

KILROY REALTY CORP

Form 10-Q

May 02, 2012

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, 2012

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 company" in Rule 12b-2 of the Exchange Act.

Edgar Filing: KILROY REALTY CORP - Form 10-Q

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 30, 2012, 68,349,843 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 three months ended March 31, 2012 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, 2012, the Company owned an approximate 97.5% common general partnership interest in the Operating Partnership. The remaining approximate 2.5% common limited partnership interests are owned by non-affiliated investors and certain directors and executive 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 which 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 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 is required to contribute to the Operating Partnership in exchange for partnership units, 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 partnership units.

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 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. This noncontrolling interest represents the Company's 1% indirect general partnership interest in Kilroy Realty Finance Partnership, L.P., 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 Company's noncontrolling interest in Kilroy Realty Finance Partnership, L.P.

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 5, Secured and Unsecured Debt of the Operating Partnership;

Note 6, Noncontrolling Interests on the Company's Consolidated Financial Statements;

i

Note 7, Preferred Stock of the Company;

Note 8, Common Stock of the Company;

Note 9, Preferred and Common Units in the Operating Partnership's Consolidated Financial Statements;

Note 15, Net Income Available to Common Stockholders Per Share of the Company;

Note 16, Net Income Available to Common Unitholders Per Unit of the Operating Partnership;

Note 18, Pro Forma Results of the Company;

Note 19, Pro Forma Results 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

"Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations - 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 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, 2012
 TABLE OF CONTENTS

	Page
PART I-FINANCIAL INFORMATION	
Item 1. <u>FINANCIAL STATEMENTS OF KILROY REALTY CORPORATION</u>	<u>1</u>
<u>Consolidated Balance Sheets as of March 31, 2012 (unaudited) and December 31, 2011</u>	<u>1</u>
<u>Consolidated Statements of Operations for the Three Months ended March 31, 2012 and 2011 (unaudited)</u>	<u>2</u>
<u>Consolidated Statements of Equity for the Three Months ended March 31, 2012 and 2011 (unaudited)</u>	<u>3</u>
<u>Consolidated Statements of Cash Flows for the Three Months ended March 31, 2012 and 2011 (unaudited)</u>	<u>4</u>
Item 1. <u>FINANCIAL STATEMENTS OF KILROY REALTY, L.P.</u>	<u>6</u>
<u>Consolidated Balance Sheets as of March 31, 2012 (unaudited) and December 31, 2011</u>	<u>6</u>
<u>Consolidated Statements of Operations for the Three Months ended March 31, 2012 and 2011 (unaudited)</u>	<u>7</u>
<u>Consolidated Statements of Capital for the Three Months ended March 31, 2012 and 2011 (unaudited)</u>	<u>8</u>
<u>Consolidated Statements of Cash Flows for the Three Months ended March 31, 2012 and 2011 (unaudited)</u>	<u>9</u>
<u>Notes to Consolidated Financial Statements</u>	<u>11</u>
Item 2. <u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS</u>	<u>30</u>
Item 3. <u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	<u>49</u>
Item 4. <u>CONTROLS AND PROCEDURES (KILROY REALTY CORPORATION AND KILROY REALTY, L.P.)</u>	<u>49</u>
PART II-OTHER INFORMATION	
Item 1. <u>LEGAL PROCEEDINGS</u>	<u>50</u>
Item 1A. <u>RISK FACTORS</u>	<u>50</u>
Item 2. <u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	<u>50</u>
Item 3. <u>DEFAULTS UPON SENIOR SECURITIES</u>	<u>50</u>
Item 4. <u>MINE SAFETY DISCLOSURES</u>	<u>50</u>

Item 5.	<u>OTHER INFORMATION</u>	<u>50</u>
Item 6.	<u>EXHIBITS</u>	<u>51</u>
	<u>SIGNATURES</u>	<u>52</u>

PART I-FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS OF KILROY REALTY CORPORATION

KILROY REALTY CORPORATION
CONSOLIDATED BALANCE SHEETS

(in thousands, except share data)

