489	$ 663	$ 1,117
2011	1,842	2,385	3,738
2012	1,647	2,000	2,867
2013	1,429	1,695	2,233
2014	1,243	1,483	1,860
Thereafter	2,578	1,689	3,483
Total	$ 9,228	$ 9,915	$ 15,298
Weighted Average Amortization Period (in years)	3.6	5.9, 7.7[2]	5.7

(1) Represents estimated annual net amortization related to above and below market leases. Amounts shown represent net above market leases which will result in decreases to rental income in the consolidated statement of operations for all future periods presented.

(2) Represents the weighted average amortization period of the above and below market leases,

respectively.

4. Receivables

Current Receivables, net

Current receivables, net is primarily comprised of contractual rents and other lease-related obligations due from tenants. The balance consisted of the following as of September 30, 2010 and December 31, 2009 :

	September 30, 2010	**December 31, 2009**
	(in thousands)	
Current receivables	$ 6,921	$ 6,299
Allowance for uncollectible tenant receivables	(2,866)	(3,063)
Current receivables, net	$ 4,055	$ 3,236

Deferred Rent Receivables, net

Deferred rent receivables, net consisted of the following as of September 30, 2010 and December 31, 2009:

	September 30, 2010	**December 31, 2009**
	(in thousands)	
Deferred rent receivables	$ 88,856	$ 80,780
Allowance for deferred rent receivables	(5,293)	(6,388)
Deferred rent receivables, net	$ 83,563	$ 74,392

Note Receivable

In July 2010, we received $10.6 million in cash for the full repayment of the outstanding note receivable.

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

5. Secured and Unsecured Debt of the Company

In this Note 5, the Company refers solely to Kilroy Realty Corporation and not to any of our subsidiaries. The Company itself does not hold any indebtedness. All of our secured and unsecured debt is held directly by the Operating Partnership.

The Company guarantees all the Operating Partnership s unsecured debt obligations including the unsecured line of credit, the 6.625% unsecured senior notes due 2020, the 6.45% unsecured senior notes due 2014, the 3.25% Exchangeable Notes due 2012 (the 3.25% Exchangeable Notes) and 4.25% Exchangeable Notes due 2014 (the 4.25% Exchangeable Notes and, together with the 3.25% Exchangeable Notes the Exchangeable Notes). As of September 30, 2010, the Operating Partnership had $0.9 billion of unsecured debt obligations outstanding, before the effect of discounts.

In addition, although the remaining $0.3 billion of the Operating Partnership s debt is secured and non-recourse to the Company, the Company provides limited customary secured debt guarantees for items such as voluntary bankruptcy, fraud, misapplication of payments, and environmental liabilities.

The Company and the Operating Partnership are both named parties to the capped call option transactions discussed further in Note 6.

Debt Covenants and Restrictions

One of the covenants contained within the $500 million unsecured revolving credit facility (the New Credit Facility) prohibits the Company from paying dividends in excess of 95% of funds from operations (FFO).

6. Secured and Unsecured Debt of the Operating Partnership

Secured Debt

In January 2010, the Operating Partnership borrowed $71.0 million under a mortgage loan that is scheduled to mature on February 1, 2017. The mortgage loan is secured by five properties, bears interest at an annual rate of 6.51%, and requires monthly principal and interest payments based on a 30-year amortization period. We used a portion of the proceeds to pay off a mortgage loan with an outstanding principal balance of $63.2 million that was scheduled to mature in April 2010. In connection with the closing of this loan, we were refunded the $1.4 million earnest loan deposit we paid to the lender in the fourth quarter of 2009.

In March 2010, the Operating Partnership used borrowings under the unsecured line of credit (the Credit Facility) to pay off a secured line of credit with an outstanding principal balance of $33.5 million that was scheduled to mature in April 2010.

In connection with the acquisition of three office buildings at Mission City Corporate Center in June 2010, the Operating Partnership assumed secured debt with a principal balance of $52.0 million that is scheduled to mature on April 1, 2012. This secured debt was recorded at fair value on the date of the acquisition and is shown net of the initial discount at assumption of $0.9 million on the consolidated balance sheets. This discount will be accreted on a straight-line basis, which approximates the effective interest method, as additional interest expense from the date of issuance through the maturity date of the secured debt. The secured debt and the three properties that secure the debt are held in a bankruptcy remote special purpose entity and the properties are not available to satisfy the debts and other obligations of the Company or the Operating Partnership (see Notes 1 and 2). The debt bears contractual interest at a weighted average annual rate of 5.1% and requires monthly interest only payments.

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

Unsecured Senior Notes

In May 2010, the Operating Partnership issued unsecured senior notes in a private placement transaction with an aggregate principal balance of $250.0 million that are scheduled to mature in June 2020. On October 5, 2010, the Company commenced an exchange offer of the private unsecured senior notes for registered unsecured senior notes. The terms of the registered unsecured senior notes are substantially identical to the outstanding private unsecured senior notes, except for transfer restrictions and registration rights relating to the outstanding private unsecured senior notes. The exchange offer expires on November 3, 2010, unless extended. We will not receive any additional proceeds as a result of the exchange offer.

