

KILROY REALTY CORP
Form DEF 14A
April 08, 2016
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- | | |
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| <input type="checkbox"/> Preliminary Proxy Statement | <input type="checkbox"/> Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2)) |
| <input checked="" type="checkbox"/> Definitive Proxy Statement | |
| <input type="checkbox"/> Definitive Additional Materials | |
| <input type="checkbox"/> Soliciting Material under §240.14a-12 | |

KILROY REALTY CORPORATION

(Name of Registrant as Specified in Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, If Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

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KILROY REALTY CORPORATION

12200 W. Olympic Boulevard, Suite 200

Los Angeles, California 90064

April 8, 2016

To Our Fellow Stockholders:

On behalf of the entire Board of Directors of Kilroy Realty Corporation (NYSE: KRC), we are pleased to present you with KRC's 2016 Proxy Statement and we invite you to attend KRC's 2016 annual meeting of stockholders.

Through the years, we have operated with a consistent, long-term strategy to drive stockholder value by using our extensive real estate knowledge to build the premier franchise located in the best markets along the West Coast. We utilized this platform in 2015 to generate impressive results, which included strong earnings growth, sector-leading same-store growth, significant value-creating development completions, the highest grades in building sustainability metrics and the maintenance of a strong balance sheet during a period of substantial funding needs.

After generating a very strong absolute and relative stockholder return for the prior three-year period, as with most of our peers our market valuation suffered in 2015. But we believe, over time, the significant value we have created for our stockholders will be realized and reflected in our share price.

Our Board is actively involved in reviewing and overseeing our strategy and its execution. During 2015, we continued to refresh our Board by adding another new independent director after adding two in 2014. Jolie Hunt, the Principal and founder of Hunt & Gather, a marketing and communications agency based in New York City, joined the Board in May. Her extensive background working with some of the world's leading media and technology companies has been a terrific resource to our company as we operate in some of the world's leading media and technology markets.

Since our 2015 annual meeting of stockholders, our senior management team met and engaged with stockholders owning collectively more than 60% of our outstanding stock. These meetings provided an important platform for us to engage directly with our stockholders on a wide range of topics, including market conditions, corporate strategy and corporate governance practices. We appreciate this dialogue and are committed to maintaining open lines of communication with investors.

The accompanying proxy materials contain detailed information about the matters on which you are being asked to vote at the 2016 annual meeting. We urge you to read the materials carefully and vote in accordance with the Board's recommendations. Your vote is very important to us.

Sincerely,

John Kilroy
Chairman, President and Chief Executive Officer

Edward Brennan, Ph.D.
Lead Independent Director

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This Proxy Statement 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. Forward-looking statements are based on our current expectations, beliefs and assumptions, and are not guarantees of future performance. Forward-looking statements are generally identified through the inclusion of words such as believe,

expect, goals and target or similar statements or variations of such terms and other similar expressions. Numerous factors could cause actual future performance, results and events to differ materially from those indicated in forward-looking statements, including, among others, risks associated with: investment in real estate assets, which are illiquid; significant competition, which may decrease the occupancy and rental rates of properties; the ability to successfully complete acquisitions and dispositions on announced terms; the ability to successfully operate acquired properties; adverse changes in applicable laws; the ability to successfully complete development and redevelopment projects on schedule and within budget; and the other factors discussed in the risk factors section of Kilroy Realty Corporation's most recent annual report on Form 10-K and subsequent reports on Forms 10-Q and 8-K. Investors are cautioned not to place undue reliance on any such forward-looking statements, which speak only as of the date they are made. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise.

