

KILROY REALTY CORP
 Form 10-K
 February 10, 2015

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, 2014

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

For the transition period from _____ to _____
 Commission file number 1-12675 (Kilroy Realty Corporation)
 Commission file number 000-54005 (Kilroy Realty, L.P.)

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

Kilroy Realty Corporation	Maryland (State or other jurisdiction of incorporation (I.R.S. Employer or organization))	95-4598246 Identification No.)
Kilroy Realty, L.P.	Delaware (State or other jurisdiction of incorporation (I.R.S. Employer or organization))	95-4612685 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 \$5,152,002,640 based on the quoted closing price on the New York Stock Exchange for such shares on June 30, 2014.

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 6, 2015, 86,377,404 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 2014 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the registrant's fiscal year are incorporated by reference into Part III of this Form 10 K.

EXPLANATORY NOTE

This report combines the annual reports on Form 10-K for the year ended December 31, 2014 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, 2014, the Company owned an approximate 98.0% common general partnership interest in the Operating Partnership. The remaining approximate 2.0% 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 and stockholders’ equity and partners’ capital are the main areas of difference between the consolidated financial statements of the Company and those of the Operating Partnership. The common limited partnership interests in the Operating Partnership are accounted for as partners’ capital in the Operating Partnership’s financial statements and, to the extent not held by the Company, as noncontrolling interests in the Company’s financial statements. The Operating Partnership’s financial statements reflect the noncontrolling interest in Kilroy Realty Finance Partnership, L.P. a Delaware limited partnership (the “Finance Partnership”). This noncontrolling interest represents the Company’s 1% indirect general partnership interest in the Finance Partnership, which is directly held by Kilroy Realty Finance, Inc., a wholly owned subsidiary of the Company. The differences between stockholders’ equity, partners’ capital and noncontrolling interests result from the differences in the equity issued by the Company and the Operating Partnership 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 6, Secured and Unsecured Debt of the Company;

Note 7, Secured and Unsecured Debt of the Operating Partnership;

Note 9, Noncontrolling Interests on the Company’s Consolidated Financial Statements;

Note 10, Stockholders’ Equity of the Company;

Note 11, Preferred and Common Units of the Operating Partnership;

Note 19, Net Income Available to Common Stockholders Per Share of the Company;

Note 20, Net Income Available to Common Unitholders Per Unit of the Operating Partnership;

Note 22, Quarterly Financial Information of the Company (Unaudited); and

Note 23, 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, 2014:

	Number of Buildings	Rentable Square Feet	Number of Tenants	Percentage Occupied	
Stabilized Office Properties	111	14,096,617	526	94.4	%

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, undeveloped land, and real estate assets held for sale. We define redevelopment properties as those properties for which we expect to spend significant development and construction costs on the existing or acquired buildings pursuant to a formal plan, the intended result of which is a higher economic return on the property. As of December 31, 2014, we had no redevelopment properties. We define “lease-up” properties as properties we recently developed or redeveloped that have not yet reached 95% occupancy and are within one year following cessation of major construction activities. There were no operating properties in “lease-up” as of December 31, 2014. As of December 31, 2014, we had one land parcel held for sale. During the year ended December 31, 2014, we stabilized a redevelopment project in San Francisco, California, a development project consisting of three office buildings encompassing 587,429 square feet and a development project consisting of two office buildings encompassing 340,913 square feet, both in the San Francisco Bay Area, California. These projects are included in our stabilized portfolio as of December 31, 2014.

As of December 31, 2014, the following properties were excluded from our stabilized portfolio:

	Number of Properties/Projects	Estimated Rentable Square Feet ⁽¹⁾
Development projects under construction	6	1,732,000

⁽¹⁾ 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.

Our stabilized portfolio also excludes our future development pipeline, which is comprised of nine potential development sites, representing approximately 104 gross acres of undeveloped land on which we believe we have the potential to develop over 3.0 million square feet of office space, depending upon economic conditions.

As of December 31, 2014, 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 thirteen office properties located in the state of Washington.

All of our properties and development projects are 100% owned, excluding a development project owned by Redwood City Partners, LLC, a consolidated subsidiary (see Note 3 “Acquisitions” to our consolidated financial statements included in this report) and certain properties held at qualified intermediaries 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 98.0% common general partnership interest as of December 31, 2014. The remaining 2.0% common limited partnership interest in the Operating Partnership as of December 31, 2014 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, certain properties held in Section 1031 Exchanges and 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. 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. In addition, the public may read and copy materials we file with the SEC at the SEC’s public reference room located at 100 F Street, N.E., Washington, D.C. 20549. All reports that we will file with the SEC will also be available free of charge on our website at www.kilroyrealty.com as soon as reasonably practicable after we file those materials with, or furnish them to, the SEC.

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

• Corporate Governance Guidelines;

• Code of Business Conduct and Ethics;

• Audit Committee Charter;

• Executive Compensation Committee Charter; 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 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 2014 and 2015 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 and internal growth;

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

- managing operating expenses through the efficient use of internal 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;
- 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, generally LEED Platinum or Gold; actively pursuing LEED certification for over 1.7 million square feet of office space under construction. During the past few years we have significantly enhanced the sustainability profile of our portfolio, ending the year with 39% of our properties LEED certified and 56% ENERGY STAR certified. During 2014, the Company was recognized for our sustainability efforts with multiple industry leadership awards, including NAREIT's 2014 Office Leader in the Light Award. The company is also recognized by the Global Real Estate Sustainability Benchmark as the North American leader in sustainability and was ranked first among 151 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, 2014, our future development pipeline was comprised of nine potential development sites, representing approximately 104 gross acres of undeveloped land on which we believe we have the potential to develop over 3.0 million square feet of office space, depending upon economic conditions. Our strategy with respect to development is to:

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

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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 pursue 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, 2014, our total debt as a percentage of total market capitalization was 28.2%, and our total debt and liquidation value of our preferred equity as a percentage of total market capitalization was 30.4%, both of which were calculated based on the quoted closing price per share of the Company's common stock of \$69.07 on December 31, 2014 (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, 2014, our 15 largest tenants in terms of annualized base rental revenues represented approximately 35.3% of our total annualized base rental revenues, defined as annualized monthly contractual rents from existing tenants as of December 31, 2014. 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

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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 2014 and 2013, 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, 2014, 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 thirteen office properties located in the state of Washington. All of our properties and development projects are 100% owned, excluding a development project owned by Redwood City Partners, LLC, a consolidated subsidiary, and certain properties held in 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, 2014, we employed 226 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 I 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 15 “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, 2014, other than routine cleaning materials, approximately 5-10% of our tenants handled hazardous substances and/or wastes on approximately 2-5% 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, naturalyte 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. In the United States, market and economic conditions continue to be challenging with stricter regulations and modest growth. While recent economic data reflects moderate economic growth in the United States, there continues to be concern regarding the stability of the economy and credit markets generally. 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, 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 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 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
- 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, 2014, our 15 largest tenants represented approximately 35.3% 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, 2014, we derived approximately 98.3% of our revenues from continuing operations from rental income and tenant reimbursements. A tenant may experience a downturn in its business, which may weaken its financial condition and result in its failure to make timely rental payments or result in defaults under our leases. In the event of default by a tenant, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment.

The bankruptcy or insolvency of a major tenant also may adversely affect the income produced by our properties. If any tenant becomes a debtor in a case under 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, 2014, as a percentage of our annualized base rental revenue, 45% of our tenants operated in the technology and media industry, 15% in the finance, insurance and real estate industries, 14% in the professional, business and other services industries, 10% in the education and health services industries and 16% in other industries. As we expand our acquisition and development activities in markets populated by knowledge and creative based tenants in the technology and media industry, our tenant mix may become more concentrated, further exposing us to risks associated with that industry. 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 5.6%, of the total square footage of our properties that was not occupied as of December 31, 2014. In addition, leases representing approximately 8.7% and 6.0% of the leased rentable square footage of our properties are scheduled to expire in 2015 and 2016, 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 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, 2014, we had approximately \$2.5 billion aggregate principal amount of indebtedness, of which \$395.1 million is contractually due prior to December 31, 2015. Our total debt and preferred equity at December 31, 2014 represented 30.4% 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.

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.

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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 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 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 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;

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• 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 thirteen properties in greater Seattle 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 (see Note 2 “Basis of Presentation and Significant Accounting Policies” and Note 3 “Acquisitions” to our consolidated financial statements included in this report), 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, 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, 2014, 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, 2014, we had approximately 1.9 million aggregate rentable square feet, or 13.2% 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;

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- 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 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 office 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 to pay 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, 2014 approximately 13.4% 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. 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, 2014 and December 31, 2014, the closing sale price of KRC's common stock on the New York Stock Exchange, or the NYSE, ranged from \$50.18 to \$71.10 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;
- publication of research reports about us, the real estate industry generally or the office and industrial 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;

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- 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 Securities and Exchange Commission, 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, 2014, limited partners owned approximately 2.0% of the Operating Partnership's partnership interests, of which 0.9% was owned by John B. Kilroy, Jr. In addition, we agreed to use commercially reasonable efforts to minimize the tax consequences to common limited partners resulting from the repayment, refinancing, replacement, or restructuring of debt, or any sale, exchange, or other disposition of any of our other assets. The exercise of one or more of these approval rights by the limited partners could delay or prevent us from completing a transaction that may be in the best interest of all our security holders.

The Chairman of our board of directors and our President and Chief Executive Officer has substantial influence over our affairs. John B. Kilroy, Jr. is the Chairman of our board of directors and our President and Chief Executive Officer. John B. Kilroy, Jr. beneficially owned, as of December 31, 2014, approximately 1.8% of the total outstanding shares of our common stock. The percentage of outstanding shares of common stock beneficially owned includes 86,929 shares of common stock, 434,329 restricted stock units ("RSUs") that were vested and held by John B. Kilroy, Jr. at December 31, 2014, and assumes the exchange into shares of our common stock of the 782,059 common units of the Operating Partnership held by John B. Kilroy, Jr. (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 B. Kilroy, Jr., 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 B. Kilroy Jr., 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 B. Kilroy Jr., 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 B. Kilroy, Jr., 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 holder's interest. As of December 31, 2014, 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, 2014, we had approximately \$2.5 billion aggregate principal amount of indebtedness outstanding, which represented 28.2% of our total market capitalization. Our total debt and the liquidation value of our preferred equity as a percentage of total market capitalization was approximately 30.4% as of December 31, 2014. 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, 2014, 86,259,684 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, 2014, the Company had reserved for future issuance the following shares of common stock: 1,804,200 shares issuable upon the exchange, at the Company's option, of the Operating Partnership's common units; 681,626 shares remained available for grant under our 2006 Incentive Award Plan (see Note 12 "Shared-Based Compensation" to our consolidated financial statements included in this report); 1,248,352 shares issuable upon settlement of RSUs; 247,089 shares contingently issuable upon settlement of RSUs subject to performance conditions; and 1,008,000 shares issuable upon exercise of outstanding options. The Company has a currently effective registration statement registering 7,120,000 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. The Company also has a currently effective registration statement registering 1,575,981 shares of our common stock issued in net settlement of the 4.25% Exchangeable Notes. 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 (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 (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 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, 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. From time to time 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. 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.

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ITEM 2. PROPERTIES

General

Our stabilized portfolio of operating properties was comprised of the following office properties at December 31, 2014:

	Number of Buildings	Rentable Square Feet	Number of Tenants	Percentage Occupied	
Stabilized Office Properties	111	14,096,617	526	94.4	%

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, undeveloped land, and real estate assets held for sale. We define redevelopment properties as those properties for which we expect to spend significant development and construction costs on the existing or acquired buildings pursuant to a formal plan, the intended result of which is a higher economic return on the property. As of December 31, 2014, we had no redevelopment properties. We define “lease-up” properties as properties we recently developed or redeveloped that have not yet reached 95% occupancy and are within one year following cessation of major construction activities. There were no operating properties in “lease-up” as of December 31, 2014. As of December 31, 2014, we had one land parcel held for sale. During the year ended December 31, 2014, we stabilized a redevelopment project in San Francisco, California, a development project consisting of three office buildings encompassing 587,429 square feet and a development project consisting of two office buildings encompassing 340,913 square feet, both in the San Francisco Bay Area, California. These projects are included in our stabilized portfolio as of December 31, 2014. These projects are included in our stabilized portfolio as of December 31, 2014.

As of December 31, 2014, the following properties were excluded from our stabilized portfolio:

	Number of Properties/Projects	Estimated Rentable Square Feet ⁽¹⁾
Development projects under construction	6	1,732,000

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.

Our stabilized portfolio also excludes our future development pipeline, which is comprised of nine potential development sites, representing approximately 104 gross acres of undeveloped land on which we believe we have the potential to develop over 3.0 million square feet of office space, depending upon economic conditions.

As of December 31, 2014, 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 thirteen office properties located in the state of Washington. All of our properties and development projects are 100% owned, excluding a development project owned by Redwood City Partners, LLC, a consolidated subsidiary (see Note 3 “Acquisitions” to our consolidated financial statements included in this report) and certain properties held at qualified intermediaries for potential future Section 1031 Exchanges, 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 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 15 “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

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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, 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, 2014, 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, 2014.

Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/2014 ⁽¹⁾		Annualized Base Rent (in \$000's) ⁽²⁾	Annualized Rent Per Square Foot ⁽²⁾
Los Angeles and Ventura Counties							
23925 Park Sorrento, Calabasas, California	(3) 1	2001	11,789	100.0	%	\$421	\$35.72
23975 Park Sorrento, Calabasas, California	(3) 1	2002	104,797	100.0	%	3,482	34.10
24025 Park Sorrento, Calabasas, California	(3) 1	2000	108,671	96.9	%	3,638	34.56
2829 Townsgate Road, Thousand Oaks, California	(3) 1	1990	81,067	100.0	%	2,306	28.45
2240 E. Imperial Highway, El Segundo, California	(4) 1	1983/ 2008	122,870	100.0	%	4,129	33.60
2250 E. Imperial Highway, El Segundo, California	(8) 1	1983	298,728	100.0	%	9,779	32.87
2260 E. Imperial Highway, El Segundo, California	(4) 1	1983/ 2012	298,728	100.0	%	10,497	35.14
909 Sepulveda Blvd., El Segundo, California	(3) 1	1972/ 2005	241,607	100.0	%	6,643	27.82
999 Sepulveda Blvd., El Segundo, California	(3) 1	1962/ 2003	128,592	92.7	%	2,861	24.43
6255 W. Sunset Blvd, Los Angeles, California	(9) 1	1971/ 1999	324,617	90.6	%	10,256	35.71
3750 Kilroy Airport Way, Long Beach, California	(3) 1	1989	10,457	86.1	%	109	19.95
3760 Kilroy Airport Way, Long Beach, California	(3) 1	1989	165,278	75.3	%	3,726	29.95
3780 Kilroy Airport Way, Long Beach, California	(3) 1	1989	219,822	83.4	%	4,335	24.19
3800 Kilroy Airport Way, Long Beach, California	(3) 1	2000	192,476	98.5	%	5,792	30.55
	(3) 1	1999	136,026	100.0	%	4,915	36.13

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3840 Kilroy Airport Way, Long Beach, California								
3880 Kilroy Airport Way, Long Beach, California	(10)	1	1987/ 2013	96,035	100.0	%	2,793	29.08
3900 Kilroy Airport Way, Long Beach, California	(3)	1	1987	126,840	90.8	%	2,801	24.36
12100 W. Olympic Blvd., Los Angeles, California	(3)	1	2003	150,167	94.4	%	5,421	38.23
12200 W. Olympic Blvd., Los Angeles, California	(3)	1	2000	150,117	97.9	%	4,438	31.48
12233 W. Olympic Blvd., Los Angeles, California	(11)	1	1980/ 2011	151,029	94.5	%	2,115	39.37

