

KILROY REALTY CORP  
Form 10-Q  
April 28, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

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 95-4598246  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

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

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

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

N/A  
(Former name, former address and former fiscal year, if changed since last report)

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

Kilroy Realty Corporation Yes  No

Kilroy Realty, L. P. Yes  No

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

Kilroy Realty Corporation Yes  No

Kilroy Realty, L.P. Yes  No

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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  Smaller reporting company   
(Do not check if a smaller reporting company)

Kilroy Realty, L.P.

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

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

Kilroy Realty Corporation Yes  No

Kilroy Realty, L.P. Yes  No

As of April 22, 2016, 92,237,314 shares of Kilroy Realty Corporation common stock, par value \$.01 per share, were outstanding.

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## EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended March 31, 2016 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 March 31, 2016, the Company owned an approximate 97.2% common general partnership interest in the Operating Partnership. The remaining approximate 2.8% common limited partnership interests are owned by non-affiliated investors and certain directors and officers of the Company. As the sole general partner of the Operating Partnership, the Company exercises exclusive and complete discretion over the Operating Partnership’s day-to-day management and control and can cause it to enter into certain major transactions, including acquisitions, dispositions and refinancings, and cause changes in its line of business, capital structure and distribution policies.

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

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

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

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

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

- consolidated financial statements;

the following notes to the consolidated financial statements:

Note 8, Stockholders' Equity of the Company;

Note 9, Partners' Capital of the Operating Partnership;

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Note 13, Net Income Available to Common Stockholders Per Share of the Company;

Note 14, Net Income Available to Common Unitholders Per Unit of the Operating Partnership;

Note 15, Supplemental Cash Flow Information of the Company; and

Note 16, Supplemental Cash Flow Information of the Operating Partnership;

•Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

—Liquidity and Capital Resources of the Company;” and

—Liquidity and Capital Resources of the Operating Partnership.”

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

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.  
 QUARTERLY REPORT FOR THE THREE MONTHS ENDED MARCH 31, 2016  
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## PART I – FINANCIAL INFORMATION

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

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

	March 31, 2016 (unaudited)	December 31, 2015
<b>ASSETS</b>		
<b>REAL ESTATE ASSETS:</b>		
Land and improvements	\$978,643	\$ 875,794
Buildings and improvements	4,501,062	4,091,012
Undeveloped land and construction in progress (Note 2)	1,018,738	1,361,340
Total real estate assets held for investment	6,498,443	6,328,146
Accumulated depreciation and amortization	(1,034,315 )	(994,241 )
Total real estate assets held for investment, net	5,464,128	5,333,905
REAL ESTATE ASSETS AND OTHER ASSETS HELD FOR SALE, NET	—	117,666
CASH AND CASH EQUIVALENTS	38,645	56,508
RESTRICTED CASH (Notes 1 and 3)	261,600	696
MARKETABLE SECURITIES (Note 12)	13,418	12,882
CURRENT RECEIVABLES, NET (Note 5)	9,540	11,153
DEFERRED RENT RECEIVABLES, NET (Note 5)	199,232	189,704
DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLE ASSETS, NET (Note 4)	186,271	176,683
PREPAID EXPENSES AND OTHER ASSETS, NET (Note 1)	31,276	27,233
<b>TOTAL ASSETS</b>	<b>\$6,204,110</b>	<b>\$ 5,926,430</b>
<b>LIABILITIES AND EQUITY</b>		
<b>LIABILITIES:</b>		
Secured debt, net (Notes 1, 6 and 12)	\$378,080	\$ 380,835
Unsecured debt, net (Notes 1, 6 and 12)	1,845,313	1,844,634
Unsecured line of credit (Notes 6 and 12)	75,000	—
Accounts payable, accrued expenses and other liabilities	265,863	246,323
Accrued dividends and distributions (Note 17)	35,317	34,992
Deferred revenue and acquisition-related intangible liabilities, net (Note 4)	131,296	128,156
Rents received in advance and tenant security deposits	48,543	49,361
Liabilities of real estate assets held for sale	—	7,543
Total liabilities	2,779,412	2,691,844
<b>COMMITMENTS AND CONTINGENCIES (Note 11)</b>		
<b>EQUITY:</b>		
Stockholders' Equity (Note 8):		
Preferred stock, \$.01 par value, 30,000,000 shares authorized:		
6.875% Series G Cumulative Redeemable Preferred stock, \$.01 par value, 4,600,000 shares authorized, 4,000,000 shares issued and outstanding (\$100,000 liquidation preference)	96,155	96,155
6.375% Series H Cumulative Redeemable Preferred stock, \$.01 par value, 4,000,000 shares authorized, issued and outstanding (\$100,000 liquidation preference)	96,256	96,256
Common stock, \$.01 par value, 150,000,000 shares authorized, 92,229,464 and 92,258,690 shares issued and outstanding, respectively	922	923