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KILROY REALTY CORPORATION

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

- Date and Time:*** Thursday, May 19, 2016 at 9:00 a.m. local (Pacific) time
- Place:*** Our principal executive offices at 12200 West Olympic Boulevard, Suite 200, Los Angeles, California 90064.
- Items of Business:***
- 1.*** Elect as directors the six nominees named in the attached Proxy Statement.
 - 2.*** Approve, on an advisory basis, the compensation of our named executive officers.
 - 3.*** Ratify the appointment of Deloitte & Touche LLP as our independent auditor for the year ending December 31, 2016.
- Record Date:*** The Board of Directors (the Board) has fixed the close of business on March 11, 2016 as the record date for determining the stockholders entitled to receive notice of and to vote at the 2016 annual meeting of stockholders (the Annual Meeting), or any adjournment(s) or postponement(s) thereof.
- Proxy Voting:*** **Your vote is very important to us.** Whether or not you plan to attend the Annual Meeting, we urge you to submit your proxy or voting instructions as soon as possible to ensure your shares are represented at the Annual Meeting. If you attend the Annual Meeting and vote in person, your proxy or voting instructions will not be used.

By Order of the Board of Directors,

Tyler Rose

Executive Vice President,

Chief Financial Officer and Secretary

April 8, 2016

Los Angeles, California

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS

The Notice of Annual Meeting, Proxy Statement and our 2015 Annual Report on Form 10-K are available at www.proxyvote.com.

You are encouraged to access and review all of the important information contained in our proxy materials before voting.

Table of Contents**Proxy Summary**

This section highlights information about Kilroy Realty Corporation, a Maryland corporation (we, our, us or the Company), that is contained elsewhere in this Proxy Statement. This section does not contain all of the information that you should consider and you should read the entire Proxy Statement before voting.

BUSINESS HIGHLIGHTS

We delivered strong year-over-year operating and financial results in 2015.

As with most of the companies in our peer group identified on page 39, our market valuation declined in 2015. However, we delivered strong returns for the three-year period ended December 31, 2015. Our total stockholder return² (TSR) for the three-year period ended December 31, 2015 **outperformed** the average TSR for our peer group, the SNL US REIT Office Index and the MSCI US REIT Index for that period of time.

	TSR for the Three-Year Period Ended December 31, 2015
Kilroy Realty Corporation	43.3%
Peer Group ³	36.6%
SNL US REIT Office Index	35.5%
MSCI US REIT Index	37.0%

More information on the Company's 2015 performance is detailed on pages 23 through 25.

COMPENSATION HIGHLIGHTS

Our Executive Compensation Committee (the Compensation Committee) approved the 2015 compensation arrangements for our named executive officers identified on page 22 (our NEOs). Below are highlights of our 2015 compensation arrangements for our NEOs from the Compensation Discussion and Analysis (the CD&A) section of

this Proxy Statement:

Target Cash Bonuses Remained Consistent

No Increases in Base Salaries

None of our NEOs received a base salary increase for 2015.

NEO target annual cash incentives for 2015 remained at their 2014 levels, except that our Chief Executive Officer's (CEO) 2015 target annual cash incentive was set at \$2.7 million, which was higher than the 2014 level, but again below the \$3.0 million level provided for in his employment agreement. This reduction again lowers the total potential annual cash incentive opportunity for our CEO and places a greater emphasis on long-term equity compensation.

Continued Emphasis on Long-Term Incentive Awards and Performance-Based Compensation

Equity compensation is the largest component of each NEO's total compensation opportunity to align with stockholder interests. Approximately two-thirds of the 2015 annual long-term incentive awards for our NEOs (and nearly three-quarters for our CEO) are subject to performance-based vesting requirements over a three-year performance period and include a performance measure indexed to our relative TSR.

- ¹ See [Appendix A](#) for the definition of FFO per share and a reconciliation of FFO per share to our net income available to common stockholders computed in accordance with U.S. generally accepted accounting principles (GAAP), as well as the definition of same-store cash NOI and a reconciliation of adjusted same-store cash NOI to our net income available to common stockholders computed in accordance with GAAP.
- ² For purposes of this Proxy Statement, total stockholder returns are calculated assuming dividend reinvestment.
- ³ The TSR for the peer group, identified on page 39, is calculated by SNL Financial on a weighted basis, determined based on the average market capitalization for each company in the peer group during the applicable period.