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Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/2014 ⁽¹⁾		Annualized Base Rent (in \$000's) ⁽²⁾	Annualized Rent Per Square Foot ⁽²⁾
12312 W. Olympic Blvd, Los Angeles, California	(12) 1	1950/ 1997	76,644	—	%	—	—
1633 26th Street, Santa Monica, California	(3) 1	1972/ 1997	44,915	100.0	%	1,270	28.28
2100/2110 Colorado Avenue, Santa Monica, California	(3) 3	1992/ 2009	102,864	100.0	%	4,357	42.36
3130 Wilshire Blvd., Santa Monica, California	(3) 1	1969/ 1998	88,339	95.7	%	2,762	33.59
501 Santa Monica Blvd., Santa Monica, California	(3) 1	1974	73,115	78.8	%	2,558	45.70
Subtotal/Weighted Average – Los Angeles and Ventura Counties	27		3,505,590	92.8	%	\$101,404	\$32.39
Orange County							
2211 Michelson, Irvine, California	(3) 1	2007	271,556	98.7	%	\$9,736	\$36.72
Subtotal/Weighted Average – Orange County	1		271,556	98.7	%	\$9,736	\$36.72
San Diego County							
12225 El Camino Real, Del Mar, California	(4) 1	1998	58,401	100.0	%	\$1,965	\$33.64
12235 El Camino Real, Del Mar, California	(4) 1	1998	54,673	82.1	%	1,648	36.71
12340 El Camino Real, Del Mar, California	(4) 1	2002	87,374	88.8	%	3,370	43.43
12390 El Camino Real, Del Mar, California	(4) 1	2000	72,332	100.0	%	3,069	42.44
12348 High Bluff Drive, Del Mar, California	(13) 1	1999	38,806	100.0	%	1,275	32.86
12400 High Bluff Drive, Del Mar, California	(4) 1	2004	209,220	100.0	%	10,670	51.00
3579 Valley Centre Drive, Del Mar, California	(4) 1	1999	50,677	100.0	%	1,902	37.54
3611 Valley Centre Drive, Del Mar, California	(4) 1	2000	130,349	96.3	%	5,202	41.43
3661 Valley Centre Drive, Del Mar, California	(4) 1	2001	129,782	89.7	%	3,410	36.03
3721 Valley Centre Drive, Del Mar, California	(4) 1	2003	114,780	79.9	%	4,155	45.28
3811 Valley Centre Drive, Del Mar, California	(5) 1	2000	112,067	100.0	%	5,199	46.39
7525 Torrey Santa Fe, 56 Corridor, California	(5) 1	2007	103,979	100.0	%	3,012	28.97
7535 Torrey Santa Fe, 56 Corridor, California	(5) 1	2007	130,243	100.0	%	3,693	28.35

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7545 Torrey Santa Fe, 56 Corridor, California	(5)	1	2007	130,354	100.0	%	3,609	27.68
7555 Torrey Santa Fe, 56 Corridor, California	(5)	1	2007	101,236	100.0	%	3,175	31.36
12780 El Camino Real, Del Mar, California	(5)	1	2013	140,591	100.0	%	6,366	45.28
12790 El Camino Real, Del Mar, California	(4)	1	2013	78,349	100.0	%	3,196	40.79
13280 Evening Creek Drive South, I-15 Corridor, California	(3)	1	2008	41,196	86.6	%	889	24.91
13290 Evening Creek Drive South, I-15 Corridor, California	(4)	1	2008	61,180	100.0	%	1,453	23.75
13480 Evening Creek Drive North, I-15 Corridor, California	(4)	1	2008	149,817	100.0	%	7,779	51.92
13500 Evening Creek Drive North, 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 12/31/2014 (1)		Annualized Base Rent (in \$000's)(2)	Annualized Rent Per Square Foot (2)
13520 Evening Creek Drive North, I-15 Corridor, California	(4) 1	2004	141,128	96.6	%	4,829	36.19
2355 Northside Drive, Mission Valley, California	(3) 1	1990	53,610	87.4	%	1,197	26.42
2365 Northside Drive, Mission Valley, California	(3) 1	1990	96,436	73.3	%	2,239	31.67
2375 Northside Drive, Mission Valley, California	(14) 1	1990	51,516	91.9	%	1,398	29.54
2385 Northside Drive, Mission Valley, California	(3) 1	2008	89,023	100.0	%	2,801	31.46
2305 Historic Decatur Road, Point Loma, California	(15) 1	2009	103,900	46.3	%	1,492	31.12
4921 Directors Place, Sorrento Mesa, California	(4) 1	2008	56,136	84.9	%	1,242	26.05
4939 Directors Place, Sorrento Mesa, California	(5) 1	2002	60,662	100.0	%	2,276	37.52
4955 Directors Place, Sorrento Mesa, California	(5) 1	2008	76,246	100.0	%	2,881	37.79
10770 Wateridge Circle, Sorrento Mesa, California	(5) 1	1989	174,310	70.8	%	1,854	15.02
6260 Sequence Drive, Sorrento Mesa, California	(6) 1	1997	130,536	100.0	%	2,908	22.28
6290 Sequence Drive, Sorrento Mesa, California	(5) 1	1997	90,000	—	%	—	—
6310 Sequence Drive, Sorrento Mesa, California	(5) 1	2000	62,415	100.0	%	1,295	20.75
6340 Sequence Drive, Sorrento Mesa, California	(5) 1	1998	66,400	100.0	%	1,416	21.32
6350 Sequence Drive, Sorrento Mesa, California	(6) 1	1998	132,600	100.0	%	3,111	23.46
10390 Pacific Center Court, Sorrento Mesa, California	(5) 1	2002	68,400	100.0	%	2,771	40.52
10394 Pacific Center Court, Sorrento Mesa, California	(5) 1	1995	59,630	100.0	%	1,182	19.83
10398 Pacific Center Court, Sorrento Mesa, California	(5) 1	1995	43,645	100.0	%	698	15.99
10421 Pacific Center Court, Sorrento Mesa, California	(5) 1	1995/ 2002	75,899	100.0	%	1,076	14.18
10445 Pacific Center Court, Sorrento Mesa, California	(5) 1	1995	48,709	100.0	%	936	19.22
10455 Pacific Center Court, Sorrento Mesa, California	(7) 1	1995	90,000	100.0	%	1,112	12.35
5717 Pacific Center Blvd, Sorrento Mesa, California	(6) 1	2001/ 2005	67,995	100.0	%	1,503	22.11

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4690 Executive Drive, UTC, California	(16)	1	1999	47,212	100.0	%	1,077	22.82
6200 Greenwich Drive, Governor Park, California	(3)	1	1999	73,507	—	%	—	—
6220 Greenwich Drive, Governor Park, California	(4)	1	1996	141,214	100.0	%	4,286	30.35
Subtotal/Weighted Average – San Diego County		46		4,244,068	90.9	%	\$ 126,903	\$ 33.12
San Francisco								
4100 Bohannon Drive, Menlo Park, California	(6)	1	1985	47,379	100.0	%	\$ 1,719	\$ 36.27
4200 Bohannon Drive, Menlo Park, California	(6)	1	1987	45,451	100.0	%	1,739	38.26
4300 Bohannon Drive, Menlo Park, California	(6)	1	1988	63,079	100.0	%	2,485	39.39

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Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/2014 (1)	Annualized Base Rent (in \$000's) ⁽²⁾	Annualized Rent Per Square Foot ⁽²⁾
4400 Bohannon Drive, Menlo Park, California	(6) 1	1988	48,146	100.0 %	1,489	32.97
4500 Bohannon Drive, Menlo Park, California	(6) 1	1990	63,078	100.0 %	2,041	32.35
4600 Bohannon Drive, Menlo Park, California	(17) 1	1990	48,147	100.0 %	1,172	40.92
4700 Bohannon Drive, Menlo Park, California	(6) 1	1989	63,078	100.0 %	2,275	36.07
331 Fairchild Drive, Mountain View, California	(5) 1	2013	87,147	100.0 %	4,185	48.03
680 E. Middlefield Road Mountain View, California	(5) 1	2014	170,090	100.0 %	7,666	45.07
690 E. Middlefield Road Mountain View, California	(5) 1	2014	170,823	100.0 %	7,699	45.07
303 Second Street, San Francisco, California	(18) 1	1988	740,047	97.9 %	32,410	44.94
100 First Street, San Francisco, California	(19) 1	1988	466,490	95.7 %	21,182	48.33
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	344,551	92.2 %	13,755	44.93
301 Brannan Street, San Francisco, California	(4) 1	1909/ 1989	74,430	100.0 %	3,336	44.82
360 Third Street, San Francisco, California	(20) 1	2013	429,996	99.2 %	20,595	48.40
1310 Chesapeake Terrace, Sunnyvale, California	(6) 1	1989	76,244	100.0 %	2,369	31.08
1315 Chesapeake Terrace, Sunnyvale, California	(6) 1	1989	55,635	100.0 %	1,424	25.60
1320-1324 Chesapeake Terrace, Sunnyvale, California	(6) 1	1989	79,720	52.0 % ⁽²¹⁾	1,271	30.67
1325-1327 Chesapeake Terrace, Sunnyvale, California	(6) 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

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Subtotal/Weighted Average – San Francisco	24		3,887,161	97.3	%	\$163,803	\$43.84	
Greater Seattle								
601 108th Avenue NE, Bellevue, Washington	(6)	1	2000	488,470	99.3	%	\$16,408	\$34.19
10900 NE 4th Street, Bellevue, Washington	(3)	1	1983	416,755	97.4	%	14,532	35.93
10220 NE Points Drive, Kirkland, Washington	(6)	1	1987	49,851	100.0	%	1,287	26.05
10230 NE Points Drive, Kirkland, Washington	(6)	1	1990	98,982	76.4	%	2,075	27.96
10210 NE Points Drive, Kirkland, Washington	(6)	1	1988	84,641	94.4	%	1,962	24.57
3933 Lake Washington Blvd NE, Kirkland, Washington	(6)	1	1993	46,450	100.0	%	1,303	28.06
837 N. 34th Street, Lake Union, Washington	(6)	1	2008	111,580	100.0	%	3,255	29.17

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Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/2014 ⁽¹⁾	Annualized Base Rent (in \$000's) ⁽²⁾	Annualized Rent Per Square Foot ⁽²⁾
701 N. 34th Street, Lake Union, Washington	(6) 1	1998	138,995	100.0 %	2,719	19.56
801 N. 34th Street, Lake Union, Washington	(5) 1	1998	169,412	100.0 %	4,423	26.11
320 Westlake Terry Avenue North, Lake Union, Washington	(6) 1	2007	184,643	100.0 %	6,314	34.20
321 Terry Avenue North, Lake Union, Washington	(6) 1	2013	135,755	100.0 %	4,465	32.89
15050 NE 36th Street Redmond, Washington	(5) 1	1998	122,103	100.0 %	3,124	25.59
401 Terry Avenue North, Lake Union, Washington	(5) 1	2003	140,605	100.0 %	6,207	44.15
Subtotal/Weighted Average – Greater Seattle	13		2,188,242	98.1 %	\$68,074	\$31.85
TOTAL/WEIGHTED AVERAGE	111		14,096,617	94.4 %	\$469,920	\$35.87

(1) Based on all leases at the respective properties in effect as of December 31, 2014. Includes month-to-month leases as of December 31, 2014.

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, 2014.

(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 modified net basis.

(6) For these properties, the leases are written on a triple net basis.

(7) For these properties, 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 272,000 rentable square feet are written on a full service gross basis and approximately 17,000 rentable square feet is written on a triple net basis.

(10) For this property, leases of approximately 46,000 rentable square feet are written on a modified net basis and approximately 50,000 rentable square feet are written on a full service gross basis.

For this property, leases of approximately 26,000 rentable square feet are written on a full service gross basis,

(11) approximately 12,000 rentable square feet are written on a modified gross basis and approximately 104,000 rentable square feet are written on a gross basis.

(12) As of December 31, 2014, we had executed a lease for the entire building on a modified net basis. This lease is expected to commence in the first quarter of 2015.

(13) 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.

- (14) For this property, leases of approximately 29,000 rentable square feet are written on a gross basis and approximately 19,000 rentable square feet are written on a full service gross basis.
- (15) For this property, leases of approximately 26,000 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) For this property, leases of approximately 28,000 rentable square feet are written on a full service gross basis and approximately 20,000 rentable square feet are written on a triple net basis.
- (17) For this property, leases of approximately 20,000 rentable square feet are written on a gross basis and approximately 29,000 rentable square feet are written on a triple net basis.
- (18) For this property, leases of approximately 617,000 rentable square feet are written on a full service gross basis, 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 26,000 rentable square feet are written on a modified gross basis.
- (19) For this property, leases of approximately 84,000 rentable square feet are written on a gross basis, approximately 355,000 rentable square feet are written on a full service gross basis and approximately 7,000 rentable square feet is written on a triple net basis.
- (20) For this property, leases of approximately 389,000 rentable square feet are written on a modified gross basis and approximately 37,000 rentable square feet are written on a full service gross basis.
- (21) As of the date of this report this building is 100% occupied.

Completed Development and Redevelopment Projects

During the year ended December 31, 2014, we completed the following development projects, which were added to our stabilized portfolio of operating properties:

Completed Development Project	Construction Period		Rentable Square Feet	% Occupied	
	Start Date	Completion / Stabilization Date			
505, 555 and 605 N. Mathilda Avenue Sunnyvale, California	4Q 2012	3Q 2014	587,429	100.0	%
680 and 690 E. Middlefield Road Mountain View, California	2Q 2012	4Q 2014	340,913	100.0	%

During the year ended December 31, 2014, we also stabilized the following redevelopment project, which was added to our stabilized portfolio of operating properties:

Completed Redevelopment Project	Construction Period			Rentable Square Feet	% Occupied	
	Start Date	Completion Date	Stabilization Date			
360 Third Street San Francisco, California	4Q 2011	1Q 2013	1Q 2014	429,996	99.2	%

In-Process and Future Development Pipeline

The following table sets forth certain information relating to our in-process development pipeline as of December 31, 2014.

In-Process Development Projects	Estimated Construction Period		Estimated Stabilization Date	Estimated Rentable Square Feet	Office % Leased
	Start Date	Completion Date			
UNDER CONSTRUCTION:					
San Francisco Bay Area, California					
350 Mission Street, San Francisco	4Q 2012	4Q 2015	4Q 2015	450,000	100%
333 Brannan Street, San Francisco	4Q 2013	4Q 2015	4Q 2015	185,000	100%
Crossing/900, Redwood City ⁽¹⁾	4Q 2013	4Q 2015	1Q 2017	339,000	100%
Los Angeles, California					
Columbia Square Office and Historic ⁽²⁾	2Q 2013 – 3Q 2013	2Q 2015 – 1Q 2016	2Q 2015 – 1Q 2017	480,000	59%
Columbia Square Residential ⁽²⁾ San Diego, California	3Q 2013	1Q 2016	1Q 2017	205,000	—%
The Heights at Del Mar	4Q 2014	4Q 2015	4Q 2016	73,000	—%
SUBTOTAL:				1,732,000	82%

(1)

The Company anticipates the first building, totaling approximately 226,000 square feet, to be completed in the fourth quarter of 2015 and the second building, totaling approximately 113,000 square feet, to be completed in the first quarter of 2017.

In the second quarter of 2013, the Company commenced redevelopment of Phase I comprised of the historical buildings encompassing approximately 110,000 rentable square feet. In the fourth quarter of 2013, the Company (2) commenced development of Phase II comprised of approximately 370,000 rentable square feet for the office component and development of Phase III comprised of approximately 205,000 rentable square feet for the residential component.

The following table sets forth certain information relating to our future development pipeline as of December 31, 2014.

Location	Estimated Rentable Square Feet
FUTURE DEVELOPMENT PIPELINE:	
San Francisco Bay Area, California	
The Exchange on 16th ⁽¹⁾	645,000
Flower Mart ⁽²⁾	TBD
Los Angeles, California	
Academy Project, Hollywood	475,000
San Diego, California	
9455 Towne Centre Drive, San Diego ⁽³⁾	150,000
Carlsbad Oaks – Lots 4, 5, 7 & 8, Carlsbad	288,000
One Paseo, Del Mar ⁽⁴⁾	500,000
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) In May 2014, the Company completed the acquisition of this undeveloped land for a total purchase price of \$95.0 million (plus approximately \$2.3 million in accrued liabilities, which are not included in this purchase price).

(2) In the fourth quarter of 2014, the Company closed on two adjacent land sites in the Central SOMA district for a total purchase price of \$71.0 million (plus approximately \$13.4 million in transaction costs and accrued liabilities, net, which are not included in this purchase price).

(3) 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.

(4) Estimated rentable square feet reflects existing office entitlements. The Company is currently pursuing mixed-use entitlements for this project, which would increase the estimated rentable square feet.

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, 2014.

Tenant Name	Annualized Base Rental Revenue ⁽¹⁾ (in thousands)	Percentage of Total Annualized Base Rental Revenue ⁽¹⁾	Lease Expiration Date
LinkedIn Corporation	\$ 28,344	6.0%	Various ⁽⁴⁾
DIRECTV, LLC	22,964	4.9%	September 2027
Synopsys, Inc.	15,364	3.3%	August 2030
Bridgepoint Education, Inc.	15,066	3.2%	Various ⁽⁵⁾
Intuit, Inc.	13,489	2.9%	August 2017
Delta Dental of California	10,718	2.3%	Various ⁽⁶⁾
AMN Healthcare, Inc.	9,001	1.9%	July 2027
Scan Group ⁽²⁾⁽³⁾	6,969	1.5%	Various ⁽⁷⁾
Concur Technologies	6,564	1.4%	December 2025
Group Health Cooperative	6,372	1.4%	September 2017
Neurocrine Biosciences, Inc.	6,366	1.4%	December 2019

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Microsoft Corporation	6,250	1.3%	Various ⁽⁸⁾
Institute for Systems Biology	6,207	1.3%	March 2021
Fish & Richardson, P.C.	6,071	1.3%	October 2018
Pac-12 Enterprises, LLC	5,603	1.2%	Various ⁽⁹⁾
Total	\$ 165,348	35.3%	

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, 2014.

