

KILROY REALTY CORP
Form 10-Q
April 30, 2015

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, 2015

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

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

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

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

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

Kilroy Realty Corporation Yes 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 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

Edgar Filing: KILROY REALTY CORP - Form 10-Q

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 24, 2015, 88,052,069 shares of Kilroy Realty Corporation common stock, par value \$.01 per share, were outstanding.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended March 31, 2015 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, 2015, 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-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;

i

Note 13, Net Income Available to Common Stockholders Per Share of the Company; and
Note 14, Net Income Available to Common Unitholders Per Unit 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, 2015
 TABLE OF CONTENTS

	Page
	PART I – FINANCIAL INFORMATION
Item 1.	<u>FINANCIAL STATEMENTS OF KILROY REALTY CORPORATION</u> 1
	<u>Consolidated Balance Sheets as of March 31, 2015 (unaudited) and December 31, 2014</u> 1
	<u>Consolidated Statements of Operations for the Three Months</u> <u>ended March 31, 2015 and 2014 (unaudited)</u> 2
	<u>Consolidated Statements of Equity for the Three Months</u> <u>ended March 31, 2015 and 2014 (unaudited)</u> 3
	<u>Consolidated Statements of Cash Flows for the Three Months</u> <u>ended March 31, 2015 and 2014 (unaudited)</u> 4
Item 1.	<u>FINANCIAL STATEMENTS OF KILROY REALTY, L.P.</u> 6
	<u>Consolidated Balance Sheets as of March 31, 2015 (unaudited) and December 31, 2014</u> 6
	<u>Consolidated Statements of Operations for the Three Months</u> <u>ended March 31, 2015 and 2014 (unaudited)</u> 7
	<u>Consolidated Statements of Capital for the Three Months</u> <u>ended March 31, 2015 and 2014 (unaudited)</u> 8
	<u>Consolidated Statements of Cash Flows for the Three Months</u> <u>ended March 31, 2015 and 2014 (unaudited)</u> 9
	<u>Notes to Unaudited Consolidated Financial Statements</u> 11
Item 2.	<u>MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION</u> <u>AND RESULTS OF OPERATIONS</u> 27
Item 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u> 48
Item 4.	<u>CONTROLS AND PROCEDURES (KILROY REALTY CORPORATION AND KILROY</u> <u>REALTY, L.P.)</u> 48
	PART II – OTHER INFORMATION
Item 1.	<u>LEGAL PROCEEDINGS</u> 49
Item 1A.	<u>RISK FACTORS</u> 49
Item 2.	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u> 49
Item 3.	<u>DEFAULTS UPON SENIOR SECURITIES</u> 49
Item 4.	<u>MINE SAFETY DISCLOSURES</u> 49
Item 5.	<u>OTHER INFORMATION</u> 49
Item 6.	<u>EXHIBITS</u> 50
	<u>SIGNATURES</u> 51

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, 2015 (unaudited)	December 31, 2014
ASSETS		
REAL ESTATE ASSETS:		
Land and improvements	\$ 838,927	\$ 877,633
Buildings and improvements	3,880,883	4,059,639
Undeveloped land and construction in progress (Note 2)	1,265,659	1,120,660
Total real estate assets held for investment	5,985,469	6,057,932
Accumulated depreciation and amortization	(921,279)	(947,664)
Total real estate assets held for investment, net (\$171,120 and \$211,755 of VIE, respectively, Note 1)	5,064,190	5,110,268
REAL ESTATE ASSETS AND OTHER ASSETS HELD FOR SALE, NET (Note 3)	190,751	8,211
CASH AND CASH EQUIVALENTS	50,181	23,781
RESTRICTED CASH (Note 1)	8,287	75,185
MARKETABLE SECURITIES (Note 12)	13,337	11,971
CURRENT RECEIVABLES, NET (Note 5)	8,122	7,229
DEFERRED RENT RECEIVABLES, NET (Note 5)	168,581	156,416
DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLE ASSETS, NET (Note 4)	182,251	201,926
DEFERRED FINANCING COSTS, NET	17,346	18,374
PREPAID EXPENSES AND OTHER ASSETS, NET	22,434	20,375
TOTAL ASSETS	\$5,725,480	\$ 5,633,736
LIABILITIES AND EQUITY		
LIABILITIES:		
Secured debt (Notes 6 and 12)	\$ 516,725	\$ 546,292
Unsecured debt, net (Notes 6 and 12)	1,783,280	1,783,121
Unsecured line of credit (Notes 6 and 12)	130,000	140,000
Accounts payable, accrued expenses and other liabilities	217,352	225,830
Accrued distributions (Note 15)	33,532	32,899
Deferred revenue and acquisition-related intangible liabilities, net (Note 4)	128,730	132,239
Rents received in advance and tenant security deposits	46,887	49,363
Liabilities of real estate assets held for sale (Note 3)	9,768	56
Total liabilities	2,866,274	2,909,800
COMMITMENTS AND CONTINGENCIES (Note 11)		
EQUITY:		
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
	96,256	96,256