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Proxy Summary

CORPORATE GOVERNANCE HIGHLIGHTS

The Company is committed to good corporate governance, which promotes the long-term interests of stockholders, strengthens accountability of the Board and helps build public trust in the Company. Highlights include the following:

Lead Independent Director With a Well-Defined Role and Robust Responsibilities

Majority of Directors are Independent (5 out of 6 Current Directors)

Board Recently Refreshed with Three New Independent Directors (One in 2015 and Two Others in 2014)

Robust Risk Oversight Practices

Board Practices

Regular Executive Sessions of Independent Directors

Regular Board and Committee Self-Evaluations

Independent Audit, Executive Compensation and Nominating/Corporate Governance Committees

Regular Succession Planning

CEO May Only Serve on the Board of Directors of One Other Public Company

Stockholder Rights

Stockholder Proxy Access

Majority Voting for Directors in Uncontested Elections

Annual Election of All Directors (Declassified Board)

**Compensation and
Governance Practices**

Annual Say-On-Pay Voting

Stockholder Right to Call a Special Meeting

No Stockholder Rights Plan

Minimum Stock Ownership Guidelines for Executives

Minimum Stock Ownership Guidelines for Non-Employee Directors

Stock Holding Requirements

Anti-Hedging Policy

Anti-Pledging Policy

Clawback Policy

Related Party Transactions Policy

No Single Trigger Change in Control in any Employment Agreements

No Excise Tax Gross-Ups

No Repricing of Underwater Stock Options Without Stockholder Approval

Regular Engagement with Investors, Including Discussions Since Our 2015 Annual Meeting of Stockholders with Stockholders who Together Own More Than 60% of our Common Stock

INDUSTRY LEADING COMMITMENT TO SUSTAINABILITY

EARNED THE HIGHLY COMPETITIVE GREEN STAR RANKED BY GRESB AS 1st CO-WINNER OF NAREIT S

GRESB

1st

**2015 Leader in the
Light Award**

Green Star

In Sustainability Performance

Designation Last 3 Years for
Ranking in Top 25% of Companies
Worldwide in Sustainability
Performance

Among 155 North American
Real Estate Companies

In the Office Category

**ONE OF ONLY 149 COMPANIES TO RECEIVE THE U.S. ENVIRONMENTAL PROTECTION
AGENCY S (U.S. EPA)**

ENERGY STAR Partner of the Year

Sustained Excellence Award

The EPA's Highest Honor

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Proposal	Board Recommendation	Page
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2. Advisory Approval of Compensation of NEOs	FOR	5
3. Ratification of Appointment of Deloitte & Touche LLP as Independent Auditor for 2016	FOR	7

HOW TO CAST YOUR VOTE**Internet**

Follow the instructions provided in the notice or separate proxy card or voting instruction form you received.

Phone

Follow the instructions provided in the separate proxy card or voting instruction form you received.

Mail

Send your completed and signed proxy card or voting instruction form to the address on your proxy card or voting instruction form.

In Person

Ballots will be provided to anyone who attends and wants to vote at the Annual Meeting.

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General Information About the Annual Meeting and Voting Procedures

Our Board is soliciting your proxy for the Annual Meeting to be held at 9:00 a.m. local (Pacific) time on Thursday, May 19, 2016 at our principal executive offices located at 12200 West Olympic Boulevard, Suite 200, Los Angeles, California 90064, and any adjournments or postponements of the Annual Meeting. On April 8, 2016, proxy materials for our Annual Meeting, including this Proxy Statement and our 2015 Annual Report on Form 10-K (the 2015 Annual Report), were first sent or made available to our stockholders entitled to vote at the Annual Meeting.

Why did I receive a notice in the mail regarding Internet availability of the proxy materials instead of a paper copy of the proxy materials?