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

In December 2013, Scan Group renewed and expanded their lease at Kilroy Airport Center in Long Beach, (3) California. As of December 31, 2014, revenue recognition had not commenced for the expansion premises. The annualized base rental revenue and rentable square feet

presented in this table include the projected annualized base rental revenue of approximately \$1.6 million and rentable square feet of approximately 50,000 for the expansion premises.

- (4) The LinkedIn Corporation leases, which contribute \$2.2 million and \$26.1 million, expire in July 2019 and September 2026, respectively.
- (5) 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.
- (6) The Delta Dental leases, which contribute \$0.4 million and \$10.3 million, expire in May 2015 and May 2018, respectively.
- (7) The Scan Group leases, which contribute \$0.3 million and \$6.7 million, expire in June 2015 and April 2026, respectively.
- (8) The Microsoft Corporation leases, which contribute \$3.1 million and \$3.1 million, expire in February 2019 and December 2021, respectively.
- (9) The Pac-12 Enterprises leases, which contribute \$0.1 million and \$5.5 million, expire in October 2016 and July 2023, 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, 2014.

Lease Expirations

The following table sets forth a summary of our lease expirations for each of the next ten years beginning with 2015, 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) ⁽¹⁾	% of Total Annualized Base Rent ⁽¹⁾	Annualized Rent per Square Foot ⁽¹⁾
2015	109	1,124,952	8.7	% \$ 34,948	7.5	% \$31.07
2016	81	780,353	6.0	% 23,460	5.0	% 30.06
2017	107	1,812,670	14.0	% 60,573	12.8	% 33.42
2018	66	1,350,180	10.4	% 54,136	11.5	% 40.10
2019	80	1,486,088	11.4	% 54,028	11.5	% 36.36
2020	68	1,789,865	13.8	% 64,617	13.8	% 36.10
2021	21	617,215	4.8	% 28,770	6.1	% 46.61
2022	17	638,163	4.9	% 19,682	4.2	% 30.84
2023	12	387,270	3.0	% 16,835	3.6	% 43.47
2024	16	521,693	4.0	% 15,716	3.3	% 30.12
2025 and beyond	21	2,468,520	19.0	% 97,159	20.7	% 39.36
Total ⁽²⁾	598	12,976,969	100.0	% \$ 469,924	100.0	% \$36.21

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.

The information presented for all lease expiration activity reflects leasing activity through December 31, 2014 for our stabilized portfolio. For leases that have been renewed early or space that has been re-leased to a new tenant, the expiration date and annualized base rent information presented takes into consideration the renewed or re-leased lease terms. Excludes space leased under month-to-month leases, vacant space and lease renewal options not executed as of December 31, 2014.

Secured Debt

As of December 31, 2014, the Operating Partnership had nine 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 \$536.0 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 6 and 7 to our consolidated financial statements and Schedule III—Real Estate and Accumulated Depreciation included with this report. Management believes that, as of December 31, 2014, 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, 2014, 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 100 registered holders of the Company's common stock. The following table illustrates the high, low, and closing prices by quarter, as well as dividends declared, during 2014 and 2013 as reported on the NYSE.

Year	High	Low	Close	Per Share Common Stock Dividends Declared
2014				
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
2013				
First quarter	\$53.99	\$47.86	\$52.40	\$0.3500
Second quarter	59.58	50.11	53.01	0.3500
Third quarter	55.80	47.73	49.95	0.3500
Fourth quarter	54.04	48.89	50.18	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, 2014.

Period	Total Number of Shares (or Units) Purchased	Average Price Paid per Share (or Unit)	Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) that May Yet to be Purchased Under the Plans or Programs
October 1 - October 31, 2014	—	\$—	—	—
November 1 - November 30, 2014 ⁽¹⁾	404,136	\$42.81	—	—
December 1 - December 31, 2014	—	\$—	—	—
Total	404,136	\$42.81	—	—

Purchases were made pursuant to capped call options the Company entered into in connection with the Operating (1) Partnership's issuance of the 4.25% Exchangeable Notes. The capped call options are not part of the terms of the 4.25% Exchangeable Notes and do not affect the holders' rights under the 4.25% Exchangeable Notes.

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 22 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, 2014 and 2013.

2014	Per Unit Common Unit Distribution Declared
First quarter	\$0.3500
Second quarter	0.3500
Third quarter	0.3500
Fourth quarter	0.3500
2013	Per Unit Common Unit Distribution Declared
First quarter	\$0.3500
Second quarter	0.3500
Third quarter	0.3500
Fourth quarter	0.3500

During 2014 and 2013, the Operating Partnership redeemed 1,000 and 16,303 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, 2014. 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 23 office equity REITs, including us. The graph assumes the investment of \$100 in us and each of the indices on December 31, 2009 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, 2014 and 2013 and the consolidated statement of operations data for the years ended December 31, 2014, 2013 and 2012 have been derived from the historical consolidated financial statements of Kilroy Realty Corporation audited by Deloitte & Touche LLP, an independent registered public accounting firm. The consolidated balance sheet data as of December 31, 2012, 2011 and 2010 and the consolidated statement of operations data for the years ended December 31, 2011 and 2010 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 during 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.

Kilroy Realty Corporation Consolidated

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

	Year Ended December 31,				
	2014	2013	2012	2011	2010
Statements of Operations Data:					
Total revenues from continuing operations	\$521,725	\$457,111	\$373,318	\$304,574	\$230,078
Income (loss) from continuing operations	59,313	14,935	(5,475)	(16,664)	(7,369)
Income from discontinued operations	124,495	29,630	282,576	84,153	27,255
Net income available to common stockholders	166,969	30,630	249,826	50,819	4,512
Per-Share Data:					
Weighted average shares of common stock outstanding – basic	83,090,235	77,343,853	69,639,623	56,717,121	49,497,487
Weighted average shares of common stock outstanding – diluted	84,967,720	77,343,853	69,639,623	56,717,121	49,497,487
Income (loss) from continuing operations available to common stockholders per share of common stock basic	-\$0.52	\$0.00	\$(0.40)	\$(0.57)	\$(0.46)
Income (loss) from continuing operations available to common stockholders per share of common stock diluted	-\$0.51	\$0.00	\$(0.40)	\$(0.57)	\$(0.46)
Net income available to common stockholders per share – basic	\$1.99	\$0.37	\$3.56	\$0.87	\$0.07
Net income available to common stockholders per share – diluted	\$1.95	\$0.37	\$3.56	\$0.87	\$0.07
Dividends declared per common share	\$1.40	\$1.40	\$1.40	\$1.40	\$1.40

	December 31,				
	2014	2013	2012	2011	2010
Balance Sheet Data:					
Total real estate held for investment, before accumulated depreciation and amortization	\$6,057,932	\$5,264,947	\$4,757,394	\$3,798,690	\$3,216,871
Total assets	5,633,736	5,111,028	4,616,084	3,446,795	2,816,565
Total debt	2,469,413	2,204,938	2,040,935	1,821,286	1,427,776
Total noncontrolling interest – preferred units ⁽¹⁾	—	—	—	73,638	73,638
Total preferred stock	192,411	192,411	192,411	121,582	121,582
Total equity ⁽²⁾	2,723,936	2,516,160	2,235,933	1,327,482	1,117,730
Other Data:					
Funds From Operations ^{(3) (4)}	\$250,744	\$218,621	\$165,455	\$136,173	\$106,639
Cash flows provided by (used in):					
Operating activities	\$245,253	\$240,576	\$180,724	\$138,256	\$119,827
Investing activities	(501,436)	(506,520)	(706,506)	(634,283)	(701,774)
Financing activities	244,587	284,621	537,705	485,964	586,904
Office Property Data: ⁽⁵⁾					
Rentable square footage	14,096,617	12,736,099	13,249,780	11,421,112	10,395,208
Occupancy	94.4	% 93.4	% 92.8	% 90.1	% 87.5

(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, LLC (a consolidated subsidiary created during 2013, see Note 3 “Acquisitions” 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 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 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 \$11.0 million, (4) \$10.7 million, \$9.1 million, \$9.3 million and \$9.7 million for the years ended December 31, 2014, 2013, 2012, 2011 and 2010, 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, 2014 and 2013 and the consolidated statement of operations data for the years ended December 31, 2014, 2013 and 2012 have been derived from the historical consolidated financial statements of Kilroy Realty, L.P. audited by Deloitte & Touche LLP, an independent registered public accounting firm. The consolidated balance sheet data as of December 31, 2012, 2011 and 2010 and the consolidated statement of operations data for the years ended December 31, 2011 and 2010 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 during 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.

Kilroy Realty, L.P. Consolidated

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

	Year Ended December 31,				
	2014	2013	2012	2011	2010
Statements of Operations Data:					
Total revenues from continuing operations	\$521,725	\$457,111	\$373,318	\$304,574	\$230,078
Income (loss) from continuing operations	59,313	14,935	(5,475)	(16,664)	(7,369)
Income from discontinued operations	124,495	29,630	282,576	84,153	27,255
Net income available to common unitholders	170,298	31,091	255,375	51,764	4,528
Per Unit Data:					
Weighted average common units outstanding – basic	84,894,498	79,166,260	71,403,258	58,437,444	51,220,618
Weighted average common units outstanding – diluted	86,771,983	79,166,260	71,403,258	58,437,444	51,220,618
Income (loss) from continuing operations available to common unitholders per common unit – basic	\$0.52	\$0.00	\$(0.40)	\$(0.58)	\$(0.47)
Income (loss) from continuing operations available to common unitholders per common unit – diluted	\$0.51	\$0.00	\$(0.40)	\$(0.58)	\$(0.47)
Net income available to common unitholders per unit – basic	\$1.99	\$0.37	\$3.56	\$0.86	\$0.07
Net income available to common unitholders per unit – diluted	\$1.94	\$0.37	\$3.56	\$0.86	\$0.07
Distributions declared per common unit	\$1.40	\$1.40	\$1.40	\$1.40	\$1.40
	December 31,				
	2014	2013	2012	2011	2010
Balance Sheet Data:					
Total real estate held for investment, before accumulated depreciation and amortization	\$6,057,932	\$5,264,947	\$4,757,394	\$3,798,690	\$3,216,871
Total assets	5,633,736	5,111,028	4,616,084	3,446,795	2,816,565
Total debt	2,469,413	2,204,938	2,040,935	1,821,286	1,427,776
Series A redeemable preferred units ⁽¹⁾	—	—	—	73,638	73,638
Total preferred capital	192,411	192,411	192,411	121,582	121,582
Total capital ⁽²⁾	2,723,936	2,516,160	2,235,933	1,327,482	1,117,730
Other Data:					
Cash flows provided by (used in):					

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Operating activities	245,253	240,576	180,724	138,256	119,827
Investing activities	(501,436)	(506,520)	(706,506)	(634,283)	(701,774)
Financing activities	244,587	284,621	537,705	485,964	586,904
Office Property Data: ⁽³⁾					
Rentable square footage	14,096,617	12,736,099	13,249,780	11,421,112	10,395,208
Occupancy	94.4	% 93.4	% 92.8	% 90.1	% 87.5

(1) 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.

(2) Includes the noncontrolling interests in consolidated subsidiaries and Redwood City Partners, LLC (a consolidated subsidiary created during 2013, see Note 3 "Acquisitions" to our consolidated financial statements included in this report for additional information).

(3) 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 including with respect to California's continuing budget deficits;
- 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 98.0% and 97.8% general partnership interest in the Operating Partnership as of December 31, 2014 and 2013, respectively. 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 15 "Commitments and Contingencies" to our consolidated financial statements included in this report for additional information regarding our ground lease obligations).

2014 Highlights

We made significant progress on several fronts during 2014 and are well-positioned for continued long-term growth through our strong leasing performance, development and redevelopment efforts, well timed acquisitions, ongoing capital recycling program and successful financing activities.

Leasing. During 2014, we executed new and renewal office leases within our stabilized portfolio on 2.3 million square feet, and, including development properties, we executed new and renewal office leases on 3.2 million square feet. As a result of our consistent and strong leasing efforts, occupancy in our stabilized office portfolio increased to 94.4% as of December 31, 2014, up from 93.4% as of December 31, 2013.

Development. During 2014, we continued our focus on value-add and highly accretive development opportunities and expanded our future development pipeline through targeted acquisitions of development opportunities on the West Coast. In 2014, we acquired three undeveloped land sites, including one fully entitled 3.1 acre land parcel in the Mission Bay submarket of San Francisco and two adjacent land sites totaling approximately five acres located in the Central SOMA submarket of San Francisco. The land sites were acquired in three separate transactions for a total purchase price of \$166.0 million (see Note 3 "Acquisitions" to our consolidated financial statements included in this report for more information).

During 2014, we completed two development projects, 505, 555 and 605 N. Mathilda Avenue in the Sunnyvale submarket of San Francisco, with a total investment of approximately \$293.5 million and 680 and 690 E. Middlefield Road in the Mountain View, submarket of San Francisco, with a total investment of approximately \$185.0 million and added these properties to our stabilized portfolio. These projects were 100% pre-leased at completion. During the fourth quarter of 2014, we commenced development of The Heights at Del Mar, an approximately 73,000 square-foot office project located in San Diego's Del Mar submarket.

As of December 31, 2014, the Company had six development projects under construction, three of which are 100% preleased. These six projects aggregate approximately 1.7 million square feet of space, and the Company estimates its total investment in these projects will be approximately \$1.0 billion. The total estimated investment includes lease commissions and excludes tenant improvement overages. Scheduled completion dates range from 2015 to 2016. See “—Factors that May Influence Future Operations—Completed, In-Process and Future Development Pipeline” for additional information.

Redevelopment. During 2014, we stabilized our one redevelopment property, 360 Third Street, in the South of Market Area (“SOMA”) submarket of San Francisco, California, that was in lease-up at December 31, 2013. This project had a total investment of approximately \$188.2 million and was 99.2% occupied as of December 31, 2014.

Operating Property Acquisitions. We remain a disciplined buyer of office properties and development opportunities and continue to focus on value-add 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. During 2014, we acquired one office building in greater Seattle and four office buildings in the Sunnyvale submarket of San Francisco, comprising approximately 408,000 rentable square feet in two separate transactions for a total purchase price of approximately \$206.6 million (see Note 3 “Acquisitions” to our consolidated financial statements included in this report for more information). As of December 31, 2014, these properties were 100% leased.

Capital Recycling Program. We have continued to utilize our capital recycling program to provide additional capital to fund potential acquisitions, finance development and redevelopment expenditures, potentially 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 some or all of 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 2014, we completed the sale of 17 office buildings to unaffiliated third parties in five separate transactions and completed the sale of a land parcel to an unaffiliated third party. Gross sales proceeds totaled approximately \$432.6 million of which \$59.2 million was held at qualified intermediaries at December 31, 2014 for potential future Section 1031 Exchanges. In addition, as of December 31, 2014, we classified one land parcel located in Irvine, California as held for sale. The sale of this land parcel closed on January 15, 2015 for total gross proceeds of approximately \$26.0 million.

Financings. In addition to obtaining funding from our capital recycling program during 2014, we successfully completed a variety of financing and capital raising activities to fund our continued growth. See “—Liquidity and Capital Resources of the Operating Partnership” for additional information.

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 the tenant improvements at the leased property. When we conclude that we are the owner of tenant improvements for accounting purposes, we record the cost to construct the tenant improvements as an asset, and we commence rental revenue recognition when the tenant takes possession of or controls the finished space, which is typically when such tenant improvements are substantially complete.

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

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

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

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

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

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

In addition, we also record the cost of certain tenant improvements paid for or reimbursed by tenants when we conclude that we are the owner of such tenant improvements using the factors discussed above. For these tenant-funded tenant improvements, we record the amount funded or reimbursed by tenants as deferred revenue, which is amortized and recognized as rental revenue over the term of the related lease beginning upon substantial completion of the leased premises. During the years ended December 31, 2014, 2013, and 2012, we capitalized \$49.8 million, \$15.1 million and \$24.0 million, respectively, of tenant-funded tenant improvements. The increasing trend from 2013 to 2014 is related to the completion of development and redevelopment projects in 2014. Leases at our development properties generally have higher tenant-funded tenant improvements. We expect the trend to continue as we stabilize projects currently under development. For the years ended December 31, 2014, 2013, and 2012, we also recognized \$11.0 million, \$10.7 million and \$9.1 million, respectively, of noncash rental revenue related to the amortization of deferred revenue recorded in connection with tenant-funded tenant improvements.

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

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

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Tenant Reimbursement Revenue

Reimbursements from tenants consist of amounts due from tenants for common area maintenance, real estate taxes, and other recoverable costs, 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, 2013 and 2012 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, 2014 and 2013, current receivables were carried net of an allowance for uncollectible tenant receivables amount of \$2.0 million and \$2.1 million, respectively, for each period and deferred rent receivables were carried net of an allowance for deferred rent of \$2.0 million and \$2.1 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 includes an overall evaluation of our historical loss trends and the current economic and business environment. This determination requires significant judgment and estimates about matters that are uncertain at the time the estimates are made, including the creditworthiness of specific tenants, specific industry trends and conditions, and general economic trends and conditions. Since these factors are beyond our control, actual results can differ from our estimates, and such differences could be material.