Edgar Filing: KILROY REALTY CORP - Form 10-Q

6.375% Series H Cumulative Redeemable Preferred stock, \$.01 par value, 4,000,000 shares authorized, issued and outstanding (\$100,000 liquidation preference)		
Common stock, \$.01 par value, 150,000,000 shares authorized, 88,031,377 and 86,259,684 shares issued and outstanding, respectively	880	863
Additional paid-in capital	2,761,176	2,635,900
Distributions in excess of earnings	(154,355	) (162,964
Total stockholders' equity	2,800,112	2,666,210
Noncontrolling Interests:		
Common units of the Operating Partnership (Note 7)	53,232	51,864
Noncontrolling interest in consolidated subsidiary (Note 1)	5,862	5,862
Total noncontrolling interests	59,094	57,726
Total equity	2,859,206	2,723,936
TOTAL LIABILITIES AND EQUITY	\$5,725,480	\$ 5,633,736

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2015	2014
REVENUES		
Rental income	\$ 130,932	\$ 110,098
Tenant reimbursements	14,425	11,519
Other property income	725	2,141
Total revenues	146,082	123,758
EXPENSES		
Property expenses	24,714	24,483
Real estate taxes	12,715	10,989
Provision for bad debts	242	—
Ground leases	776	762
General and administrative expenses	12,768	10,811
Acquisition-related expenses	128	228
Depreciation and amortization	51,487	48,536
Total expenses	102,830	95,809
OTHER (EXPENSES) INCOME		
Interest income and other net investment gains (Note 12)	360	177
Interest expense (Note 6)	(16,878)	(17,252)
Total other (expenses) income	(16,518)	(17,075)
INCOME FROM CONTINUING OPERATIONS BEFORE GAINS ON SALE OF REAL ESTATE	26,734	10,874
Gain on sale of land (Note 3)	17,268	—
INCOME FROM CONTINUING OPERATIONS	44,002	10,874
DISCONTINUED OPERATIONS (Note 1)		
Income from discontinued operations	—	943
Gains on dispositions of discontinued operations	—	90,115
Total income from discontinued operations	—	91,058
NET INCOME	44,002	101,932
Net income attributable to noncontrolling common units of the Operating Partnership	(815)	(2,087)
NET INCOME ATTRIBUTABLE TO KILROY REALTY CORPORATION	43,187	99,845
PREFERRED DIVIDENDS	(3,313)	(3,313)
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$39,874	\$96,532
Income from continuing operations available to common stockholders per common share – basic (Note 13)	\$0.45	\$0.08
Income from continuing operations available to common stockholders per common share – diluted (Note 13)	\$0.45	\$0.08
Net income available to common stockholders per share – basic (Note 13)	\$0.45	\$1.17
Net income available to common stockholders per share – diluted (Note 13)	\$0.45	\$1.14
Weighted average common shares outstanding – basic (Note 13)	86,896,776	82,124,538
Weighted average common shares outstanding – diluted (Note 13)	87,434,366	84,140,070
Dividends declared per common share	\$0.35	\$0.35

See accompanying notes to consolidated financial statements.