Pursuant to rules of the Securities and Exchange Commission (the SEC), we have elected to provide access to our proxy materials over the Internet. Accordingly, we are sending a Notice of Internet Availability of Proxy Materials (the Notice) to our stockholders of record, while brokers, banks and other nominees who hold shares on behalf of beneficial owners will be sending their own similar Notice to the beneficial owners. All stockholders will have the ability to access the proxy materials, including this Proxy Statement and our 2015 Annual Report, on the website referred to in the Notice or to request to receive a printed copy of the proxy materials. Instructions on how to request a printed copy by mail or electronically, including an option to request paper copies on an ongoing basis, may be found in the Notice and on the website referred to in the Notice. We intend to mail this Proxy Statement, together with a proxy card, to those stockholders entitled to vote at the Annual Meeting who have properly requested paper copies of such materials, within three business days of such request.

What is the purpose of the Annual Meeting?

At the Annual Meeting, stockholders will be asked to consider and vote on the following matters, as well as any other business properly brought before the Annual Meeting:

Proposal No. 1: Elect as directors the six nominees named in this Proxy Statement.

Proposal No. 2: Approve, on an advisory basis, the compensation of our NEOs.

Proposal No. 3: Ratify the appointment of Deloitte & Touche LLP (Deloitte) as our independent auditor for the fiscal year ending December 31, 2016.

What are the Board's recommendations on each of the proposals?

The Board recommends that stockholders vote:

1. **FOR** each of the Board's six nominees for election to the Board: John Kilroy, Edward Brennan, Ph.D., Jolie Hunt, Scott Ingraham, Gary Stevenson and Peter Stoneberg;
2. **FOR** approval, on an advisory basis, of the compensation of our NEOs; and
3. **FOR** ratification of the appointment of Deloitte as our independent auditor for the fiscal year ending December 31, 2016.

Who is entitled to vote?

Only the holders of record of the shares of our common stock at the close of business on March 11, 2016 (the Record Date) are entitled to notice of and to vote at the Annual Meeting. Each share of common stock is entitled to one vote on each matter voted upon at the Annual Meeting. As of the Record Date, 92,228,435 shares of common stock were outstanding.

May I attend the Annual Meeting?

You may attend the Annual Meeting if you were a stockholder of record or a beneficial holder of shares of common stock at the close of business on the Record Date, or you hold a valid legal proxy for the Annual Meeting. If you are a stockholder of record, your name will be verified against the list of stockholders of record prior to your being admitted to the Annual Meeting. You should also be prepared to present a valid government-issued photo identification, such as a driver's license or passport, before being admitted. If you are not a stockholder of record but you are a beneficial holder of shares of common stock because you hold your shares in street name, you should provide proof of beneficial ownership as of the Record Date, such as an account statement reflecting your stock ownership as of the Record Date, a copy of the Notice or voting instruction form provided by your broker, bank or other nominee, or other similar evidence of ownership, as well as your photo.

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General Information About the Annual Meeting and Voting Procedures

identification, for admission. We reserve the right to determine the validity of any purported proof of beneficial ownership. If you do not have proof of ownership, you may not be admitted to the Annual Meeting. Cameras, recording devices and other electronic devices will not be permitted, and attendees may be subject to security inspections and other security precautions. For directions to the Annual Meeting, contact the Company in writing at 12200 W. Olympic Boulevard, Suite 200, Los Angeles, California 90064, Attn: Secretary or by telephone at (310) 481-8400.

How do I vote?

You may vote by submitting a proxy or voting instructions prior to the Annual Meeting or you may vote by attending the Annual Meeting and voting in person.

Submitting a Proxy for Shares Registered Directly in the Name of the Stockholder. If you hold your shares of common stock as a record holder and you are viewing this Proxy Statement on the Internet, you may vote by submitting a proxy over the Internet by following the instructions on the website referred to in the Notice previously mailed to you. If you hold your shares of common stock as a record holder and you are reviewing a printed copy of this Proxy Statement, you may vote your shares by completing, dating and signing the proxy card that was included with this Proxy Statement and promptly returning it in the preaddressed, postage paid envelope provided to you, or by submitting a proxy over the Internet or by telephone by following the instructions on the proxy card. If you vote by Internet or telephone, then you need not return a written proxy card by mail.