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

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

For the years ended December 31, 2014, 2013 and 2012, we recorded a total provision for bad debts for both current tenant receivables and deferred rent receivables of approximately 0.0%, 0.1% and 0.0%, 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, 2014, 2013 and 2012. 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 \$5.2 million, \$4.7 million and \$3.8 million for the years ended December 31, 2014, 2013 and 2012, 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, 2014, 2013, and 2012, we expensed \$1.5 million, \$2.0 million and \$4.9 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, 2014, 2013, and 2012, we capitalized \$4.5 million, \$2.3 million, and \$0.7 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 is less than the net carrying value of the real estate asset. Our impairment loss calculation compares the net carrying amount of the real estate asset to the real estate asset's estimated fair value, which may be based on estimated discounted future cash flow calculations or third-party valuations or appraisals. We recognize an impairment loss if the amount of the asset's net carrying amount exceeds the asset's estimated fair value. If we recognize an impairment loss, the estimated fair value of the asset becomes its new cost basis. For a depreciable long-lived asset, the new cost basis will be depreciated (amortized) over the remaining useful life of that asset.

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

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 periods. We determined that for the land held for sale, that the sale price less estimated costs to sell exceeded the carrying value and therefore we did not record any impairment loss for this property.

Cost Capitalization and Depreciation

We capitalize costs associated with development and redevelopment activities, capital improvements, tenant improvements, and leasing activities. For the years ended December 31, 2014, 2013 and 2012, we capitalized \$11.4 million, \$7.3 million and \$3.1 million, respectively, of internal costs to our qualifying development and redevelopment 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;
- 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, 2014, the Company had one share-based incentive compensation plan, the Kilroy Realty 2006 Incentive Award Plan, which is described more fully in Note 12 “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 measurement at estimated 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 measures 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 market measure-based share-based compensation programs 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.

For the years ended December 31, 2014, 2013, and 2012 we recorded approximately \$8.1 million, \$5.3 million, and \$3.9 million, respectively, of compensation expense related to programs that contained market measures and were therefore 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 \$0.8 million, \$0.5 million, and \$0.4 million for the years ended December 31, 2014, 2013, and 2012, respectively.

Factors That May Influence Future Results of Operations

Completed, In-Process and Future Development Pipeline

We believe that a significant portion of our long-term future growth will come from the completion of our under construction and in-process development projects as well as executing on our future development pipeline, including expanding entitlements, subject to market conditions. During 2013 and 2014, we increased our focus on value-add and highly accretive development opportunities and expanded our 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 strategic submarkets. We expect to proceed in our development program with discipline and will be pursuing opportunities with attractive economic returns in 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 strongly favor starting projects that are pre-leased.

During the second half of 2014, we completed construction and stabilized the following two development projects:

505, 555 and 605 N. Mathilda Avenue, Sunnyvale, California, which we acquired in December 2012 and was 100% pre-leased to LinkedIn, Inc. This development encompassed three buildings totaling 587,429 square feet and had a total estimated investment of \$293.5 million. In September 2014, the project was substantially complete and added to the stabilized portfolio.

680 and 690 E. Middlefield Road, Mountain View, California, which we acquired in May 2012 and was 100% pre-leased to Synopsys, Inc. This development encompassed two buildings totaling 340,913 rentable square feet and had a total estimated investment of approximately \$185.0 million. In October 2014, the project was substantially complete and added to the stabilized portfolio.

As of December 31, 2014, our in-process development pipeline consisted of the following six projects under construction, which was 82% pre-leased at December 31, 2014.

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 \$279.3 million and will encompass approximately 450,000 rentable square feet upon completion. The property is expected to be LEED platinum certified, the first ground up development property in the city expected to receive this designation. Construction is currently in process and is currently expected to be completed towards the end of 2015, and the tenant is expected to occupy in phases.

333 Brannan Street, SOMA, San Francisco, California, which we acquired in July 2012. The development project is 100% pre-leased to Dropbox, has a total estimated investment of \$102.1 million and is expected to encompass 185,000 rentable square feet. Construction is currently in process and is currently expected to be completed in the fourth quarter of 2015.

Crossing/900, Redwood City, California, which we acquired in June 2013 with a local partner. This development project is 100% pre-leased to Box, Inc., has a total estimated investment of approximately \$188.4 million and will encompass approximately 339,000 rentable square feet upon completion. Construction is currently in process and is expected to be completed in phases between the fourth quarter of 2015 and the first quarter of 2017.

Columbia Square, Hollywood, California, which we acquired in September 2012. This development project is comprised of two phases, historical and new office and residential and is located in the heart of Hollywood, California, two blocks from the corner of Sunset Boulevard and Vine Street. During 2013, we commenced development on both phases comprising approximately 685,000 rentable square feet. The two office components, comprising 480,000 square feet have an estimated investment of approximately \$296.6 million and are expected to be completed in phases between the second quarter of 2015 and the first quarter of 2016, and stabilized in phases between the second quarter of 2015 and the first quarter of 2017.

The second phase, the residential component of the project, comprising 205,000 square feet will be a mix of high-end, long-term rentals and extended stay apartment homes and has an estimated investment of \$137.2 million. It will be the first luxury extended stay property to be located in the heart of Hollywood. Construction of this project is expected to be completed in the first quarter of 2016 and stabilized in the first quarter of 2017.

The Heights at Del Mar, Del Mar, California, which we acquired in September 2013. The project is a 73,000 square foot office project and has a total estimated investment of \$43.6 million. Construction on this project is currently in process and is expected to be completed in the fourth quarter of 2015.

In addition, as of December 31, 2014, we had additional undeveloped land holdings located in various submarkets in San Diego County, San Francisco Bay Area and Los Angeles with an aggregate cost basis of approximately \$531.1 million at which we believe we could develop more than 3.0 million rentable square feet. In the future, we may also enter into agreements to acquire other development or redevelopment opportunities, either as wholly owned properties or through joint ventures and those agreements typically will be subject to the satisfaction of closing conditions.

Increase in our development activities could continue to cause an increase in the average development asset balances qualifying for interest and other carry cost capitalization in future periods. During the year ended December 31, 2014, we capitalized interest on in process development projects, a redevelopment project in lease-up, and development pipeline projects with an average aggregate cost basis of approximately \$1.0 billion, as it was determined these projects qualified for interest and other carry cost capitalization under GAAP. For the years ended December 31, 2014 and 2013, we capitalized \$47.1 million and \$35.4 million, respectively, of interest to our qualifying development

projects. For the years ended December 31, 2014 and 2013, we capitalized \$11.4 million and \$7.3 million, respectively, of internal costs to our qualifying redevelopment and development projects.

Acquisitions. During the year ended December 31, 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. During 2014, we continued our focus on value-add and highly accretive development opportunities and expanded our future development pipeline through targeted acquisitions of development opportunities on the West Coast. During 2013, we acquired four office buildings in two transactions with an aggregate purchase price of approximately \$296.4 million and two development projects. 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 a key component of our growth strategy, we continue to evaluate value-add acquisition opportunities (including undeveloped land, development opportunities and office properties). As a result, at any point in time we may have one or more potential acquisitions under consideration that are in varying stages of evaluation, negotiation or due diligence review, which may include potential acquisitions under contract. We remain a disciplined buyer of development opportunities and operating properties and continue to focus on value-add 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. We cannot provide assurance that we will complete additional future acquisitions. In the future, we may enter into agreements to acquire additional properties or undeveloped land, either as wholly owned properties or through joint ventures, and those agreements typically will be subject to the satisfaction of closing conditions. 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.

Costs associated with acquisitions accounted for as business combinations are expensed as incurred, and we may be unable to complete an acquisition after making a nonrefundable deposit or incurring acquisition-related costs. In addition, acquisitions are subject to various other risks and uncertainties. During the year ended December 31, 2014, we expensed approximately \$1.5 million of third-party acquisition costs, and we may incur additional third-party acquisition costs during 2015. During the year ended December 31, 2014, we capitalized \$4.5 million of acquisition costs directly associated with development acquisitions accounted for as asset acquisitions. We expect that during 2015 we will continue to pursue value-add property and land acquisitions that either add immediate Net Operating Income to our portfolio or play a strategic role in our future growth.

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 2014, we completed the sale of 17 properties and one undeveloped land parcel to unaffiliated third parties in five separate transactions for gross sales proceeds totaling approximately \$432.6 million of which approximately \$59.2 million was temporarily being held at qualified intermediaries at December 31, 2014 for Section 1031 Exchanges. As of December 31, 2014, we also had one land parcel classified as held for sale that was sold in January 2015 for a gross sales price of \$26.0 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 future acquisitions and/or dispositions, if any, will qualify as Section 1031 Exchanges.

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, 2014.

Information on Leases Commenced and Executed

For Leases Commenced

Year Ended	1st & 2nd Generation ⁽¹⁾				2nd Generation ⁽¹⁾				Retention Rates ⁽⁷⁾	Weighted Average Lease Term (in months)
	Number of Leases ⁽²⁾		Rentable Square Feet ⁽²⁾		TI/LC per Sq. Ft. ⁽³⁾	Changes in Rents ⁽⁴⁾⁽⁵⁾	Changes in Cash Rents ⁽⁶⁾			
	New	Renewal	New	Renewal						
December 31, 2014	106	81	1,045,717	1,333,231	33.43	19.7 %	9.4 %	58.6 %	69	

For Leases Executed ⁽⁸⁾

Year Ended	1st & 2nd Generation ⁽¹⁾				2nd Generation ⁽¹⁾				Changes in Cash Rents ⁽⁶⁾	Weighted Average Lease Term (in months)
	Number of Leases ⁽²⁾		Rentable Square Feet ⁽²⁾		TI/LC per Sq. Ft. ⁽³⁾	Changes in Rents ⁽⁴⁾⁽⁵⁾				
	New	Renewal	New	Renewal						
December 31, 2014	108	81	1,014,888	1,333,231	37.14	25.4 %	13.0 %	74		

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.

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

Excludes commenced and executed leases of approximately 465,950 and 321,475 rentable square feet, (5) respectively, for the year ended December 31, 2014, 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.

Calculated as the change between stated rents for new/renewed leases and the expiring stated rents for the same (6) 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, 2014, 25 new leases totaling 489,482 rentable square feet were signed but not commenced as of December 31, 2014.

As of December 31, 2014, we believe that the weighted average cash rental rates for our stabilized portfolio, including recently acquired operating properties, are approximately 10% under 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 ⁽¹⁾

Year of Lease Expiration	Number of Expiring Leases	Total Square Feet	% of Total Leased Sq. Ft.	Annualized Base Rent ⁽²⁾	% of Total Annualized Base Rent ⁽²⁾	Annualized Base Rent per Sq. Ft. ⁽²⁾
2015	109	1,124,952	8.7	% \$34,948	7.5	% \$31.07
2016	81	780,353	6.0	% 23,460	5.0	% 30.06
2017	107	1,812,670	14.0	% 60,573	12.8	% 33.42
2018	66	1,350,180	10.4	% 54,136	11.5	% 40.10
2019	80	1,486,088	11.4	% 54,028	11.5	% 36.36
Total	443	6,554,243	50.5	% \$227,145	48.3	% \$34.66

The information presented for all lease expiration activity reflects leasing activity through December 31, 2014 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, 2014.

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 0.8 million rentable square feet, or 5.6%, of currently available space in our stabilized portfolio, leases representing approximately 8.7% and 6.0% of the occupied square footage of our stabilized portfolio are scheduled to expire during 2015 and 2016, respectively. The leases scheduled to expire in 2015 and 2016 represent approximately 1.9 million rentable square feet or 12.5% of our total annualized base rental revenue. We believe that the weighted average cash rental rates are approximately 10% under the current average market rental rates for leases scheduled to expire during 2015 and 2016, 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 2014, the annual cash bonus program was structured to allow the Executive Compensation Committee to evaluate a variety of key quantitative and qualitative metrics at the end of the year and make a determination based on the Company's and management's overall performance. Our Executive Compensation Committee also grants equity incentive awards from time to time that include performance-based or 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, 2014, there was approximately \$30.3 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 2.5 years. The \$30.3 million of unrecognized compensation cost does not reflect the future compensation cost for any potential share-based awards that may be issued. 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.

Stabilized Portfolio Information

As of December 31, 2014, our stabilized portfolio was comprised of 111 office properties encompassing an aggregate of approximately 14.1 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, undeveloped land, and real estate assets held for sale. We define redevelopment properties as those properties for which we expect to spend significant development and construction costs on the existing or acquired buildings pursuant to a formal plan, the intended result of which is a higher economic return on the property. As of December 31, 2014, we had no redevelopment properties. We define lease-up properties as properties we recently developed or redeveloped that have not yet reached 95% occupancy and are within one year following cessation of major construction activities. There were no operating properties in “lease-up” as of December 31, 2014. As of December 31, 2014, we had one land parcel held for sale. Our stabilized portfolio also excludes our future development pipeline, which is comprised of nine potential development sites, representing approximately 104 gross acres of undeveloped land on which we believe we have the potential to develop over 3.0 million square feet of office space, depending upon economic conditions.

The following table reconciles the changes in the rentable square feet in our stabilized portfolio of operating properties from December 31, 2013 to December 31, 2014:

	Number of Buildings	Rentable Square Feet
Total as of December 31, 2013 ⁽¹⁾	105	12,736,102
Acquisitions ⁽²⁾	5	407,587
Completed development and redevelopment properties placed in-service	6	1,356,053
Dispositions ⁽¹⁾	(5	) (422,284)
Remeasurement	—	19,159
Total as of December 31, 2014	111	14,096,617

(1)Excludes the twelve properties held for sale as of December 31, 2013.

(2)Excludes development and redevelopment property acquisitions.

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 ⁽¹⁾			
			12/31/2014	12/31/2013	12/31/2012	
Los Angeles and Ventura Counties	27	3,505,590	92.8	% 93.7	% 94.0	%
Orange County	1	271,556	98.7	% 92.8	% 92.0	%
San Diego County	46	4,244,068	90.9	% 90.8	% 90.7	%
San Francisco Bay Area	24	3,887,161	97.3	% 94.8	% 95.5	%
Greater Seattle	13	2,188,242	98.1	% 96.7	% 93.3	%
Total Stabilized Portfolio	111	14,096,617	94.4	% 93.4	% 92.8	%

	Average Occupancy Year Ended December 31,		
	2014	2013	
Stabilized Portfolio ⁽¹⁾	93.5	% 92.1	%
Same Store Portfolio ⁽²⁾	92.7	% 91.4	%

(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, 2013 and still

(2) owned and stabilized as of December 31, 2014. See discussion under “Results of Operations” for additional information.

Current Regional Information

The West Coast real estate markets in which we operate have strengthened in every quarter of 2014, driven by steadily improving economic conditions, net positive job growth and rising business confidence and expansion, especially among the region's many tech, social media, entertainment, life science and communication industries.

San Francisco Bay Area. In 2014, 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. Strong demand and a limited supply pipeline continue to drive asking rents higher. As of December 31, 2014, our San Francisco Bay Area stabilized portfolio of 3.9 million rentable square feet was 97.3% occupied with approximately 104,000 available rentable square feet compared to 94.8% occupied with approximately 124,000 available rentable square feet as of December 31, 2013. As of January 31, 2015, we were 98.9% leased in the San Francisco Bay Area.

As of December 31, 2014, leases representing an aggregate of approximately 216,000 and 118,000 rentable square feet are scheduled to expire during 2015 and 2016, respectively, in this region. The aggregate rentable square feet under leases scheduled to expire during 2015 and 2016 represents approximately 2.6% of our occupied rentable square feet and 3.1% of our annualized base rental revenues in our total stabilized portfolio as of December 31, 2014.

Greater Seattle. During 2014, demand in Seattle remained strong and the region saw year over year asking rents increase. As of December 31, 2014, our greater Seattle stabilized portfolio of 2.2 million rentable square feet was 98.1% occupied with approximately 43,000 available rentable square feet compared to 96.7% occupied with approximately 68,000 available rentable square feet as of December 31, 2013. As of January 31, 2015, we were 98.0% leased in the Greater Seattle Area.

As of December 31, 2014, leases representing an aggregate of approximately 176,000 and 91,000 rentable square feet are scheduled to expire during 2015 and 2016, respectively, in this region. The aggregate rentable square feet under leases scheduled to expire during 2015 and 2016 represents approximately 2.1% of our occupied rentable square feet and 1.6% of our annualized base rental revenues in our total stabilized portfolio as of December 31, 2014.

San Diego County. San Diego showed strong signs of growth during 2014 and rental rates continued to increase. As of January 31, 2015, our San Diego portfolio was 93.9% leased. Our San Diego County stabilized portfolio of 4.2 million rentable square feet was 90.9% occupied with approximately 386,000 available rentable square feet as of December 31, 2014 compared to 90.8% occupied with approximately 401,000 available rentable square feet as of December 31, 2013.