The unsecured senior notes require semi-annual interest payments each June and December based on a contractual annual interest rate of 6.625%. The unsecured senior notes are shown net of the initial issuance discount of $2.1 million on the consolidated balance sheets. This discount is accreted on a straight-line basis, which approximates the effective interest method, as additional interest expense from the date of issuance through the maturity date of the unsecured senior notes. We used a portion of the net proceeds to repurchase $150.0 million in aggregate principal balance of the 3.25% Exchangeable Notes. A portion of the net proceeds was used to fund acquisitions during the nine months ended September 30, 2010 (See Note 2).

In August 2010, the Operating Partnership used borrowings under the Credit Facility to repay a portion of our unsecured senior notes, with a principal balance of $61.0 million that matured in August.

Unsecured Line of Credit

In August 2010 the Operating Partnership entered into the New Credit Facility and used borrowings under the New Credit Facility to repay, and then terminate, the Credit Facility . The New Credit Facility has a term of three years plus a one year extension at our option and bears interest at an annual rate of LIBOR plus 2.675%. We may elect to borrow up to an additional $200.0 million under an accordion option subject to bank approval. We expect to use borrowings under the New Credit Facility for general corporate purposes, to fund potential acquisitions, to finance development and redevelopment expenditures, and potentially to repay long-term debt. The following table summarizes the balance and significant terms of the New Credit Facility and Credit Facility as of September 30, 2010 and December 31, 2009, respectively:

	September 30, 2010	December 31, 2009
	(in thousands)	
Outstanding borrowings	$ 205,000	$ 97,000
Remaining borrowing capacity	295,000	453,000
Total borrowing capacity	$ 500,000	$ 550,000
Maturity date(1)(2)	August 2013	April 2010
Interest rate(3)	2.98%	1.11%
Fees(4)	0.575%	0.20%

(1) Under the terms of the New Credit Facility, we may exercise an option to extend the

maturity date by one year.

(2) In April 2010, we exercised an option to extend the maturity date of the Credit Facility by one year.

(3) As of September 30, 2010, the New Credit Facility bore interest at an annual rate of LIBOR plus 2.675%. As of December 31, 2009, the Credit Facility bore interest at an annual rate of LIBOR plus 0.85% to 1.35% depending upon our leverage ratio at the time of borrowing.

(4) As of September 30, 2010, the facility fee for the New Credit Facility was at an annual rate of 0.575%. As of December 31, 2009, the fee for unused funds for the Credit Facility was at an annual rate of 0.15% to 0.20%, depending on the balance of our daily average undrawn balance. In addition, we also incurred

debt origination and legal costs of approximately $5 million, which will be amortized as additional interest expense through the contractual maturity date.

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

Exchangeable Senior Notes

The following table summarizes the balance and significant terms of the Exchangeable Notes outstanding as of September 30, 2010 and December 31, 2009:

	3.25% Exchangeable Notes		4.25% Exchangeable Notes	
	September 30, 2010	December 31, 2009	September 30, 2010	December 31, 2009
	(in thousands)			
Principal amount	$ 148,000	$ 298,000	$ 172,500	$ 172,500
Unamortized discount	(4,751)	(13,937)	(17,454)	(20,121)
Net carrying amount of liability component	$ 143,249	$ 284,063	$ 155,046	$ 152,379
Carrying amount of equity component	$ 33,675	$ 36,369	$ 19,835	$ 19,835
Maturity date	April 2012		November 2014	
Stated coupon rate	3.25% (1)		4.25%(2)	
Effective interest rate(3)	5.45%		7.13%	
Exchange rate per $1,000 principal value of the Exchangeable Notes, as adjusted(4)	11.3636		27.8307	
Exchange price, as adjusted(4)	$88.00		$35.93	
Number of shares on which the aggregate consideration to be delivered on conversion is determined(4)	1,681,813	3,386,353	4,800,796	4,800,796

(1) Interest on the 3.25% Exchangeable Notes is payable semi-annually in arrears on April 15th and October 15th of each year.
(2) Interest on the 4.25% Exchangeable Notes is payable semi-annually in arrears on May 15th and November 15th of each year.
(3) The rate at which we record interest expense,

which represents our conventional debt borrowing rate at the date of issuance.

(4) The exchange rate, exchange price, and the number of shares to be delivered upon exchange are subject to adjustment under certain circumstances including increases in the Company s common stock dividends.

Tender Offer for the 3.25% Exchangeable Notes

In June 2010, the Operating Partnership repurchased 3.25% Exchangeable Notes with an aggregate stated principal amount of $150.0 million f