Submitting Voting Instructions for Shares Registered in Street Name. If you hold your shares of common stock in street name, which means your shares are held of record by a broker, bank or nominee, you will receive instructions from your broker, bank or other nominee on how to vote your shares. Your broker, bank or other nominee will allow you to deliver your voting instructions over the Internet and may also permit you to vote by telephone. In addition, if you received a printed copy of this Proxy Statement, you may submit your voting instructions by completing, dating and signing the voting instruction form that was included with this Proxy Statement and promptly returning it in the preaddressed, postage paid envelope provided to you. If you vote by Internet or telephone, then you need not return a written voting instruction form by mail.

Vote in Person at the Annual Meeting. If you plan to attend the Annual Meeting and wish to vote in person, you will be given a ballot at the Annual Meeting. Please note that if your shares are held of record by a broker, bank or other nominee and you decide to attend and vote at the Annual Meeting, your vote in person at the Annual Meeting will not be effective unless you present a legal proxy, issued in your name from your broker, bank or other nominee.

What is the deadline for voting my shares if I do not attend the Annual Meeting?

If you are a stockholder of record, your proxy must be received by telephone or the Internet by 11:59 p.m. Eastern time on May 18, 2016 in order for your shares to be voted at the Annual Meeting. If you are a stockholder of record and you received a printed set of proxy materials, you also have the option of completing, signing, dating and returning the proxy card enclosed with the proxy materials before the Annual Meeting in order for your shares to be voted at the meeting. If you are a beneficial owner of shares of our common stock, please comply with the deadlines included in the voting instructions provided by the bank, broker or other nominee that holds your shares.

Can I revoke or change my vote after I submit my proxy or voting instructions?

A stockholder of record may revoke a previously submitted proxy at any time before it is exercised by (i) delivering a later dated proxy card or by submitting another proxy by telephone or the Internet (your latest telephone or Internet voting instructions will be followed); (ii) delivering to the Secretary of the Company a written notice of revocation prior to the voting of the proxy at the Annual Meeting; or (iii) by voting in person at the Annual Meeting. Simply attending the Annual Meeting will not revoke your proxy. If your shares are held in street name, you must contact your broker, bank or other nominee to find out how to change or revoke your voting instructions. Any change to your proxy that is provided by telephone or the Internet must be submitted by 11:59 p.m. Eastern time on May 18, 2016.

How will my shares be voted on the proposals at the Annual Meeting?

The shares of common stock represented by all properly submitted proxies will be voted at the Annual Meeting as instructed or, if no instruction is given, will be voted FOR each of the director nominees named in Proposal No. 1, FOR Proposal No. 2, and FOR Proposal No. 3.

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General Information About the Annual Meeting and Voting Procedures

If you hold your shares of common stock in street name through a brokerage account and you do not submit voting instructions to your broker, your broker may generally vote your shares in its discretion on routine matters. However, a broker cannot vote shares held in street name on non-routine matters unless the broker receives voting instructions from the street name holder. Proposal No. 3 (the ratification of the appointment of Deloitte as our independent auditor for the fiscal year ending December 31, 2016) is considered routine under applicable rules of the New York Stock Exchange (the NYSE), while each of the other proposals to be submitted for a vote of stockholders at the Annual Meeting is considered non-routine. Accordingly, if you hold your shares of common stock in street name through a brokerage account and you do not submit voting instructions to your broker, your broker may exercise its discretion to vote on Proposal No. 3 at the Annual Meeting, but will not be permitted to vote your shares on any of the other proposals at the Annual Meeting. If your broker exercises this discretion, your shares will be counted as present for determining the presence of a quorum at the Annual Meeting and will be voted on Proposal No. 3 in the manner directed by your broker, but your shares will constitute broker non-votes on each of the other items at the Annual Meeting.

How will voting on any other business be conducted?

As to any other business that may properly come before the Annual Meeting, all properly submitted proxies will be voted by the proxyholders named in the proxy card, at their discretion. We do not presently know of any other business that may come before the Annual Meeting.