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Additional paid-in capital	3,066,994	3,047,894	
Retained earnings/(distributions in excess of earnings)	67,981	(70,262	)
Total stockholders' equity	3,328,308	3,170,966	
Noncontrolling Interests:			
Common units of the Operating Partnership (Note 7)	89,675	57,100	
Noncontrolling interest in consolidated subsidiary (Note 1)	6,715	6,520	
Total noncontrolling interests	96,390	63,620	
Total equity	3,424,698	3,234,586	
TOTAL LIABILITIES AND EQUITY	\$6,204,110	\$ 5,926,430	

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2016	2015
<b>REVENUES</b>		
Rental income	\$ 133,755	\$ 130,932
Tenant reimbursements	11,404	14,425
Other property income	287	725
Total revenues	145,446	146,082
<b>EXPENSES</b>		
Property expenses	25,965	24,714
Real estate taxes	11,032	12,715
Provision for bad debts	—	242
Ground leases	829	776
General and administrative expenses	13,437	12,768
Acquisition-related expenses	62	128
Depreciation and amortization	50,440	51,487
Total expenses	101,765	102,830
<b>OTHER (EXPENSES) INCOME</b>		
Interest income and other net investment gains (Note 12)	271	360
Interest expense (Note 6)	(11,829 )	(16,878 )
Total other (expenses) income	(11,558 )	(16,518 )
<b>INCOME FROM OPERATIONS BEFORE GAINS ON SALES OF REAL ESTATE</b>	32,123	26,734
Gains on sale of land	—	17,268
Gains on sale of depreciable operating properties (Note 3)	145,990	—
<b>NET INCOME</b>	178,113	44,002
Net income attributable to noncontrolling common units of the Operating Partnership	(3,610 )	(815 )
Net income attributable to noncontrolling interest in consolidated subsidiary	(195 )	—
Total income attributable to noncontrolling interest	(3,805 )	(815 )
<b>NET INCOME ATTRIBUTABLE TO KILROY REALTY CORPORATION</b>	174,308	43,187
<b>PREFERRED DIVIDENDS</b>	(3,313 )	(3,313 )
<b>NET INCOME AVAILABLE TO COMMON STOCKHOLDERS</b>	\$ 170,995	\$ 39,874
Net income available to common stockholders per share – basic (Note 13)	\$ 1.85	\$ 0.45
Net income available to common stockholders per share – diluted (Note 13)	\$ 1.84	\$ 0.45
Weighted average common shares outstanding – basic (Note 13)	92,224,522	86,896,776
Weighted average common shares outstanding – diluted (Note 13)	92,734,543	87,434,366
Dividends declared per common share	\$ 0.35	\$ 0.35

See accompanying notes to consolidated financial statements.

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KILROY REALTY CORPORATION  
CONSOLIDATED STATEMENTS OF EQUITY

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

	Preferred Stock	Common Stock Number of Shares	Common Stock Common	Additional Paid-in Capital	Distributions in Excess of Earnings	Total Stock- holders' Equity	Noncontrolling Interests	Total Equity
BALANCE AS OF DECEMBER 31, 2014	\$ 192,411	86,259,684	\$ 863	\$ 2,635,900	\$(162,964 )	\$ 2,666,210	\$ 57,726	\$ 2,723,936
Net income					43,187	43,187	815	44,002
Issuance of common stock		1,507,393	15	113,082		113,097		113,097
Issuance of share-based compensation awards				413		413		413
Noncash amortization of share-based compensation				4,302		4,302		4,302
Repurchase of common stock, stock options and restricted stock units		(20,429 )		(1,821 )		(1,821 )		(1,821 )
Settlement of restricted stock units for shares of common stock		36,699		—		—		—
Exercise of stock options		237,000	2	10,480		10,482		10,482
Exchange of common units of the Operating Partnership		11,030		316		316	(316 )	—
Adjustment for noncontrolling interest				(1,496 )		(1,496 )	1,496	—
Preferred dividends					(3,313 )	(3,313 )		(3,313 )
Dividends declared per common share and common unit (\$0.35 per share/unit)					(31,265 )	(31,265 )	(627 )	(31,892 )
BALANCE AS OF MARCH 31, 2015	\$ 192,411	88,031,377	\$ 880	\$ 2,761,176	\$(154,355 )	\$ 2,800,112	\$ 59,094	\$ 2,859,206