As of December 31, 2014, leases representing an aggregate of approximately 419,000 and 294,000 rentable square feet are scheduled to expire during 2015 and 2016, respectively, in this region. The aggregate rentable square feet under leases scheduled to expire during 2015 and 2016 represents approximately 5.5% of our occupied rentable square

feet and 3.7% of our annualized base rental revenues in our total stabilized portfolio as of December 31, 2014.

Los Angeles and Ventura Counties. During 2014, the Los Angeles market posted its strongest net absorption year since 2005. This activity was mainly centered in the submarkets of West Los Angeles, Santa Monica, Hollywood and Playa Vista. The strong growth was driven by expansion amongst technology, media and co-working firms. Our Los Angeles and Ventura Counties stabilized portfolio of 3.5 million rentable square feet was 92.8% occupied with approximately 252,000 available rentable square feet as of December 31, 2014 compared to 93.7% occupied with

approximately 219,000 available rentable square feet as of December 31, 2013. Across our Los Angeles portfolio, as of January 31, 2015, we were 95.4% leased.

As of December 31, 2014, leases representing an aggregate of approximately 290,000 and 250,000 rentable square feet are scheduled to expire during 2015 and 2016, respectively, in this region. The aggregate rentable square feet under the leases scheduled to expire in this region during 2015 and in 2016 represent approximately 4.1% of our occupied rentable square feet and 3.7% of our annualized base rental revenues in our total stabilized portfolio as of December 31, 2014.

Results of Operations

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

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).

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, 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 building 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 from continuing operations, as defined, for our total portfolio for the years 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 ⁽¹⁾	124,495	29,630	94,865	320.2	
Net income	\$183,808	\$44,565	\$139,243	312.4	%

(1) Includes net gains on dispositions of discontinued operations of \$121.9 million and \$12.3 million for the years ended December 31, 2014 and 2013, respectively (see Note 18 "Discontinued Operations" to our consolidated financial statements included in this report for additional information regarding our discontinued operations).

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

	Year Ended December 31,					2013				
	2014		Stabilized		Total	2013		Stabilized		Total
	Same Store	Acqui-sitions	Development & Redevelopment	Other	Total	Same Store	Acqui-sitions	Development & Redevelopment	Other	Total
	(in thousands)					(in thousands)				
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:										
	90,468	2,695	6,818	533	100,514	86,844	1,953	4,170	1,148	94,115

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Property expenses										
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

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

	Same Store		Acquisitions		Stabilized Development & Redevelopment		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	\$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)
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 Income, 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 is attributable to the properties completed and/or stabilized in September and October of 2014 and \$5.4 million is 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 attributable to the Acquisition Properties, of which \$7.4 million is attributable to properties acquired in 2013, \$6.1 million related to a property acquired in the first quarter of 2014 and \$1.0 million related 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 years ended December 31, 2014 and 2013.

	Year Ended December 31,		Dollar	Percentage	
	2014	2013	Change	Change	
	(\$ in thousands)				
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)%

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 activity, which resulted in higher average asset balances qualifying for interest capitalization during 2014 as compared to 2013.

Comparison of the Year Ended December 31, 2013 to the Year Ended December 31, 2012

The prior year discussion of the results from operations is separated into 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 as of January 1, 2012 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 fourteen office buildings we acquired during 2012 and the four office buildings we acquired during 2013;

Stabilized Redevelopment Properties – which includes the results generated by one office building that was moved into the stabilized portfolio upon completion of redevelopment in the fourth quarter of 2012, one office building that was moved into the stabilized portfolio upon completion of development and one redevelopment property that stabilized in December 2013 at the end of the lease-up; and

Other Properties – which includes the results of properties not included in our stabilized portfolio. These properties consist of one office building that was in the “lease-up” phase.

The following table sets forth certain information regarding the property groups within our stabilized portfolio as of December 31, 2013 still owned and included in the stabilized portfolio as of December 31, 2014.

Group	# of Buildings	Rentable Square Feet
Same Store Properties	79	9,530,338
Acquisition Properties	18	2,298,941
Stabilized Development and Redevelopment Properties	3	484,536
Total Stabilized Portfolio	100	12,313,815

The following tables summarize the Net Operating Income from continuing operations, as defined, for our total portfolio for the year ended December 31, 2013 and 2012.

	Year Ended December 31,		Dollar	Percentage	
	2013	2012	Change	Change	
	(\$ in thousands)				
Reconciliation to Net Income:					
Net Operating Income, as defined	\$319,679	\$264,437	\$55,242	20.9	%
Unallocated (expense) income:					
General and administrative expenses	(39,660	) (36,188	) (3,472	) 9.6	
Acquisition-related expenses	(1,962	) (4,937	) 2,975	(60.3)
Depreciation and amortization	(188,887	) (150,521	) (38,366	) 25.5	
Interest income and other net investment gains	1,635	848	787	92.8	
Interest expense	(75,870	) (79,114	) 3,244	(4.1)
Income (loss) from continuing operations	14,935	(5,475	) 20,410	(372.8)
Income from discontinued operations	29,630	282,576	(252,946) (89.5)
Net income	\$44,565	\$277,101	\$(232,536) (83.9)%

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The following tables summarize the Net Operating Income from continuing operations, as defined, for our total portfolio for the year ended December 31, 2013 and 2012.

	Year Ended December 31, 2013					2012				
	Same Store (in thousands)	Acqui-sitions	Stabilized Redevel-opment	Other	Total	Same Store (in thousands)	Acqui-sitions	Stabilized Redevel-opment	Other	Total
Operating revenues:										
Rental income	\$311,615	\$75,613	\$11,520	\$13,151	\$411,899	\$305,074	\$30,000	\$1,562	\$5,528	\$342,164
Tenant reimbursements	26,762	10,286	615	384	38,047	24,687	4,683	276	21	29,667
Other property income	6,278	884	—	3	7,165	1,135	339	—	13	1,487
Total	344,655	86,783	12,135	13,538	457,111	330,896	35,022	1,838	5,562	373,318
Property and related expenses:										
Property expenses	72,571	16,348	2,497	2,699	94,115	64,931	6,784	562	1,721	73,998
Real estate taxes	28,855	7,187	1,077	2,298	39,417	27,010	2,875	122	1,555	31,562
Provision for bad debts	287	109	4	(4)	396	152	—	—	1	153
Ground leases	1,649	1,251	88	516	3,504	1,692	718	86	672	3,168
Total	103,362	24,895	3,666	5,509	137,432	93,785	10,377	770	3,949	108,881
Net Operating Income, as defined	\$241,293	\$61,888	\$8,469	\$8,029	\$319,679	\$237,111	\$24,645	\$1,068	\$1,613	\$264,437

Year Ended December 31, 2013 as compared to the Year Ended December 31, 2012

	Same Store		Acquisitions		Stabilized Redevelopment		Other		Total	
	Dollar Change (\$ in thousands)	Percent Change	Dollar Change	Percent Change	Dollar Change	Percent Change	Dollar Change	Percent Change	Dollar Change	Percent Change
Operating revenues:										
Rental income	\$6,541	2.1 %	\$45,613	152.0 %	\$9,958	637.5 %	\$7,623	137.9 %	\$69,735	20.4 %
Tenant reimbursements	2,075	8.4	5,603	119.6	339	122.8	363	1,728.6	8,380	28.2
Other property income	5,143	453.1	545	160.8	—	—	(10)	(76.9)	5,678	381.8
Total	13,759	4.2	51,761	147.8	10,297	560.2	7,976	143.4	83,793	22.4
Property and related expenses:										
Property expenses	7,640	11.8	9,564	141.0	1,935	344.3	978	56.8	20,117	27.2
Real estate taxes	1,845	6.8	4,312	150.0	955	782.8	743	47.8	7,855	24.9
Provision for bad debts	135	88.8	109	100.0	4	100.0	(5)	(500.0)	243	158.8
Ground leases	(43)	(2.5)	533	74.2	2	2.3	(156)	(23.2)	336	10.6

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Total	9,577	10.2		14,518	139.9	2,896	376.1	1,560	39.5	28,551	26.2			
Net Operating Income, as defined	\$4,182	1.8	%	\$37,243	151.1%	\$7,401	693.0	%	\$6,416	397.8	%	\$55,242	20.9	%

Net Operating Income increased \$55.2 million, or 20.9%, for the year ended December 31, 2013 as compared to the year ended December 31, 2012 primarily resulting from:

- An increase of \$37.2 million attributable to the Acquisition Properties;

- An increase of \$4.2 million attributable to the Same Store Properties primarily resulting from:

- An increase in rental income of \$6.5 million primarily resulting from an increase in tenant renewals and new leases at higher rental rates;

An increase in tenant reimbursements of \$2.1 million primarily due to higher reimbursable property expenses and real estate taxes;

An increase in other property income primarily due to the receipt of a \$5.2 million property damage settlement payment at one of our properties; and

A partially offsetting increase in property and related expenses of \$9.6 million primarily resulting from:

An increase of \$7.6 million in property expenses primarily as a result of an increase in certain recurring operating costs of approximately \$4.6 million related to property management expenses, utilities, insurance, and other service-related costs; \$1.2 million of non-recurring expenses related to a property damage settlement and a \$1.8 million decrease in property-related insurance proceeds in 2013 compared to 2012; and

An increase in real estate taxes of \$1.8 million primarily as a result of higher assessment of value at several properties and a decrease in property tax refunds received in 2013 compared to 2012.

An increase of \$7.4 million attributable to the Stabilized Development and Redevelopment Properties, of which \$6.8 million is attributable to a full year of operating activity at a property stabilized in the fourth quarter of 2012; and

An increase of \$6.4 million attributable to the Other Properties primarily resulting from income generated from one redevelopment property in lease-up that was 78% occupied at December 31, 2013 compared to 26% occupied at December 31, 2012.

Other Expenses and Income

General and Administrative Expenses

General and administrative expenses increased \$3.5 million, or 9.6%, for the year ended December 31, 2013 compared to the year ended December 31, 2012, primarily attributable to an increase in compensation expense related to higher payroll costs associated with the growth of the Company and the March 2012 and April 2013 renegotiations of our Chief Executive Officer's and Chief Operating Officer's employment agreements and costs associated with our accounting system conversion.

Depreciation and Amortization

Depreciation and amortization increased by \$38.4 million, or 25.5%, for the year ended December 31, 2013 compared to the year ended December 31, 2012, primarily related to the Acquisition 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, 2013 and 2012.

	Year Ended December 31,		Dollar Change	Percentage Change	
	2013	2012			
	(\$ in thousands)				
Gross interest expense	\$ 111,238	\$ 98,906	\$ 12,332	12.5	%
Capitalized interest	(35,368)	(19,792)	(15,576)	78.7	
Interest expense	\$ 75,870	\$ 79,114	\$(3,244)	(4.1)%

Gross interest expense, before the effect of capitalized interest, increased \$12.3 million, or 12.5%, for the year ended December 31, 2013 compared to the year ended December 31, 2012 resulting primarily from an increase in our average outstanding debt balances due to development and acquisition activity and growth of the Company.

Capitalized interest increased \$15.6 million, or 78.7%, for the year ended December 31, 2013 compared to the year ended December 31, 2012, primarily attributable to an increase in our development and redevelopment activity, which resulted in higher average asset balances qualifying for interest capitalization.

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, 2014 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 and the Company currently believes it has the ability to maintain distributions at the 2014 levels to meet the REIT

distribution requirements for 2015. However, there can be no assurance that the Company will have the ability to do so. In addition, to the extent that the Company cannot successfully complete Section 1031 Exchanges to defer some or all of the taxable gains related to completed or future property dispositions, the Company may choose to distribute a special dividend to avoid having to pay 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 9, 2014, the Board of Directors declared a regular quarterly cash dividend of \$0.35 per share of common stock payable on January 14, 2015 to stockholders of record on December 31, 2014 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 14, 2015 were \$31.3 million.

On December 9, 2014, 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, 2013 and ending on and including February 17, 2014. The dividend will be payable on February 16, 2015 to Series G Preferred and Series H Preferred stockholders of record on January 31, 2015. The quarterly dividends payable on February 16, 2015 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, 2014, our total debt as a percentage of total market capitalization was 28.2% and our total debt and liquidation value of our preferred equity as a percentage of total market capitalization was 30.4%, which was calculated based on the closing price per share of the Company's common stock of \$69.07 on December 31, 2014 as shown in the following table:

	Shares/Units at December 31, 2014	Aggregate Principal Amount or \$ Value Equivalent	% of Total Market Capitalization	
	(\$ in thousands)			
Debt:				
Unsecured Revolving Credit Facility		\$ 140,000	1.6	%
Unsecured Term Loan Facility		150,000	1.7	
Unsecured Term Loan		39,000	0.5	
Unsecured Senior Notes due 2015 ⁽¹⁾		325,000	3.7	
Unsecured Senior Notes due 2018 ⁽¹⁾		325,000	3.7	
Unsecured Senior Notes due 2020 ⁽¹⁾		250,000	2.9	
Unsecured Senior Notes due 2023 ⁽¹⁾		300,000	3.4	
Unsecured Senior Notes due 2029 ⁽¹⁾		400,000	4.6	
Secured debt ⁽¹⁾		536,022	6.1	
Total debt		2,465,022	28.2	
Equity and Noncontrolling Interests:				
6.875% Series G Cumulative Redeemable Preferred stock ⁽²⁾	4,000,000	100,000	1.1	
6.375% Series H Cumulative Redeemable Preferred stock ⁽²⁾	4,000,000	100,000	1.1	
Common limited partnership units outstanding ⁽³⁾⁽⁴⁾	1,804,200	124,616	1.5	
Shares of common stock outstanding ⁽⁴⁾	86,259,684	5,957,956	68.1	
Total equity and noncontrolling interests		6,282,572	71.8	
Total Market Capitalization		\$8,747,594	100.0	%

Represents gross aggregate principal amount due at maturity before the effect of net unamortized premiums as of (1) December 31, 2014. The aggregate net unamortized premiums totaled approximately \$4.4 million as of December 31, 2014.

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

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

(4) Value based on closing price per share of our common stock of \$69.07 as of December 31, 2014.

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; 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 2014 Funding Transactions

We continue to be active in the capital markets to finance our acquisition and development activity and our continued desire to improve 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 the year ended December 31, 2014, the Company completed its existing at-the-market stock offering program (the “July 2011 At-The-Market Program”) and in December 2014 commenced a new at-the-market stock offering program (the “December 2014 At-The-Market Program”) under which we may offer to sell shares of our common stock with an aggregate gross sales price of up to \$300.0 million. During 2014, we issued and sold a total of 1,599,123 shares of our common stock under our at-the-market stock offering programs at a weighted average price of \$65.49 per share before selling commissions. The net offering proceeds (after deducting sales agent compensation) were approximately \$103.1 million (see “—Liquidity Sources” below for additional information).

In July 2014, 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 August 2029. The unsecured senior notes require semi-annual interest payments each February and August based on a stated annual interest rate of 4.250%.

In August 2014, we repaid the Series B unsecured senior notes with an outstanding principal balance of \$83.0 million upon maturity (see Note 5 “Secured and Unsecured Debt of the Operating Partnership” to our consolidated financial

statements included in this report for additional information).

During the year ended December 31, 2014, we settled \$37.0 million of early exchanges of the 4.25% Exchangeable Notes due 2014 and repaid the remaining \$135.5 million principal balance upon maturity. In connection with the exchanges, we issued 1,575,981 net shares of common stock representing the value of the exchange option at maturity (see Note 5 “Secured and Unsecured Debt of the Operating Partnership” to our consolidated financial statements included in this report for additional information).

Capital Recycling Program

During the year ended December 31, 2014, we completed the sale of fourteen properties located in San Diego, one office property located in Irvine, one office property in San Rafael, one office property in Orange, and one undeveloped land parcel located in San Diego to unaffiliated third parties in six separate transactions for gross sales proceeds totaling approximately \$432.6 million. (See “—Factors that May Influence Future Operations” included in this report for additional information).

After the effect of these aforementioned transactions, as of December 31, 2014, we had approximately \$23.8 million of unrestricted cash on hand, \$75.2 million of restricted cash and \$140.0 million outstanding borrowings 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, 2014 and December 31, 2013:

	December 31, 2014	December 31, 2013
	(in thousands)	
Outstanding borrowings	\$ 140,000	\$ 45,000
Remaining borrowing capacity	460,000	455,000
Total borrowing capacity ⁽¹⁾⁽²⁾	\$ 600,000	\$ 500,000
Interest rate ⁽²⁾⁽³⁾	1.41	% 1.62
Facility fee-annual rate ⁽⁴⁾	0.250%	0.300%
Maturity date ⁽²⁾	July 2019	April 2017

We may elect to borrow, subject to bank approval and obtaining commitments for any additional borrowing 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.

Our unsecured revolving credit facility interest rate was calculated based on an annual rate of LIBOR plus 1.250% as of December 31, 2014. In the second quarter of 2014, the Company amended the terms of our unsecured revolving credit facility to increase the borrowing capacity to \$600.0 million, extended the maturity to July 2019 and reduced the annual interest rate to LIBOR plus 1.250%. The amendment did not affect the outstanding borrowings under the unsecured revolving credit facility.