What constitutes a quorum?

A majority of the shares of common stock issued and outstanding on the Record Date must be represented at the Annual Meeting in person or by proxy to constitute a quorum for the transaction of business at the Annual Meeting. Shares represented by proxies that reflect abstentions or broker non-votes will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum.

What vote is required to approve each proposal?

Proposal No. 1 Election of Directors. Each director nominee will be elected at the Annual Meeting if he or she receives a majority of the votes cast with respect to his or her election (that is, the number of votes cast FOR the nominee must exceed the number of votes cast AGAINST the nominee). This majority voting standard is discussed further under Proposal 1 Election of Directors Vote Required below.

Proposal No. 2 Advisory Approval of Compensation of our NEOs. The affirmative vote of a majority of votes cast at the Annual Meeting will be required for the advisory approval of the compensation of our NEOs (Say-on-Pay). The Say-on-Pay vote is advisory only, and therefore not binding on the Company, the Compensation Committee or our Board. Although non-binding, our Board values the opinions that our stockholders express with their votes and the votes will provide information to our Compensation Committee regarding investor sentiment about our executive compensation philosophy, policies and practices, which the Compensation Committee will be able to consider when determining executive compensation in the future.

Proposal No. 3 Ratification of the Appointment of Deloitte as our Independent Auditor. The affirmative vote of a majority of votes cast at the Annual Meeting will be required for the approval of the ratification of the appointment of Deloitte as our independent auditor for the fiscal year ending December 31, 2016.

Note on Abstentions and Broker Non-Votes. For purposes of determining the number of votes cast, only shares voted FOR or AGAINST are counted. Abstentions and broker non-votes are not treated as votes cast, although they are counted for purposes of determining whether a quorum is present at the Annual Meeting.

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Proposal 1 Election of Directors

Pursuant to our Articles of Restatement, the Bylaws and resolutions adopted by the Board, the Board presently consists of six directors, with each director serving a term that continues until the annual meeting of stockholders to be held in the year following the year of his or her election and until his or her successor is duly elected and qualified. As further described below, our Board has selected all six of our incumbent directors for re-election at the Annual Meeting.

NOMINEES FOR DIRECTOR

Upon the recommendation of the Nominating/Corporate Governance Committee (the Governance Committee), the Board nominated John Kilroy, Edward Brennan, Ph.D., Jolie Hunt, Scott Ingraham, Gary Stevenson and Peter Stoneberg for election to the Board for a term continuing until the annual meeting of stockholders to be held in 2017 and until their respective successors are duly elected and qualified. All of our director nominees are currently directors of the Company and were previously elected to serve on the Board by our stockholders. In this Proxy Statement, references to John Kilroy or our CEO are to John B. Kilroy, Jr. Information about each of our director nominees, including biographical summaries of their experience and qualifications, can be found in this Proxy Statement under the caption Our Board of Directors.

Except as otherwise instructed, proxies solicited by this Proxy Statement will be voted for the election of all of the nominees to the Board. The nominees have consented to be named in this Proxy Statement and to serve as directors if elected. If any nominee of the Board is unable to serve or for good cause will not serve as a director at the time of the Annual Meeting, the persons who are designated as proxies intend to vote, in their discretion, for such other persons, if any, as may be designated by the Board. As of the date of this Proxy Statement, the Board has no reason to believe that any of the director nominees named above will be unable or unwilling to stand as a nominee or to serve as a director if elected.

VOTE REQUIRED

Each director nominee will be elected at the Annual Meeting if he or she receives a majority of the votes cast with respect to his or her election (that is, the number of votes cast FOR the nominee must exceed the number of votes cast AGAINST the nominee). The majority voting standard does not apply, however, in a contested election where the number of director nominees exceeds the number of directors to be elected at an annual meeting of stockholders. In such circumstances, directors will instead be elected by a plurality of all the votes cast in the election of directors at the annual meeting at which a quorum is present. The election of directors at the Annual Meeting is not contested.

Und