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Common Stock

	Preferred Stock	Number of Shares	Common Stock	Additional Paid-in Capital	Retained Earnings /(Distributions in Excess of Earnings)	Total Stockholders' Equity	Noncontrolling Interests	Total Equity
BALANCE AS OF DECEMBER 31, 2015	\$ 192,411	92,258,690	\$ 923	\$ 3,047,894	\$ (70,262 )	\$ 3,170,966	\$ 63,620	\$ 3,234,586
Net income					174,308	174,308	3,805	178,113
Issuance of share-based compensation awards				404		404		404
Noncash amortization of share-based compensation				5,911		5,911		5,911
Exercise of stock options		6,000	—	256		256		256
Repurchase of common stock, stock options and restricted stock units		(92,089 )	( 1 )	( 5,618 )		( 5,619 )		( 5,619 )
Settlement of restricted stock units for shares of common stock		55,663	—	( 1 )		( 1 )		( 1 )
Issuance of common units in connection with acquisition (Note 2)							48,033	48,033
Exchange of common units of the Operating Partnership		1,200	—	39		39	( 39 )	—
Adjustment for noncontrolling interest				18,109		18,109	( 18,109 )	—
Preferred dividends					( 3,313 )	( 3,313 )		( 3,313 )
Dividends declared per common share and common unit (\$0.35 per share/unit)					( 32,752 )	( 32,752 )	( 920 )	( 33,672 )
BALANCE AS OF MARCH 31, 2016	\$ 192,411	92,229,464	\$ 922	\$ 3,066,994	\$ 67,981	\$ 3,328,308	\$ 96,390	\$ 3,424,698

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 178,113	\$ 44,002
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of building and improvements and leasing costs	49,664	50,843
Depreciation of furniture, fixtures and equipment	776	644
Increase in provision for bad debts	—	242
Noncash amortization of share-based compensation awards	4,703	3,571
Noncash amortization of deferred financing costs and debt discounts and premiums	609	454
Noncash amortization of net below market rents (Note 4)	(1,603 )	(1,928 )
Gains on sale of depreciable operating properties (Note 3)	(145,990 )	—
Gains on sale of land	—	(17,268 )
Noncash amortization of deferred revenue related to tenant-funded tenant improvements	(2,888 )	(3,013 )
Straight-line rents	(9,451 )	(19,692 )
Net change in other operating assets	1,561	(8,421 )
Net change in other operating liabilities	2,710	5,545
Net cash provided by operating activities	78,204	54,979
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Expenditures for development properties and undeveloped land	(63,702 )	(89,810 )
Expenditures for acquisition of undeveloped land (Note 2)	(33,513 )	(50,435 )
Expenditures for operating properties	(25,938 )	(24,345 )
Net proceeds received from dispositions (Note 3)	262,409	25,563
(Increase) decrease in restricted cash (Note 3)	(260,904 )	58,619
(Increase) decrease in acquisition-related deposits	(4,085 )	3,099
Increase in note receivable	(1,000 )	—
Net cash used in investing activities	(126,733 )	(77,309 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net proceeds from issuance of common stock	—	113,097
Borrowings on unsecured revolving credit facility	80,000	150,000
Repayments on unsecured revolving credit facility	(5,000 )	(160,000)
Principal payments on secured debt (Note 6)	(2,377 )	(28,472 )
Financing costs	(337 )	(397 )
Repurchase of common stock and restricted stock units	(5,619 )	(1,821 )
Proceeds from exercise of stock options	256	10,482
Dividends and distributions paid to common stockholders and common unitholders	(32,944 )	(30,846 )
Dividends and distributions paid to preferred stockholders and preferred unitholders	(3,313 )	(3,313 )
Net cash provided by financing activities	30,666	48,730
Net (decrease) increase in cash and cash equivalents	(17,863 )	26,400
Cash and cash equivalents, beginning of period	56,508	23,781
Cash and cash equivalents, end of period	\$ 38,645	\$ 50,181

See accompanying notes to consolidated financial statements.