Our unsecured revolving credit facility interest rate was calculated based on an annual rate of LIBOR plus 1.450% as of December 31, 2013.

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, 2014, \$5.9 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 fund potential acquisitions, to finance development and redevelopment expenditures 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 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, through December 31, 2014, we completed the sale of the properties and land noted above for gross sales proceeds totaling approximately \$432.6 million. As of December 31, 2014, approximately \$59.2 million of the gross sales proceeds were temporarily being held at qualified intermediaries, at our direction, for the purpose of facilitating Section 1031 Exchanges. During 2013, we completed the sale of three office buildings to unaffiliated third parties in three separate transactions, for gross sales proceeds totaling approximately \$56.9 million. See “—Factors that May Influence Future Operations” for additional information.

We currently anticipate that we could dispose of approximately \$250.0 million to \$400.0 million of less strategic and lower return real estate assets in 2015. However, 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 you that we will dispose of any additional properties or that future acquisitions and/or dispositions, if any, will qualify as Section 1031 Exchanges.

At-The-Market Stock Offering Program

The following table sets forth information regarding sales of our common stock under our at-the-market offering program for the year ended December 31, 2014 and 2013:

	Year Ended December 31,	
	2014	2013
	(in millions, except share and per share data)	
Shares of common stock sold during the year	1,599,123	1,040,838
Weighted average price per common share	\$65.49	\$53.11
Aggregate gross proceeds	\$104.7	\$55.3
Aggregate net proceeds after sales agent compensation	\$103.1	\$54.4

The proceeds from sales were used to fund acquisitions, development expenditures and general corporate purposes including repayment of borrowings under the unsecured revolving credit facility. During the year ended December 31, 2014, under the July 2011 At-The-Market Program, we sold 1,457,623 shares of common stock and completed the program. Since commencement of the December 2014 At-The-Market Program, as of December 31, 2014, we sold 141,500 shares of common stock and approximately \$290.0 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 the December 2014 program.

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, 2014 was as follows:

	Aggregate Principal Amount Outstanding (in thousands)
Unsecured Revolving Credit Facility	\$ 140,000
Unsecured Term Loan Facility	150,000
Unsecured Term Loan	39,000
Unsecured Senior Notes due 2015 ⁽¹⁾	325,000
Unsecured Senior Notes due 2018 ⁽¹⁾	325,000
Unsecured Senior Notes due 2020 ⁽¹⁾	250,000
Unsecured Senior Notes due 2023 ⁽¹⁾	300,000
Unsecured Senior Notes due 2029 ⁽¹⁾	400,000
Secured Debt ⁽¹⁾	536,022
Total Unsecured and Secured Debt	\$ 2,465,022

Represents gross aggregate principal amount due at maturity before the effect of net unamortized premiums as of (1)December 31, 2014. The aggregate net unamortized premiums totaled approximately \$4.4 million as of December 31, 2014.

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, 2014 and December 31, 2013 was as follows:

	Percentage of Total Debt		Weighted Average Interest Rate		
	December 31, 2014	December 31, 2013	December 31, 2014	December 31, 2014	December 31, 2013
Secured vs. unsecured:					
Unsecured ⁽¹⁾	78.3	% 75.1	%	4.2	% 4.6
Secured	21.7	24.9	5.2	%	5.2
Variable-rate vs. fixed-rate:					
Variable-rate	13.4	8.9	1.5	%	1.9
Fixed-rate ⁽¹⁾	86.6	91.1	4.9	%	5.0
Stated rate ⁽¹⁾			4.4	%	4.8
GAAP effective rate ⁽²⁾			4.3	%	4.8
GAAP effective rate including debt issuance costs			4.5	%	5.1

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

(2)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, 2014. 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, 2014; (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, 2014. 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 1 Year (2015) (in thousands)	2-3 Years (2016-2017)	4-5 Years (2018-2019)	More than 5 Years (After 2019)	
Principal payments: secured debt ⁽¹⁾	\$70,103	\$ 171,179	\$ 203,097	\$91,643	\$536,022
Principal payments: unsecured debt ⁽²⁾	325,000	—	654,000	950,000	1,929,000
Interest payments: fixed-rate debt ⁽³⁾	101,552	118,902	95,594	235,539	551,587
Interest payments: variable-rate debt ⁽⁴⁾	2,948	5,897	4,410	—	13,255
Interest payments: unsecured revolving credit facility ⁽⁵⁾	1,974	3,948	2,953	—	8,875
Ground lease obligations ⁽⁶⁾	3,120	6,240	6,240	154,358	169,958
Lease and contractual commitments ⁽⁷⁾	87,493	—	—	—	87,493
Development commitments ⁽⁸⁾	389,000	76,000	—	—	465,000
Total	\$981,190	\$ 382,166	\$ 966,294	\$ 1,431,540	\$3,761,190

(1) Represents gross aggregate principal amount before the effect of the unamortized premium of approximately \$10.3 million as of December 31, 2014.

(2) Represents gross aggregate principal amount before the effect of the unamortized discount of approximately \$5.9 million as of December 31, 2014.

As of December 31, 2014, 86.6% 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, interest payment dates and scheduled maturity dates.

As of December 31, 2014, 7.7% 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 1.400% as of December 31, 2014. 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, 2014, the scheduled interest payment dates and the contractual maturity dates.

As of December 31, 2014, 5.7% of our debt bore interest at variable rates, which was incurred under the unsecured revolving credit facility. The variable interest rate payments are based on LIBOR plus a spread of 1.250% as of (5) December 31, 2014. 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, 2014, the scheduled interest payment dates and the contractual maturity dates.

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

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

Amounts represent commitments under signed leases for pre-leased development projects and contractual (8) commitments for projects under construction as of December 31, 2014. The timing of these expenditures may fluctuate based on the ultimate progress of construction. We may start additional construction in 2015 (see “—Development” for additional information).

Other Liquidity Uses

Debt Maturities

As of December 31, 2014, we had unsecured debt with principal balances of \$325.0 million scheduled to mature in November 2015. 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.

Development

As of December 31, 2014, we had six development projects under construction. These projects have a total estimated investment of approximately \$1.0 billion, of which we have incurred approximately \$575.3 million and committed an additional \$465.0 million as of December 31, 2014. In addition, we currently have additional development projects that we may commence construction on in 2015. We currently believe we could potentially spend \$50.0 to \$75.0 million during 2015 in addition to the amount committed as of December 31, 2014. This total estimated investment is based on market conditions and our anticipation of project approvals. Actual costs could vary depending on changes in circumstances. Ultimate timing of these expenditures may fluctuate given the ultimate progress and leasing status of the projects.

Potential Future Acquisitions

During the year ended December 31, 2014, we acquired five office buildings and three undeveloped land sites for approximately \$351.0 million in cash. In 2013, we acquired four buildings and two undeveloped land sites for approximately \$305.5 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. We expect to continue to monitor our target markets and pursue the acquisition of value add development opportunities and operating properties that add immediate Net Operating Income to our portfolio or play a strategic role in our future growth.

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 with our stabilized portfolio, excluding our development properties, we believe we could spend approximately \$25.0 to \$50.0 million in capital improvements, tenant improvements and leasing costs in 2015, in addition to the approximately \$87.5 million of lease and contractual commitments included in our capital commitments table above. The amount we ultimately spend will depend on leasing activity during 2015.

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, 2014 on a per square foot basis.

	Year Ended December 31,		
	2014	2013	2012
Office Properties: ⁽¹⁾			
Capital Expenditures:			
Capital expenditures per square foot	\$0.84	\$0.73	\$0.78
Tenant Improvement and Leasing Costs ⁽²⁾			
Replacement tenant square feet ⁽³⁾	741,573	850,295	607,118
Tenant improvements per square foot commenced	\$39.06	\$39.24	\$31.75
Leasing commissions per square foot commenced	\$11.42	\$12.25	\$11.22
Total per square foot	\$50.48	\$51.48	\$42.97
Renewal tenant square feet	1,333,231	1,188,308	629,664
Tenant improvements per square foot commenced	\$14.23	\$16.90	\$9.63
Leasing commissions per square foot commenced	\$9.71	\$10.32	\$7.91
Total per square foot	\$23.94	\$27.22	\$17.53
Total per square foot per year	\$5.81	\$5.97	\$5.30
Average remaining lease term (in years)	5.8	6.3	5.7

(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 increased moderately in 2014. As all of our properties are well-maintained and do not require significant capital improvements, and based upon 2015 budgeted projects, we currently anticipate future capital expenditure levels to be consistent with or slightly above historical levels.

Distribution Requirements

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

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Other Potential Future Liquidity Uses

We remain a disciplined buyer of development opportunities and office properties and continue to focus on value add 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. We expect that any material acquisitions or development activities 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.

In addition, 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.

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 economic conditions, 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 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, 2014
Total debt to total asset value	less than 60%	32%
Fixed charge coverage ratio	greater than 1.5x	2.6x
Unsecured debt ratio	greater than 1.67x	2.83x
Unencumbered asset pool debt service coverage	greater than 1.75x	3.59x

Unsecured Senior Notes due 2015, 2018, 2020, 2023 and 2029

(as defined in the applicable Indentures):

Total debt to total asset value	less than 60%	40%
Interest coverage	greater than 1.5x	5.1x
Secured debt to total asset value	less than 40%	9%
Unencumbered asset pool value to unsecured debt	greater than 150%	262%

The Operating Partnership was in compliance with all its debt covenants as of December 31, 2014. 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, 2014 as compared to the year ended December 31, 2013 is as follows:

	Year Ended December 31,		Dollar Change	Percentage Change
	2014	2013		
	(\$ in thousands)			
Net cash provided by operating activities	\$245,253	\$240,576	\$4,677	1.9 %
Net cash used in investing activities	(501,436)	(506,520)	5,084	(1.0)%
Net cash provided by financing activities	244,587	284,621	(40,034)	(14.1)%

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 \$4.7 million, or

1.9%, for the year ended December 31, 2014 compared to the year ended December 31, 2013 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 used in investing activities is generally used to fund property, development and redevelopment acquisitions, recurring and nonrecurring capital expenditures for our operating properties, and development and redevelopment projects, net of proceeds received from dispositions of operating properties. Our net cash used in investing activities decreased by \$5.1 million, or 1.0%, for the year ended December 31, 2014 compared to the year ended December 31, 2013, primarily as a result of proceeds received from the disposition of 17 operating properties and one undeveloped land parcel during 2014, partially offset by an increase in cash paid for acquisitions and expenditures at our operating properties, development and redevelopment properties and undeveloped land as compared to the prior year.

Financing Activities

Our net cash provided by 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 \$40.0 million, or 14.1%, for the year ended December 31, 2014 compared to the year ended December 31, 2013 primarily due to a decrease in the issuance of equity in 2014 compared to the prior year period and the repayment of our 4.25% Exchangeable Notes offset by an increase in proceeds received from the issuance of unsecured debt.

Off-Balance Sheet Arrangements

As of December 31, 2014 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 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, 2014, 2013, 2012, 2011 and 2010:

	Year ended December 31,				
	2014	2013	2012	2011	2010
	(in thousands)				
Net income available to common stockholders	\$166,969	\$30,630	\$249,826	\$50,819	\$4,512
Adjustments:					
Net income attributable to noncontrolling common units of the Operating Partnership	3,589	685	6,187	1,474	178
Depreciation and amortization of real estate assets	202,108	199,558	168,687	135,467	102,898
Net gain on dispositions of discontinued operations	(121,922)	(12,252)	(259,245)	(51,587)	(949)
Funds From Operations ⁽¹⁾	\$250,744	\$218,621	\$165,455	\$136,173	\$106,639

⁽¹⁾ Includes amortization of deferred revenue related to tenant-funded tenant improvements of \$11.0 million, \$10.7 million, \$9.1 million, \$9.3 million and \$9.7 million for the years ended December 31, 2014, 2013, 2012, 2011 and 2010, 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, 2014, 2013, 2012, 2011 and 2010:

	Year Ended December 31,				
	2014	2013	2012	2011	2010
Weighted average shares of common stock outstanding	83,090,235	77,343,853	69,639,623	56,717,121	49,497,487
Weighted average common units outstanding	1,804,263	1,822,407	1,763,635	1,720,323	1,723,131
Effect of participating securities – nonvested shares and restricted stock units	1,228,807	1,224,208	1,127,534	924,747	812,865
Total basic weighted average shares / units outstanding	86,123,305	80,390,468	72,530,792	59,362,191	52,033,483
Effect of dilutive securities – Exchangeable Notes, stock options and contingently issuable shares	1,877,485	1,765,025	1,123,482	187,134	15,708
Total diluted weighted average shares / units outstanding	88,000,790	82,155,493	73,654,274	59,549,325	52,049,191

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, 2014 and 2013, we did not have any interest-rate sensitive derivative assets or liabilities. Information about our changes in interest rate risk exposures from December 31, 2013 to December 31, 2014 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, 2014, approximately 13.4% of our total outstanding debt of \$2.5 billion was subject to variable interest rates. The remaining 86.6% 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 16 “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, 2014 and December 31, 2013.

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 and unsecured term loan 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. As of December 31, 2013, the total outstanding balance of our variable-rate debt was comprised of borrowings on our unsecured revolving credit facility of \$45.0 million and borrowings on our unsecured term loan facility of \$150.0 million, which were indexed to LIBOR plus a spread of 1.450% (weighted average interest rate of 1.62%) and 1.750% (weighted average interest rate of 1.92%), respectively. Assuming no changes in the outstanding balance of our existing variable-rate debt as of December 31, 2014, a 100 basis point increase in the LIBOR rate would increase our projected annual interest expense, before the effect of capitalization, by approximately \$3.3 million. Comparatively, if interest rates were 100 basis points higher as of December 31, 2013, our projected annual interest expense, before the effect of capitalization, would have been \$2.0 million higher.

The total carrying value of our fixed-rate debt was approximately \$2.1 billion and \$2.0 billion as of December 31, 2014 and 2013, respectively. The total estimated fair value of our fixed-rate debt was approximately \$2.2 billion and \$2.1 billion as of December 31, 2014 and 2013, 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 \$104.4 million, or 4.7%, as of December 31, 2014. 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 \$85.1 million, or 4.0%, as of December 31, 2013.

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, 2014, 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, 2014.

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, 2014, 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, 2014, 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, 2014, of the Company and our report dated February 10, 2015, expressed an unqualified opinion on

those financial statements and financial statement schedules.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California

February 10, 2015

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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, 2014, 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, 2014.

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, 2014, 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, 2014, 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, 2014, of the Operating Partnership and our report dated February 10, 2015, expressed an unqualified

opinion on those financial statements and financial statement schedules.

/s/ DELOITTE & TOUCHE LLP
Los Angeles, California
February 10, 2015

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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 2015.

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 2015.

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 2015.

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 2015.

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 2015.