2

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	Additional Paid-in Capital	Distributions in Excess of Earnings	Total Stock-holders' Equity	Noncontrolling Interests	Total Equity
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					99,845	99,845	2,087	101,932
Noncash amortization of share-based compensation				2,233		2,233		2,233
Repurchase of common stock, stock options and restricted stock units		(26,074)		(1,517)		(1,517)		(1,517)
Settlement of restricted stock units for shares of common stock		88,962		—		—		—
Exercise of stock options		500		21		21		21
Exchange of common units of the Operating Partnership		1,000		28		28	(28)	—
Preferred dividends					(3,313)	(3,313)		(3,313)
Dividends declared per common share and common unit (\$0.35 per share/unit)					(29,272)	(29,272)	(634)	(29,906)
BALANCE AS OF MARCH 31, 2014	\$ 192,411	82,218,332	\$ 822	\$ 2,479,740	\$ (143,636)	\$ 2,529,337	\$ 56,273	\$ 2,585,610

	Preferred Stock	Common Stock Number of Shares	Common Stock	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

Edgar Filing: KILROY REALTY CORP - Form 10-Q

Net income				43,187	43,187	815	44,002	
Issuance of common stock (Note 8)	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 (Note 10)	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

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March	
	31,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$44,002	\$ 101,932
Adjustments to reconcile net income to net cash provided by operating activities (including discontinued operations):		
Depreciation and amortization of building and improvements and leasing costs	50,843	48,717
Increase in provision for bad debts	242	—
Depreciation of furniture, fixtures and equipment	644	485
Noncash amortization of share-based compensation awards	3,571	2,502
Noncash amortization of deferred financing costs and debt discounts and premiums	454	1,256
Noncash amortization of net below market rents (Note 4)	(1,928	) (1,734
Gain on sale of land (Note 3)	(17,268) —
Gains on dispositions of discontinued operations	—	(90,115
Noncash amortization of deferred revenue related to tenant-funded tenant improvements	(3,013	) (2,353
Straight-line rents	(19,692	) (3,959
Net change in other operating assets	(8,421	) (5,949
Net change in other operating liabilities	5,545	(5,701
Net cash provided by operating activities	54,979	45,081
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for development and redevelopment properties and undeveloped land	(89,810	) (73,626
Expenditures for acquisition of development properties (Note 2)	(50,435) —
Expenditures for operating properties	(24,345	) (32,016
Expenditures for acquisition of operating properties	—	(106,125
Net proceeds received from dispositions of land and operating properties (Note 3)	25,563	309,824
Decrease in acquisition-related deposits	3,099	—
Decrease (increase) in restricted cash (Note 1)	58,619	(779
Net cash (used in) provided by investing activities	(77,309	) 97,278
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock (Note 8)	113,097	—
Borrowings on unsecured line of credit	150,000	90,000
Repayments on unsecured line of credit	(160,000	) (135,000
Principal payments on secured debt	(28,472	) (2,414
Financing costs	(397	) (418
Repurchase of common stock and restricted stock units	(1,821	) (1,517
Proceeds from exercise of stock options (Note 10)	10,482	21
Dividends and distributions paid to common stockholders and common unitholders	(30,846	) (29,561
Dividends and distributions paid to preferred stockholders and preferred unitholders	(3,313	) (3,313
Net cash provided by (used in) financing activities	48,730	(82,202
Net increase in cash and cash equivalents	26,400	60,157
Cash and cash equivalents, beginning of period	23,781	35,377
Cash and cash equivalents, end of period	\$50,181	\$95,534

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

	Three Months Ended March	
	31, 2015	2014
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Cash paid for interest, net of capitalized interest of \$10,669 and \$10,042 as of March 31, 2015 and 2014, respectively	\$ 19,814	\$ 14,106
NONCASH INVESTING TRANSACTIONS:		
Accrual for expenditures for operating properties and development and redevelopment properties	\$ 85,656	\$ 64,709
Tenant improvements funded directly by tenants	\$ 231	\$ 4,470
Assumption of other liabilities in connection with development acquisitions	\$ 1,478	\$ —
Release of holdback funds to third party	\$ 8,279	\$ —
NONCASH FINANCING TRANSACTIONS:		
Accrual of dividends and distributions payable to common stockholders and common unitholders	\$ 31,892	\$ 29,906
Accrual of dividends and distributions payable to preferred stockholders and preferred unitholders	\$ 1,656	\$ 1,656
Fair value of share-based compensation awards at equity classification date (Note 10)	\$ 16,920	\$ —
Exchange of common units of the Operating Partnership into shares of the Company's common stock	\$ 316	\$ 28

See accompanying notes to consolidated financial statements.