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

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

	March 31, 2016 (unaudited)	December 31, 2015
<b>ASSETS</b>		
<b>REAL ESTATE ASSETS:</b>		
Land and improvements	\$978,643	\$ 875,794
Buildings and improvements	4,501,062	4,091,012
Undeveloped land and construction in progress (Note 2)	1,018,738	1,361,340
Total real estate assets held for investment	6,498,443	6,328,146
Accumulated depreciation and amortization	(1,034,315 )	(994,241 )
Total real estate assets held for investment, net	5,464,128	5,333,905
<b>REAL ESTATE ASSETS AND OTHER ASSETS HELD FOR SALE, NET</b>	—	117,666
<b>CASH AND CASH EQUIVALENTS</b>	38,645	56,508
<b>RESTRICTED CASH (Notes 1 and 3)</b>	261,600	696
<b>MARKETABLE SECURITIES (Note 12)</b>	13,418	12,882
<b>CURRENT RECEIVABLES, NET (Note 5)</b>	9,540	11,153
<b>DEFERRED RENT RECEIVABLES, NET (Note 5)</b>	199,232	189,704
<b>DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLE ASSETS, NET (Note 4)</b>	186,271	176,683
<b>PREPAID EXPENSES AND OTHER ASSETS, NET (Note 1)</b>	31,276	27,233
<b>TOTAL ASSETS</b>	<b>\$6,204,110</b>	<b>\$ 5,926,430</b>
<b>LIABILITIES AND CAPITAL</b>		
<b>LIABILITIES:</b>		
Secured debt, net (Notes 1, 6 and 12)	\$378,080	\$ 380,835
Unsecured debt, net (Notes 1, 6 and 12)	1,845,313	1,844,634
Unsecured line of credit (Notes 6 and 12)	75,000	—
Accounts payable, accrued expenses and other liabilities	265,863	246,323
Accrued distributions (Note 17)	35,317	34,992
Deferred revenue and acquisition-related intangible liabilities, net (Note 4)	131,296	128,156
Rents received in advance and tenant security deposits	48,543	49,361
Liabilities of real estate assets held for sale	—	7,543
Total liabilities	2,779,412	2,691,844
<b>COMMITMENTS AND CONTINGENCIES (Note 11)</b>		
<b>CAPITAL:</b>		
<b>Partners' Capital (Note 9):</b>		
6.875% Series G Cumulative Redeemable Preferred units, 4,000,000 units issued and outstanding (\$100,000 liquidation preference)	96,155	96,155
6.375% Series H Cumulative Redeemable Preferred units, 4,000,000 units issued and outstanding (\$100,000 liquidation preference)	96,256	96,256
Common units, 92,229,464 and 92,258,690 held by the general partner and 2,631,276 and 1,764,775 held by common limited partners issued and outstanding, respectively	3,221,441	3,031,609



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Total partners' capital	3,413,852	3,224,020
Noncontrolling interests in consolidated subsidiaries (Note 1)	10,846	10,566
Total capital	3,424,698	3,234,586
TOTAL LIABILITIES AND CAPITAL	\$6,204,110	\$ 5,926,430

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2016	2015
<b>REVENUES</b>		
Rental income	\$ 133,755	\$ 130,932
Tenant reimbursements	11,404	14,425
Other property income	287	725
Total revenues	145,446	146,082
<b>EXPENSES</b>		
Property expenses	25,965	24,714
Real estate taxes	11,032	12,715
Provision for bad debts	—	242
Ground leases	829	776
General and administrative expenses	13,437	12,768
Acquisition-related expenses	62	128
Depreciation and amortization	50,440	51,487
Total expenses	101,765	102,830
<b>OTHER (EXPENSES) INCOME</b>		
Interest income and other net investment gains (Note 12)	271	360
Interest expense (Note 6)	(11,829 )	(16,878 )
Total other (expenses) income	(11,558 )	(16,518 )
<b>INCOME FROM OPERATIONS BEFORE GAINS ON SALES OF REAL ESTATE</b>	32,123	26,734
Gains on sale of land	—	17,268
Gains on sale of depreciable operating properties (Note 3)	145,990	—
<b>NET INCOME</b>	178,113	44,002
Net income attributable to noncontrolling interests in consolidated subsidiaries	(280 )	(75 )
<b>NET INCOME ATTRIBUTABLE TO KILROY REALTY, L.P.</b>	177,833	43,927
<b>PREFERRED DISTRIBUTIONS</b>	(3,313 )	(3,313 )
<b>NET INCOME AVAILABLE TO COMMON UNITHOLDERS</b>	\$ 174,520	\$ 40,614
Net income available to common unitholders per unit – basic (Note 14)	\$ 1.85	\$ 0.45
Net income available to common unitholders per unit – diluted (Note 14)	\$ 1.84	\$ 0.45
Weighted average common units outstanding – basic (Note 14)	94,188,520	88,693,306
Weighted average common units outstanding – diluted (Note 14)	94,698,541	89,230,896
Dividends declared per common unit	\$ 0.35	\$ 0.35

See accompanying notes to consolidated financial statements.