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, 2014 and 2013 – Kilroy Realty Corporation</u>	<u>F - 3</u>
<u>Consolidated Statements of Operations for the Years ended December 31, 2014, 2013 and 2012 – Kilroy Realty Corporation</u>	<u>F - 4</u>
<u>Consolidated Statements of Equity for the Years ended December 31, 2014, 2013 and 2012 – Kilroy Realty Corporation</u>	<u>F - 5</u>
<u>Consolidated Statements of Cash Flows for the Years ended December 31, 2014, 2013 and 2012 – Kilroy Realty Corporation</u>	<u>F - 6</u>
<u>Report of Independent Registered Public Accounting Firm – Kilroy Realty, L.P.</u>	<u>F - 8</u>
<u>Consolidated Balance Sheets as of December 31, 2014 and 2013 – Kilroy Realty, L.P.</u>	<u>F - 9</u>
<u>Consolidated Statements of Operations for the Years ended December 31, 2014, 2013 and 2012 – Kilroy Realty, L.P.</u>	<u>F - 10</u>
<u>Consolidated Statements of Capital for the Years ended December 31, 2014, 2013 and 2012 – Kilroy Realty, L.P.</u>	<u>F - 11</u>
<u>Consolidated Statements of Cash Flows for the Years ended December 31, 2014, 2013 and 2012 – Kilroy Realty, L.P.</u>	<u>F - 12</u>
<u>Notes to Consolidated Financial Statements</u>	<u>F - 14</u>
<u>Schedule II – Valuation and Qualifying Accounts</u>	<u>F - 62</u>
<u>Schedule III – Real Estate and Accumulated Depreciation</u>	<u>F - 63</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	Note and Guarantee Agreement, dated August 4, 2004, by and between Kilroy Realty, L.P. and Kilroy Realty Corporation and the purchasers whose names appear in the acceptance form at the end of the Note and Guarantee Agreement (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on August 11, 2004)
4.8	Registration Rights Agreement, dated November 20, 2009, among Kilroy Realty, L.P., Kilroy Realty Corporation, J.P. Morgan Securities Inc., and Merrill Lynch, Pierce, Fenner & Smith Incorporated (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on November 25, 2009)
4.9	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)
4.10	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)
4.11	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)
4.12	Indenture, dated November 3, 2010, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, including the form of 5.000% Senior Notes due 2015 and the form of related guarantee (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 November 4, 2010)
4.13	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)

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- 4.14 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)
- 4.15 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)

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Exhibit Number	Description
4.16	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)
4.17	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)
4.18	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)
4.19	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))

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- 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))

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Exhibit Number	Description
10.13	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
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†	Noncompetition Agreement by and between the Registrant and John B. Kilroy, Sr. (previously filed by Kilroy Realty Corporation as an exhibit to the Registration Statement on Amendment No. 3 to Form S-11 (No. 333-15553))
10.18	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))
10.19	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)
10.20	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)
10.21†	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)
10.22†	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)
10.23†	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)
10.24†	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)
10.25†	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Heidi Roth 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)
10.26†	Amendment No. 1 to Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Heidi Roth effective as of December 31, 2009 (previously filed by Kilroy Realty Corporation as an exhibit on Form 10-K for the year ended December 31, 2008)
10.27†	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)
10.28†	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)
10.29†	

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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)

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Exhibit Number	Description
10.30	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)
10.31	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)
10.32	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)
10.33	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)
10.34	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)
10.35†	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)
10.36†	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)
10.37†	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)
10.38	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)
10.39	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)
10.40	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)
10.41	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)
10.42	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)
10.43	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)
10.44	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)
10.45	

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10.46 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)
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)

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Exhibit Number	Description
10.47†	Noncompetition Agreement by and between Kilroy Realty Corporation, Kilroy Realty, L.P. and Jeffrey C. Hawken (previously filed by Kilroy Realty Corporation and Kilroy Realty, L.P. as an exhibit on Form 10-Q for the quarter ended March 31, 2013)
10.48†	Amended and Restated Employment Agreement by and between Kilroy Realty Corporation, Kilroy Realty, L.P. and Jeffrey C. Hawken effective as of January 1, 2013 (previously filed by Kilroy Realty Corporation as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on April 5, 2013)
10.49†	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)
10.50†	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)
10.51†	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)
10.52†	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)
10.53†	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)
10.54†	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)
10.55†	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)
10.56†	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 23, 2014)
10.57	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)
10.58	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)
10.59	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)
10.60	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)
10.61	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)
10.62	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)
10.63	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)
10.64	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)
10.65	

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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)

10.66

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)

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Exhibit Number	Description
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)
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.
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, 2014, 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. ⁽¹⁾

* 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.

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 10, 2015.

KILROY REALTY CORPORATION

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

POWER OF ATTORNEY

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

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

Name	Title	Date
/s/ John B. Kilroy, Jr. John B. Kilroy, Jr.	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	February 10, 2015
/s/ Tyler H. Rose Tyler H. Rose	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 10, 2015
/s/ Heidi R. Roth Heidi R. Roth	Executive Vice President, Chief Accounting Officer and Controller (Principal Accounting Officer)	February 10, 2015
/s/ Edward F. Brennan, Ph.D. Edward F. Brennan, Ph.D.	Director	February 10, 2015
/s/ Scott S. Ingraham Scott S. Ingraham	Director	February 10, 2015
/s/ Gary R. Stevenson Gary R. Stevenson	Director	February 10, 2015
/s/ Peter B. Stoneberg Peter B. Stoneberg	Director	February 10, 2015

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 10, 2015.

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

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

Name	Title	Date
/s/ John B. Kilroy, Jr. John B. Kilroy, Jr.	Chairman of the Board, President and Chief Executive Officer (Principal Executive Officer)	February 10, 2015
/s/ Tyler H. Rose Tyler H. Rose	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 10, 2015
/s/ Heidi R. Roth Heidi R. Roth	Executive Vice President, Chief Accounting Officer and Controller (Principal Accounting Officer)	February 10, 2015
/s/ Edward F. Brennan, Ph.D. Edward F. Brennan, Ph.D.	Director	February 10, 2015
/s/ Scott S. Ingraham Scott S. Ingraham	Director	February 10, 2015
/s/ Gary R. Stevenson Gary R. Stevenson	Director	February 10, 2015
/s/ Peter B. Stoneberg Peter B. Stoneberg	Director	February 10, 2015

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.

CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2014 AND 2013
AND FOR THE THREE YEARS ENDED DECEMBER 31, 2014

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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, 2014 and 2013, and the related consolidated statements of operations, equity, and cash flows for each of the three years in the period ended December 31, 2014. 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, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, 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.

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, 2014, 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 10, 2015, expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP
Los Angeles, California
February 10, 2015

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

	December 31, 2014	December 31, 2013
ASSETS		
REAL ESTATE ASSETS (Notes 3 and 18):		
Land and improvements	\$877,633	\$657,491
Buildings and improvements	4,059,639	3,590,699
Undeveloped land and construction in progress	1,120,660	1,016,757
Total real estate held for investment	6,057,932	5,264,947
Accumulated depreciation and amortization	(947,664	) (818,957
Total real estate held for investment, net (\$211,755 and \$234,532 of VIE, Note 2)	5,110,268	4,445,990
REAL ESTATE ASSETS AND OTHER ASSETS HELD FOR SALE, NET (Note 18)	8,211	213,100
CASH AND CASH EQUIVALENTS	23,781	35,377
RESTRICTED CASH (Note 18)	75,185	49,780
MARKETABLE SECURITIES (Notes 13 and 16)	11,971	10,008
CURRENT RECEIVABLES, NET (Note 5)	7,229	10,743
DEFERRED RENT RECEIVABLES, NET (Note 5)	156,416	127,123
DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLE ASSETS, NET (Notes 3 and 4)	201,926	186,622
DEFERRED FINANCING COSTS, NET (Notes 2 and 7)	18,374	16,502
PREPAID EXPENSES AND OTHER ASSETS, NET	20,375	15,783
TOTAL ASSETS	\$5,633,736	\$5,111,028
LIABILITIES AND EQUITY		
LIABILITIES:		
Secured debt (Notes 3, 6, 7 and 16)	\$546,292	\$560,434
Exchangeable senior notes, net (Notes 6, 7 and 16)	—	168,372
Unsecured debt, net (Notes 6, 7 and 16)	1,783,121	1,431,132
Unsecured line of credit (Notes 6, 7 and 16)	140,000	45,000
Accounts payable, accrued expenses and other liabilities (Note 15)	225,830	198,467
Accrued distributions (Note 10)	32,899	31,490
Deferred revenue and acquisition-related intangible liabilities, net (Notes 3, 4 and 8)	132,239	101,286
Rents received in advance and tenant security deposits	49,363	44,240
Liabilities and deferred revenue of real estate assets held for sale (Note 18)	56	14,447
Total liabilities	2,909,800	2,594,868
COMMITMENTS AND CONTINGENCIES (Note 15)		
EQUITY (Notes 9 and 10):		
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,	96,256	96,256

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4,000,000 shares authorized, issued and outstanding (\$100,000 liquidation preference)

Common stock, \$.01 par value, 150,000,000 shares authorized, 86,259,684 and 82,153,944 shares issued and outstanding, respectively	863	822
Additional paid-in capital	2,635,900	2,478,975
Distributions in excess of earnings	(162,964	) (210,896
Total stockholders' equity	2,666,210	2,461,312
Noncontrolling Interests:		
Common units of the Operating Partnership	51,864	49,963
Noncontrolling interest in consolidated subsidiary (Notes 2, 3, and 9)	5,862	4,885
Total noncontrolling interests	57,726	54,848
Total equity	2,723,936	2,516,160
TOTAL LIABILITIES AND EQUITY	\$5,633,736	\$5,111,028

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,		
	2014	2013	2012
REVENUES:			
Rental income	\$466,328	\$411,899	\$342,164
Tenant reimbursements	46,717	38,047	29,667
Other property income (Notes 15 and 17)	8,680	7,165	1,487
Total revenues	521,725	457,111	373,318
EXPENSES:			
Property expenses	100,514	94,115	73,998
Real estate taxes	45,197	39,417	31,562
Provision for bad debts	58	396	153
Ground leases (Note 4 and 15)	3,075	3,504	3,168
General and administrative expenses	46,152	39,660	36,188
Acquisition-related expenses	1,479	1,962	4,937
Depreciation and amortization (Notes 2 and 4)	202,417	188,887	150,521
Total expenses	398,892	367,941	300,527
OTHER (EXPENSES) INCOME:			
Interest income and other net investment gains (Note 16)	561	1,635	848
Interest expense (Note 7)	(67,571)	(75,870)	(79,114)
Total other (expenses) income	(67,010)	(74,235)	(78,266)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE GAIN ON SALE OF LAND	55,823	14,935	(5,475)
Gain on sale of land (Note 18)	3,490	—	—
INCOME (LOSS) FROM CONTINUING OPERATIONS	59,313	14,935	(5,475)
DISCONTINUED OPERATIONS (Note 18)			
Income from discontinued operations	2,573	17,378	23,331
Net gain on dispositions of discontinued operations	121,922	12,252	259,245
Total income from discontinued operations	124,495	29,630	282,576
NET INCOME	183,808	44,565	277,101
Net income attributable to noncontrolling common units of the Operating Partnership	(3,589)	(685)	(6,187)
NET INCOME ATTRIBUTABLE TO KILROY REALTY CORPORATION	180,219	43,880	270,914
PREFERRED DISTRIBUTIONS AND DIVIDENDS:			
Preferred dividends (Note 10)	(13,250)	(13,250)	(10,567)
Distributions to noncontrolling cumulative redeemable preferred units of the Operating Partnership (Note 9)	—	—	(3,541)
Original issuance costs of redeemed preferred stock and preferred units (Notes 9 and 10)	—	—	(6,980)
Total preferred distributions and dividends	(13,250)	(13,250)	(21,088)
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$166,969	\$30,630	\$249,826
	\$0.52	\$0.00	\$(0.40)

Income (loss) from continuing operations available to common stockholders
per share of
common stock – basic (Note 19)

Income (loss) from continuing operations available to common stockholders per share of common stock – diluted (Note 19)	\$0.51	\$0.00	\$(0.40)
Net income available to common stockholders per share – basic (Note 19)	\$1.99	\$0.37	\$3.56
Net income available to common stockholders per share – diluted (Note 19)	\$1.95	\$0.37	\$3.56
Weighted average shares of common stock outstanding – basic (Note 19)	83,090,235	77,343,853	69,639,623
Weighted average shares of common stock outstanding – diluted (Note 19)	84,967,720	77,343,853	69,639,623

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)

	Preferred Stock	Number of Shares	Common Stock	Additional Paid-in Capital	Distributions in Excess of Earnings	Total Stock- holders' Equity	Noncontrol- Interests	Total Equity
BALANCE AT DECEMBER 31, 2011	\$ 121,582	58,819,717	\$ 588	\$ 1,448,997	\$(277,450)	\$ 1,293,717	\$ 33,765	\$ 1,327,482
Net income					270,914	270,914	6,187	277,101
Issuance of Series G and Series H Preferred Stock	192,411					192,411		192,411
Redemption of Series E and Series F Preferred Stock	(121,582)				(4,918)	(126,500)		(126,500)
Redemption of Series A Preferred Units					(2,062)	(2,062)		(2,062)
Issuance of common stock		16,024,618	161	671,941		672,102		672,102
Issuance of share-based compensation awards		62,137		1,291		1,291		1,291
Noncash amortization of share-based compensation				8,537		8,537		8,537
Repurchase of common stock and restricted stock units		(22,312)		(877)		(877)		(877)
Settlement of restricted stock units for shares of common stock		27,821		(784)		(784)		(784)
Exercise of stock options		5,000		129		129		129
Issuance of common units in connection with an operating property acquisition							5,604	5,604
Exchange of common units of the Operating Partnership		10,000		231		231	(231)	—
Adjustment for noncontrolling interest in the Operating Partnership				(3,460)		(3,460)	3,460	—
Preferred dividends and distributions					(14,108)	(14,108)		(14,108)
Dividends declared per share of common stock					(101,911)	(101,911)	(2,482)	(104,393)

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and common unit (\$1.40 per share/unit)								
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 consolidated subsidiary							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 AS OF DECEMBER 31, 2013	192,411	82,153,944	822	2,478,975	(210,896)	2,461,312	54,848	2,516,160
Net income					180,219	180,219	3,589	183,808
Issuance of common stock (Note 10)		1,950,599	20	123,840		123,860		123,860
Issuance of share-based compensation awards (Note 12)				1,692		1,692		1,692
Noncash amortization of share-based compensation (Note 12)				14,471		14,471		14,471
Exercise of stock options (Note 12)		495,000	5	21,087		21,092		21,092

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Repurchase of common stock, stock options and restricted stock units (Note 12)	(58,045)	(3,533)	(3,533)	(3,533)
Settlement of restricted stock units for shares of common stock (Note 12)	141,205	(1)	(1)	(1)
Common shares issued in connection with settlement of 4.25% Exchangeable Senior Notes (Note 7)	2,091,323	21	202	223
Common shares received in connection with capped call option transactions (Note 7)	(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 (Note 2)		(866)	(866)	866
Contribution by noncontrolling interest in consolidated subsidiary (Note 2)				977
Preferred dividends			(13,250)	(13,250)
Dividends declared per share of common stock and common unit (\$1.40 per share/unit)			(119,037)	(119,037)
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

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 183,808	\$ 44,565	\$ 277,101
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	202,108	199,558	168,687
Increase (decrease) in provision for bad debts	58	396	(42)
Depreciation of furniture, fixtures and equipment	2,370	1,929	1,213
Noncash amortization of share-based compensation awards (Note 12)	12,095	8,616	7,670
Noncash amortization of deferred financing costs and debt discounts and premiums	4,315	5,315	8,433
Noncash amortization of net below market rents (Note 4)	(8,328)	(7,777)	(6,699)
Net gain on dispositions of discontinued operations (Note 18)	(121,922)	(12,252)	(259,245)
Gain on sale of land (Note 18)	(3,490)	—	—
Noncash amortization of deferred revenue related to tenant-funded tenant improvements (Note 8)	(10,979)	(10,713)	(9,136)
Straight-line rents	(31,782)	(24,135)	(21,530)
Net change in other operating assets	367	(4,615)	(1,297)
Net change in other operating liabilities	16,633	40,137	17,320
Insurance proceeds received for property damage and other, net	—	(448)	(1,751)
Net cash provided by operating activities	245,253	240,576	180,724
CASH FLOWS FROM INVESTING ACTIVITIES:			
Expenditures for acquisitions of operating properties, net of cash acquired (Note 3)	(204,546)	(202,682)	(454,841)
Expenditures for acquisitions of development and redevelopment properties (Note 3)	(147,182)	(102,769)	(333,942)
Expenditures for operating properties	(132,080)	(129,873)	(86,377)
Expenditures for development and redevelopment properties and undeveloped land	(417,784)	(320,141)	(83,310)
Net proceeds received from dispositions of operating properties and land (Note 18)	427,544	21,178	263,572
Insurance proceeds received for property damage	—	448	1,751
(Increase) decrease in acquisition-related deposits	(1,983)	(2,596)	5,000
(Increase) decrease in restricted cash (Note 18)	(25,405)	229,915	(18,359)
Net cash used in investing activities	(501,436)	(506,520)	(706,506)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from issuance of common stock (Note 10)	102,229	349,951	672,102
Borrowings on unsecured line of credit	505,000	55,000	704,000
Repayments on unsecured line of credit	(410,000)	(195,000)	(701,000)
Proceeds from the issuance of unsecured debt (Note 7)	395,528	299,901	150,000
Repayments of exchangeable senior notes (Note 7)	(172,500)	—	(148,000)
Principal payments on secured debt	(9,845)	(93,688)	(106,262)
Borrowings on unsecured debt (Note 7)	39,000	—	—
Repayments of unsecured debt (Note 7)	(83,000)	—	—

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Net proceeds from issuance of Series G and Series H preferred stock	—	—	192,411
Redemption of Series E and Series F preferred stock	—	—	(126,500)
Redemption of Series A preferred units	—	—	(75,000)
Proceeds from the issuance of secured debt	—	—	97,000
Financing costs	(8,648)	(4,384)	(7,963)
Repurchase of common stock and restricted stock units	(3,533)	(2,520)	(1,661)
Proceeds from exercise of stock options	21,092	128	129
Contributions from noncontrolling interests in consolidated subsidiary	977	—	—
Dividends and distributions paid to common stockholders and common unitholders	(118,463)	(111,517)	(97,386)
Dividends and distributions paid to preferred stockholders and preferred unitholders	(13,250)	(13,250)	(14,165)
Net cash provided by financing activities	244,587	284,621	537,705
Net (decrease) increase in cash and cash equivalents	(11,596)	18,677	11,923
Cash and cash equivalents, beginning of year	35,377	16,700	4,777
Cash and cash equivalents, end of year	\$23,781	\$35,377	\$16,700

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

	Year Ended December 31,		
	2014	2013	2012
SUPPLEMENTAL CASH FLOWS INFORMATION:			
Cash paid for interest, net of capitalized interest of \$44,385, \$32,742, and \$17,657 as of December 31, 2014, 2013 and 2012, respectively	\$58,944	\$65,157	\$71,633
NONCASH INVESTING TRANSACTIONS:			
Accrual for expenditures for operating properties and development and redevelopment properties	\$77,091	\$73,482	\$54,198
Tenant improvements funded directly by tenants	\$42,906	\$7,633	\$17,719
Assumption of secured debt in connection with property acquisitions (Notes 3 and 7)	\$—	\$95,496	\$221,032
Assumption of other assets and liabilities in connection with operating and development property acquisitions, net (Note 3)	\$14,917	\$1,811	\$37,535
Contribution of land, net of related liabilities, by noncontrolling interest to consolidated subsidiary (Note 3)	\$—	\$4,885	\$—
NONCASH FINANCING TRANSACTIONS:			
Accrual of dividends and distributions payable to common stockholders and common unitholders (Note 10)	\$31,243	\$29,378	\$26,863
Accrual of dividends and distributions payable to preferred stockholders and preferred unitholders (Note 10)	\$1,656	\$1,694	\$1,694
Grant date fair value of share-based compensation awards (Note 12)	\$20,739	\$10,721	\$31,396
Issuance of common shares in connection with a development property acquisition (Notes 3 and 10)	\$21,631	\$—	\$—
Issuance of common units in the Operating Partnership in connection with an operating property acquisition (Note 3)	\$—	\$—	\$5,604
Exchange of common units of the Operating Partnership into shares of the Company's common stock (Note 10)	\$28	\$450	\$231

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, 2014 and 2013, and the related consolidated statements of operations, capital, and cash flows for each of the three years in the period ended December 31, 2014. 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, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, 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.