5

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

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

	March 31, 2015 (unaudited)	December 31, 2014
ASSETS		
REAL ESTATE ASSETS:		
Land and improvements	\$838,927	\$ 877,633
Buildings and improvements	3,880,883	4,059,639
Undeveloped land and construction in progress (Note 2)	1,265,659	1,120,660
Total real estate assets held for investment	5,985,469	6,057,932
Accumulated depreciation and amortization	(921,279)	(947,664)
Total real estate assets held for investment, net (\$171,120 and \$211,755 of VIE, respectively, Note 1)	5,064,190	5,110,268
REAL ESTATE ASSETS AND OTHER ASSETS HELD FOR SALE, NET (Note 3)	190,751	8,211
CASH AND CASH EQUIVALENTS	50,181	23,781
RESTRICTED CASH (Note 1)	8,287	75,185
MARKETABLE SECURITIES (Note 12)	13,337	11,971
CURRENT RECEIVABLES, NET (Note 5)	8,122	7,229
DEFERRED RENT RECEIVABLES, NET (Note 5)	168,581	156,416
DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLE ASSETS, NET (Note 4)	182,251	201,926
DEFERRED FINANCING COSTS, NET	17,346	18,374
PREPAID EXPENSES AND OTHER ASSETS, NET	22,434	20,375
TOTAL ASSETS	\$5,725,480	\$ 5,633,736
LIABILITIES AND CAPITAL		
LIABILITIES:		
Secured debt (Notes 6 and 12)	\$516,725	\$ 546,292
Unsecured debt, net (Notes 6 and 12)	1,783,280	1,783,121
Unsecured line of credit (Notes 6 and 12)	130,000	140,000
Accounts payable, accrued expenses and other liabilities	217,352	225,830
Accrued distributions (Note 15)	33,532	32,899
Deferred revenue and acquisition-related intangible liabilities, net (Note 4)	128,730	132,239
Rents received in advance and tenant security deposits	46,887	49,363
Liabilities of real estate assets held for sale (Note 3)	9,768	56
Total liabilities	2,866,274	2,909,800
COMMITMENTS AND CONTINGENCIES (Note 11)		
CAPITAL:		
Partners' Capital (Note 9):		
6.875% Series G Cumulative Redeemable Preferred units, 4,000,000 units issued and outstanding (\$100,000 liquidation preference)	96,155	96,155
	96,256	96,256

Edgar Filing: KILROY REALTY CORP - Form 10-Q

6.375% Series H Cumulative Redeemable Preferred units, 4,000,000 units issued and outstanding (\$100,000 liquidation preference)		
Common units, 88,031,377 and 86,259,684 held by the general partner and 1,793,170 and 1,804,200 held by common limited partners issued and outstanding, respectively	2,657,095	2,521,900
Total partners' capital	2,849,506	2,714,311
Noncontrolling interests in consolidated subsidiaries (Note 1)	9,700	9,625
Total capital	2,859,206	2,723,936
TOTAL LIABILITIES AND CAPITAL	\$5,725,480	\$ 5,633,736

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	2015	2014
REVENUES		
Rental income	\$ 130,932	\$ 110,098
Tenant reimbursements	14,425	11,519
Other property income	725	2,141
Total revenues	146,082	123,758
EXPENSES		
Property expenses	24,714	24,483
Real estate taxes	12,715	10,989
Provision for bad debts	242	—
Ground leases	776	762
General and administrative expenses	12,768	10,811
Acquisition-related expenses	128	228
Depreciation and amortization	51,487	48,536
Total expenses	102,830	95,809
OTHER (EXPENSES) INCOME		
Interest income and other net investment gains (Note 12)	360	177
Interest expense (Note 6)	(16,878)	(17,252)
Total other (expenses) income	(16,518)	(17,075)
INCOME FROM CONTINUING OPERATIONS BEFORE GAINS ON SALE OF REAL ESTATE	26,734	10,874
Gain on sale of land (Note 3)	17,268	—
INCOME FROM CONTINUING OPERATIONS	44,002	10,874
DISCONTINUED OPERATIONS (Note 1)		
Income from discontinued operations	—	943
Gains on dispositions of discontinued operations	—	90,115
Total income from discontinued operations	—	91,058
NET INCOME	44,002	101,932
Net income attributable to noncontrolling interests in consolidated subsidiaries	(75)	(65)
NET INCOME ATTRIBUTABLE TO KILROY REALTY, L.P.	43,927	101,867
PREFERRED DISTRIBUTIONS	(3,313)	(3,313)
NET INCOME AVAILABLE TO COMMON UNITHOLDERS	\$40,614	\$98,554