

KILROY REALTY CORP
Form 10-Q
October 28, 2009
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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 September 30, 2009

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

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

12200 W. Olympic Boulevard,
Suite 200,

95-4598246
(I.R.S. Employer
Identification No.)

90064

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Los Angeles, California
(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. 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). Yes No

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.

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 Exchange Act). Yes No

As of October 27, 2009, 43,148,762 shares of common stock, par value \$.01 per share, were outstanding.

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KILROY REALTY CORPORATION

QUARTERLY REPORT FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2009

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<i>Unless otherwise indicated or unless the context requires otherwise, all references in this report to we, us, our or the Company mean Kilroy Realty Corporation, including our consolidated subsidiaries.</i>	

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(in thousands, except share data)

	September 30, 2009 (unaudited)	December 31, 2008
<u>ASSETS</u>		
REAL ESTATE ASSETS:		
Land and improvements	\$ 335,932	\$ 336,874
Buildings and improvements	1,909,876	1,889,833
Undeveloped land and construction in progress	259,108	248,889
Total real estate held for investment	2,504,916	2,475,596
Accumulated depreciation and amortization	(587,968)	(532,769)
Total real estate assets, net	1,916,948	1,942,827
CASH AND CASH EQUIVALENTS	9,265	9,553
RESTRICTED CASH	2,936	672
MARKETABLE SECURITIES (Note 6)	3,229	1,888
CURRENT RECEIVABLES, NET	3,139	5,753
DEFERRED RENT RECEIVABLES, NET	72,623	67,144
NOTES RECEIVABLE	10,716	10,824
DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLES, NET	49,627	53,539
DEFERRED FINANCING COSTS, NET	4,393	5,883
PREPAID EXPENSES AND OTHER ASSETS, NET	6,126	4,835
TOTAL ASSETS	\$ 2,079,002	\$ 2,102,918
<u>LIABILITIES, NONCONTROLLING INTERESTS AND EQUITY</u>		
LIABILITIES:		
Secured debt (Notes 2 and 6)	\$ 296,788	\$ 316,456
Exchangeable senior notes, net (Notes 1, 2 and 6)	398,347	429,892
Unsecured senior notes (Note 6)	144,000	144,000
Unsecured line of credit (Notes 2 and 6)	126,000	252,000
Accounts payable, accrued expenses and other liabilities	42,565	55,066
Accrued distributions (Note 12)	17,133	21,421
Deferred revenue and acquisition-related liabilities	69,252	76,219
Rents received in advance and tenant security deposits	18,381	19,340
Total liabilities	1,112,466	1,314,394
COMMITMENTS AND CONTINGENCIES (NOTE 7)		
NONCONTROLLING INTEREST (Notes 1 and 3):		
7.45% Series A Cumulative Redeemable Preferred units of the Operating Partnership	73,638	73,638
EQUITY (Notes 1, 3 and 4):		
Stockholders' Equity:		
Preferred stock, \$.01 par value, 30,000,000 shares authorized:		
7.45% Series A Cumulative Redeemable Preferred stock, \$.01 par value, 1,500,000 shares authorized, none issued and outstanding	38,425	38,425

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7.80% Series E Cumulative Redeemable Preferred stock, \$.01 par value, 1,610,000 shares authorized, issued and outstanding (\$40,250 liquidation preference)		
7.50% Series F Cumulative Redeemable Preferred stock, \$.01 par value, 3,450,000 shares authorized, issued and outstanding (\$86,250 liquidation preference)	83,157	83,157
Common stock, \$.01 par value, 150,000,000 shares authorized, 43,148,762 and 33,086,148 shares issued and outstanding, respectively	431	331
Additional paid-in capital	904,043	700,122
Distributions in excess of earnings	(162,391)	(137,052)
Total stockholders' equity	863,665	684,983
Noncontrolling interest:		
Common units of the Operating Partnership	29,233	29,903
Total equity	892,898	714,886
TOTAL LIABILITIES, NONCONTROLLING INTERESTS AND EQUITY	\$ 2,079,002	\$ 2,102,918

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
REVENUES:				
Rental income	\$ 61,297	\$ 64,405	\$ 186,959	\$ 187,914
Tenant reimbursements	6,843	7,256	21,898	23,111
Other property income (Note 8)	354	5,285	3,198	6,046
Total revenues	68,494	76,946	212,055	217,071
EXPENSES:				
Property expenses	12,699	12,822	37,611	36,180
Real estate taxes	5,988	5,816	18,260	16,115
Provision for bad debts	243	9	395	3,668
Ground leases	398	431	1,227	1,226
General and administrative expenses	7,662	9,627	22,023	28,050
Interest expense (Notes 1 and 2)	10,926	10,941	35,041	32,422
Depreciation and amortization	21,968	20,646	66,608	62,018
Total expenses	59,884	60,292	181,165	179,679
OTHER INCOME (LOSS):				
Interest income and other net investment gains (losses)	501	(149)	1,074	192
Gain on early extinguishment of debt (Note 2)	3,119		3,119	
Total other income (loss)	3,620	(149)	4,193	192
INCOME FROM CONTINUING OPERATIONS	12,230	16,505	35,083	37,584
DISCONTINUED OPERATIONS (Note 10):				
Revenues from discontinued operations		154		659
Expenses from discontinued operations		(28)	(224)	(84)
Net gain on dispositions of discontinued operations			2,485	234
Total income from discontinued operations		126	2,261	809
NET INCOME	12,230	16,631	37,344	38,393
Net income attributable to noncontrolling common units of the Operating Partnership	(320)	(795)	(1,144)	(1,688)
NET INCOME ATTRIBUTABLE TO KILROY REALTY CORPORATION	11,910	15,836	36,200	36,705
PREFERRED DISTRIBUTIONS AND DIVIDENDS:				
Distributions to noncontrolling cumulative redeemable preferred units of the Operating Partnership	(1,397)	(1,397)	(4,191)	(4,191)
Preferred dividends	(2,402)	(2,402)	(7,206)	(7,206)
Total preferred distributions and dividends	(3,799)	(3,799)	(11,397)	(11,397)
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$ 8,111	\$ 12,037	\$ 24,803	\$ 25,308
Income from continuing operations available to common stockholders per common share basic (Notes 1 and 11)	\$ 0.17	\$ 0.36	\$ 0.58	\$ 0.75
	\$ 0.17			

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Income from continuing operations available to common stockholders per common share diluted (Notes 1 and 11)