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, 2014, 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 10, 2015, expressed an unqualified opinion on the Operating Partnership’s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP
Los Angeles, California
February 10, 2015

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

	December 31, 2014	December 31, 2013
ASSETS		
REAL ESTATE ASSETS (Notes 3 and 18):		
Land and improvements	\$ 877,633	\$ 657,491
Buildings and improvements	4,059,639	3,590,699
Undeveloped land and construction in progress	1,120,660	1,016,757
Total real estate held for investment	6,057,932	5,264,947
Accumulated depreciation and amortization	(947,664	) (818,957
Total real estate held for investment, net (\$211,755 and \$234,532 of VIE, Note 2)	5,110,268	4,445,990
REAL ESTATE ASSETS AND OTHER ASSETS HELD FOR SALE, NET (Note 18)	8,211	213,100
CASH AND CASH EQUIVALENTS	23,781	35,377
RESTRICTED CASH (Note 18)	75,185	49,780
MARKETABLE SECURITIES (Notes 13 and 16)	11,971	10,008
CURRENT RECEIVABLES, NET (Note 5)	7,229	10,743
DEFERRED RENT RECEIVABLES, NET (Note 5)	156,416	127,123
DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLE ASSETS, NET (Notes 3 and 4)	201,926	186,622
DEFERRED FINANCING COSTS, NET (Notes 2 and 7)	18,374	16,502
PREPAID EXPENSES AND OTHER ASSETS, NET	20,375	15,783
TOTAL ASSETS	\$5,633,736	\$5,111,028
LIABILITIES AND CAPITAL		
LIABILITIES:		
Secured debt (Notes 3, 7 and 16)	\$ 546,292	\$ 560,434
Exchangeable senior notes, net (Notes 7 and 16)	—	168,372
Unsecured debt, net (Notes 7 and 16)	1,783,121	1,431,132
Unsecured line of credit (Notes 7 and 16)	140,000	45,000
Accounts payable, accrued expenses and other liabilities (Note 15)	225,830	198,467
Accrued distributions (Note 11)	32,899	31,490
Deferred revenue and acquisition-related intangible liabilities, net (Notes 3, 4 and 8)	132,239	101,286
Rents received in advance and tenant security deposits	49,363	44,240
Liabilities and deferred revenue of real estate assets held for sale (Note 18)	56	14,447
Total liabilities	2,909,800	2,594,868
COMMITMENTS AND CONTINGENCIES (Note 15)		
CAPITAL (Notes 9 and 11):		
Partners' Capital:		
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

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Common units, 86,259,684 and 82,153,944 held by the general partner and 1,804,200		
and 1,805,200 held by common limited partners issued and outstanding, respectively	2,521,900	2,315,361
Total Partners' Capital	2,714,311	2,507,772
Noncontrolling interests in consolidated subsidiaries (Notes 2, 3, and 9)	9,625	8,388
Total capital	2,723,936	2,516,160
TOTAL LIABILITIES AND CAPITAL	\$5,633,736	\$5,111,028

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,		
	2014	2013	2012
REVENUES:			
Rental income	\$466,328	\$411,899	\$342,164
Tenant reimbursements	46,717	38,047	29,667
Other property income (Notes 15 and 17)	8,680	7,165	1,487
Total revenues	521,725	457,111	373,318
EXPENSES:			
Property expenses	100,514	94,115	73,998
Real estate taxes	45,197	39,417	31,562
Provision for bad debts	58	396	153
Ground leases (Notes 4 and 15)	3,075	3,504	3,168
General and administrative expenses	46,152	39,660	36,188
Acquisition-related expenses	1,479	1,962	4,937
Depreciation and amortization (Notes 2 and 4)	202,417	188,887	150,521
Total expenses	398,892	367,941	300,527
OTHER (EXPENSES) INCOME:			
Interest income and other net investment gains (Note 16)	561	1,635	848
Interest expense (Note 7)	(67,571)	(75,870)	(79,114)
Total other (expenses) income	(67,010)	(74,235)	(78,266)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE GAIN ON SALE OF LAND	55,823	14,935	(5,475)
Gain on sale of land (Note 18)	3,490	—	—
INCOME (LOSS) FROM CONTINUING OPERATIONS DISCONTINUED OPERATIONS (Note 18)	59,313	14,935	(5,475)
Income from discontinued operations	2,573	17,378	23,331
Net gain on dispositions of discontinued operations	121,922	12,252	259,245
Total income from discontinued operations	124,495	29,630	282,576
NET INCOME	183,808	44,565	277,101
Net income attributable to noncontrolling interests in consolidated subsidiaries	(260)	(224)	(638)
NET INCOME ATTRIBUTABLE TO KILROY REALTY, L.P.	183,548	44,341	276,463
Preferred distributions (Note 11)	(13,250)	(13,250)	(14,108)
Original issuance costs of redeemed preferred units (Notes 9 and 11)	—	—	(6,980)
Total preferred distributions	(13,250)	(13,250)	(21,088)
NET INCOME AVAILABLE TO COMMON UNITHOLDERS	\$170,298	\$31,091	\$255,375
Income (loss) from continuing operations available to common unitholders per unit – basic (Note 20)	\$0.52	\$0.00	\$(0.40)
Income (loss) from continuing operations available to common unitholders per unit – diluted (Note 20)	\$0.51	\$0.00	\$(0.40)
Net income available to common unitholders per unit – basic (Note 20)	\$1.99	\$0.37	\$3.56
Net income available to common unitholders per unit – diluted (Note 20)	\$1.94	\$0.37	\$3.56
Weighted average common units outstanding – basic (Note 20)	84,894,498	79,166,260	71,403,258
Weighted average common units outstanding – diluted (Note 20)	86,771,983	79,166,260	71,403,258

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		Common Units	Total Partners' Capital	Noncontrolling Interests in Consolidated Subsidiaries	
	Preferred Units	Number of Common Units			Total Capital	Total Capital
BALANCE AS OF DECEMBER 31, 2011	\$ 121,582	60,537,848	\$ 1,203,259	\$ 1,324,841	\$ 2,641	\$ 1,327,482
Net income			276,463	276,463	638	277,101
Issuance of Series G and Series H Preferred Stock	192,411			192,411		192,411
Redemption of Series E and Series F Preferred Stock	(121,582)		(4,918)	(126,500)		(126,500)
Redemption of Series A Preferred Units			(2,062)	(2,062)		(2,062)
Issuance of common units		16,024,618	672,102	672,102		672,102
Issuance of common units in connection with an operating property acquisition		118,372	5,604	5,604		5,604
Issuance of share-based compensation awards		62,137	1,291	1,291		1,291
Noncash amortization of share-based compensation			8,537	8,537		8,537
Repurchase of common units and restricted stock units		(22,312)	(877)	(877)		(877)
Settlement of restricted stock units		27,821	(784)	(784)		(784)
Exercise of stock options		5,000	129	129		129
Preferred distributions			(14,108)	(14,108)		(14,108)
Distributions declared per common unit (\$1.40 per unit)			(104,393)	(104,393)		(104,393)
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)

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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 (Note 11)		1,950,599	123,860	123,860		123,860
Issuance of share-based compensation awards (Note 12)			1,692	1,692		1,692
Noncash amortization of share-based compensation (Note 12)			14,471	14,471		14,471
Exercise of stock options (Note 12)		495,000	21,092	21,092		21,092
Repurchase of common units and restricted stock units (Note 12)		(58,045)	(3,533)	(3,533)		(3,533)
Settlement of restricted stock units (Note 12)		141,205	(1)	(1)		(1)
Common shares issued in connection with settlement of 4.25% Exchangeable Senior Notes (Note 7)		2,091,323	223	223		223
Common shares received in connection with capped call option transactions (Note 7)		(515,342)	—	—		—
Contribution by noncontrolling interest in consolidated subsidiary (Note 2)					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)
BALANCE AS OF DECEMBER 31, 2014	\$ 192,411	88,063,884	\$ 2,521,900	\$ 2,714,311	\$ 9,625	\$ 2,723,936

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 183,808	\$ 44,565	\$ 277,101
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	202,108	199,558	168,687
Increase (decrease) in provision for bad debts	58	396	(42)
Depreciation of furniture, fixtures and equipment	2,370	1,929	1,213
Noncash amortization of share-based compensation awards (Note 12)	12,095	8,616	7,670
Noncash amortization of deferred financing costs and debt discounts and premiums	4,315	5,315	8,433
Noncash amortization of net below market rents (Note 4)	(8,328)	(7,777)	(6,699)
Net gain on dispositions of discontinued operations (Note 18)	(121,922)	(12,252)	(259,245)
Gain on sale of land (Note 18)	(3,490)	—	—
Noncash amortization of deferred revenue related to tenant-funded tenant improvements (Note 8)	(10,979)	(10,713)	(9,136)
Straight-line rents	(31,782)	(24,135)	(21,530)
Net change in other operating assets	367	(4,615)	(1,297)
Net change in other operating liabilities	16,633	40,137	17,320
Insurance proceeds received for property damage and other, net	—	(448)	(1,751)
Net cash provided by operating activities	245,253	240,576	180,724
CASH FLOWS FROM INVESTING ACTIVITIES:			
Expenditures for acquisitions of operating properties, net of cash acquired (Note 3)	(204,546)	(202,682)	(454,841)
Expenditures for acquisitions of development and redevelopment properties (Note 3)	(147,182)	(102,769)	(333,942)
Expenditures for operating properties	(132,080)	(129,873)	(86,377)
Expenditures for development and redevelopment properties and undeveloped land	(417,784)	(320,141)	(83,310)
Net proceeds received from dispositions of operating properties (Note 18)	427,544	21,178	263,572
Insurance proceeds received for property damage	—	448	1,751
(Increase) decrease in acquisition-related deposits	(1,983)	(2,596)	5,000
(Increase) decrease in restricted cash (Note 18)	(25,405)	229,915	(18,359)
Net cash used in investing activities	(501,436)	(506,520)	(706,506)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from issuance of common units (Note 11)	102,229	349,951	672,102
Borrowings on unsecured line of credit	505,000	55,000	704,000
Repayments on unsecured line of credit	(410,000)	(195,000)	(701,000)
Proceeds from the issuance of unsecured debt (Note 7)	395,528	299,901	150,000
Repayments of exchangeable senior notes (Note 7)	(172,500)	—	(148,000)
Principal payments on secured debt	(9,845)	(93,688)	(106,262)
Borrowings on unsecured debt (Note 7)	39,000	—	—
Repayments of unsecured debt (Note 7)	(83,000)	—	—
Net proceeds from issuance of Series G and Series H preferred units	—	—	192,411

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Redemption of Series E and Series F preferred units	—	—	(126,500)
Redemption of Series A preferred units	—	—	(75,000)
Proceeds from the issuance of secured debt	—	—	97,000
Financing costs	(8,648)	(4,384)	(7,963)
Repurchase of common units and restricted stock units	(3,533)	(2,520)	(1,661)
Proceeds from exercise of stock options	21,092	128	129
Contributions from noncontrolling interests in consolidated subsidiary	977	—	—
Distributions paid to common unitholders	(118,463)	(111,517)	(97,386)
Distributions paid to preferred unitholders	(13,250)	(13,250)	(14,165)
Net cash provided by financing activities	244,587	284,621	537,705
Net (decrease) increase in cash and cash equivalents	(11,596)	18,677	11,923
Cash and cash equivalents, beginning of year	35,377	16,700	4,777
Cash and cash equivalents, end of year	\$23,781	\$35,377	\$16,700

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KILROY REALTY, L.P.

CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)

(in thousands)

	Year Ended December 31,		
	2014	2013	2012
SUPPLEMENTAL CASH FLOWS INFORMATION:			
Cash paid for interest, net of capitalized interest of \$44,385, \$32,742, and \$17,657 as of December 31, 2014, 2013 and 2012, respectively	\$58,944	\$65,157	\$71,633
NONCASH INVESTING TRANSACTIONS:			
Accrual for expenditures for operating properties and development and redevelopment properties	\$77,091	\$73,482	\$54,198
Tenant improvements funded directly by tenants	\$42,906	\$7,633	\$17,719
Assumption of secured debt in connection with property acquisition (Notes 3 and 7)	\$—	\$95,496	\$221,032
Assumption of other assets and liabilities in connection with operating and development property acquisitions, net (Note 3)	\$14,917	\$1,811	\$37,535
Contribution of land, net of related liabilities, by noncontrolling interest to consolidated subsidiary (Note 3)	\$—	\$4,885	\$—
NONCASH FINANCING TRANSACTIONS:			
Accrual of distributions payable to common unitholders (Note 11)	\$31,243	\$29,378	\$26,863
Accrual of distributions payable to preferred unitholders (Note 11)	\$1,656	\$1,694	\$1,694
Grant date fair value of share-based compensation awards (Note 12)	\$20,739	\$10,721	\$31,396
Issuance of common units in connection with a development property acquisition (Notes 3 and 11)	\$21,631	\$—	\$—
Issuance of common units in connection with an operating property acquisition (Note 3)	\$—	\$—	\$5,604

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, 2014

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, 2014:

	Number of Buildings	Rentable Square Feet (unaudited)	Number of Tenants	Percentage Occupied	
Stabilized Office Properties	111	14,096,617	526	94.4	%

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, undeveloped land, and real estate assets held for sale. We define redevelopment properties as those properties for which we expect to spend significant development and construction costs on the existing or acquired buildings pursuant to a formal plan, the intended result of which is a higher economic return on the property. As of December 31, 2014, we had no redevelopment projects. 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. There were no operating properties in “lease-up” as of December 31, 2014. As of December 31, 2014, we had one land parcel held for sale. During the year ended December 31, 2014, we stabilized a redevelopment project in San Francisco, California, a development project consisting of three office buildings encompassing 587,429 square feet and a development project consisting of two office buildings encompassing 340,913 square feet, both in the San Francisco Bay Area, California. As a result, these projects are now included in our stabilized portfolio as of December 31, 2014.

As of December 31, 2014, the following properties were excluded from our stabilized portfolio:

	Number of Properties/Projects	Estimated Rentable Square Feet (unaudited) (1)
Development projects under construction	6	1,732,000

(1) Estimated rentable square feet upon completion.

Our stabilized portfolio also excludes our future development pipeline, which is comprised of nine potential development sites, representing approximately 104 gross acres of undeveloped land.

As of December 31, 2014, 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 thirteen office properties located in the state of Washington. All of our properties and development projects are 100% owned, excluding a development project owned by Redwood

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

City Partners, LLC (“Redwood LLC”), a consolidated subsidiary (see Note 2 “Basis of Presentation and Significant Accounting Policies” and Note 3 “Acquisitions” for additional information) and certain properties held at qualified intermediaries 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, 2014, the Company owned a 98.0% common general partnership interest in the Operating Partnership. The remaining 2.0% common limited partnership interest in the Operating Partnership as of December 31, 2014 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 9 “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.

Certain amounts in the consolidated statements of operations for prior periods have been reclassified to reflect the activity of discontinued operations.

Partially Owned Entities and Variable Interest Entities

At December 31, 2014, 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 (see Note 3 “Acquisitions” for additional information regarding the Redwood City, California acquisition). The other VIE was

established during the fourth quarter of 2014 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 \$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. During January 2015, the Company successfully completed the Section 1031 Exchange and the related 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.