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## KILROY REALTY, L.P.

## CONSOLIDATED STATEMENTS OF CAPITAL

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

	Partners' Capital			Total	Noncontrolling	
	Preferred	Number of	Common	Partners'	Interests in	Total
	Units	Common	Units	Capital	Consolidated	Capital
		Units			Subsidiaries	
BALANCE AS OF DECEMBER 31, 2014	\$ 192,411	88,063,884	\$ 2,521,900	\$ 2,714,311	\$ 9,625	\$ 2,723,936
Net income			43,927	43,927	75	44,002
Issuance of common units		1,507,393	113,097	113,097		113,097
Issuance of share-based compensation awards			413	413		413
Noncash amortization of share-based compensation			4,302	4,302		4,302
Repurchase of common units, stock options and restricted stock units		(20,429 )	(1,821 )	(1,821 )		(1,821 )
Settlement of restricted stock units		36,699	—	—		—
Exercise of stock options		237,000	10,482	10,482		10,482
Preferred distributions			(3,313 )	(3,313 )		(3,313 )
Distributions declared per common unit (\$0.35 per unit)			(31,892 )	(31,892 )		(31,892 )
BALANCE AS OF MARCH 31, 2015	\$ 192,411	89,824,547	\$ 2,657,095	\$ 2,849,506	\$ 9,700	\$ 2,859,206

	Partners' Capital			Total	Noncontrolling	
	Preferred	Number of	Common	Partners'	Interests in	Total
	Units	Common	Units	Capital	Consolidated	Capital
		Units			Subsidiaries	
BALANCE AS OF DECEMBER 31, 2015	\$ 192,411	94,023,465	\$ 3,031,609	\$ 3,224,020	\$ 10,566	\$ 3,234,586
Net income			177,833	177,833	280	178,113
Issuance of common units in connection with acquisition (Note 2)		867,701	48,033	48,033		48,033
Issuance of share-based compensation awards			404	404		404
Noncash amortization of share-based compensation			5,911	5,911		5,911
Exercise of stock options		6,000	256	256		256
Repurchase of common units, stock options and restricted stock units		(92,089 )	(5,619 )	(5,619 )		(5,619 )
Settlement of restricted stock units		55,663	(1 )	(1 )		(1 )
Preferred distributions			(3,313 )	(3,313 )		(3,313 )
Distributions declared per common unit (\$0.35 per unit)			(33,672 )	(33,672 )		(33,672 )
BALANCE AS OF MARCH 31, 2016	\$ 192,411	94,860,740	\$ 3,221,441	\$ 3,413,852	\$ 10,846	\$ 3,424,698

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 178,113	\$ 44,002
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of building and improvements and leasing costs	49,664	50,843
Depreciation of furniture, fixtures and equipment	776	644
Increase in provision for bad debts	—	242
Noncash amortization of share-based compensation awards	4,703	3,571
Noncash amortization of deferred financing costs and debt discounts and premiums	609	454
Noncash amortization of net below market rents (Note 4)	(1,603 )	(1,928 )
Gains on sales of depreciable operating properties (Note 3)	(145,990 )	—
Gains on sale of land	—	(17,268 )
Noncash amortization of deferred revenue related to tenant-funded tenant improvements	(2,888 )	(3,013 )
Straight-line rents	(9,451 )	(19,692 )
Net change in other operating assets	1,561	(8,421 )
Net change in other operating liabilities	2,710	5,545
Net cash provided by operating activities	78,204	54,979
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Expenditures for development properties and undeveloped land	(63,702 )	(89,810 )
Expenditures for acquisition of undeveloped land (Note 2)	(33,513 )	(50,435 )
Expenditures for operating properties	(25,938 )	(24,345 )
Net proceeds received from dispositions (Note 3)	262,409	25,563
(Increase) decrease in restricted cash (Note 3)	(260,904 )	58,619
(Increase) decrease in acquisition-related deposits	(4,085 )	3,099
Increase in note receivable	(1,000 )	—
Net cash used in investing activities	(126,733 )	(77,309 )
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		