	March 31, 2012 (unaudited)	December 31, 2011
ASSETS		
REAL ESTATE ASSETS:		
Land and improvements (Note 2)	\$576,433	\$537,574
Buildings and improvements	2,970,967	2,830,310
Undeveloped land and construction in progress	446,237	430,806
Total real estate held for investment	3,993,637	3,798,690
Accumulated depreciation and amortization	(770,688)	(742,503)
Total real estate assets held for investment, net	3,222,949	3,056,187
REAL ESTATE ASSETS AND OTHER ASSETS HELD FOR SALE, NET (Note 14)	—	84,156
CASH AND CASH EQUIVALENTS	374,368	4,777
RESTRICTED CASH (Note 14)	43,140	358
MARKETABLE SECURITIES (Note 12)	6,459	5,691
CURRENT RECEIVABLES, NET (Note 4)	6,990	8,395
DEFERRED RENT RECEIVABLES, NET (Note 4)	106,309	101,142
DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLE ASSETS, NET (Notes 2 and 3)	158,132	155,522
DEFERRED FINANCING COSTS, NET	19,060	18,368
PREPAID EXPENSES AND OTHER ASSETS, NET (Note 11)	21,934	12,199
TOTAL ASSETS	\$3,959,341	\$3,446,795
LIABILITIES, NONCONTROLLING INTEREST AND EQUITY		
LIABILITIES:		
Secured debt, net (Notes 5 and 12)	\$350,219	\$351,825
Exchangeable senior notes, net (Notes 5, 12 and 17)	308,689	306,892
Unsecured debt, net (Notes 5 and 12)	1,130,651	980,569
Unsecured line of credit (Notes 5, 12 and 17)	—	182,000
Accounts payable, accrued expenses and other liabilities	92,574	81,713
Accrued distributions (Note 17)	26,622	22,692
Deferred revenue and acquisition-related intangible liabilities, net (Notes 2 and 3)	90,206	79,781
Rents received in advance and tenant security deposits	30,392	26,917
Liabilities and deferred revenue of real estate assets held for sale (Note 14)	—	13,286
7.80% Series E and 7.50% Series F Cumulative Redeemable Preferred stock, called for redemption (Note 7)	126,500	—
Total liabilities	2,155,853	2,045,675
COMMITMENTS AND CONTINGENCIES (Note 11)		
NONCONTROLLING INTEREST (Note 6):		
7.45% Series A Cumulative Redeemable Preferred units of the Operating Partnership	73,638	73,638
EQUITY:		

Edgar Filing: KILROY REALTY CORP - Form 10-Q

Stockholders' Equity (Notes 7 and 8):

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	—	—
7.80% Series E Cumulative Redeemable Preferred stock, \$.01 par value, 1,610,000 shares authorized, issued and outstanding (\$40,250 liquidation preference)	—	38,425
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
6.875% Series G Cumulative Redeemable Preferred stock, \$.01 par value, 4,000,000 shares authorized, issued and outstanding (\$100,000 liquidation preference)	96,155	—
Common stock, \$.01 par value, 150,000,000 shares authorized, 68,349,843 and 58,819,717 shares issued and outstanding, respectively	683	588
Additional paid-in capital	1,827,676	1,448,997
Distributions in excess of earnings	(234,199)	(277,450)
Total stockholders' equity	1,690,315	1,293,717
Noncontrolling interest:		
Common units of the Operating Partnership (Note 6)	39,535	33,765
Total equity	1,729,850	1,327,482
TOTAL LIABILITIES, NONCONTROLLING INTEREST AND EQUITY	\$3,959,341	\$3,446,795

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,	
	2012	2011
REVENUES:		
Rental income	\$90,219	\$ 76,997
Tenant reimbursements	8,304	6,022
Other property income	887	754
Total revenues	99,410	83,773
EXPENSES:		
Property expenses	17,535	17,509
Real estate taxes	8,389	7,890
Provision for bad debts	2	26
Ground leases	802	339
General and administrative expenses	8,767	6,560
Acquisition-related expenses	1,528	472
Depreciation and amortization	36,746	28,441
Total expenses	73,769	61,237
OTHER (EXPENSES) INCOME:		
Interest income and other net investment gains (Note 12)	484	184
Interest expense (Note 5)	(21,163)	(20,876)
Total other (expenses) income	(20,679)	(20,692)
INCOME FROM CONTINUING OPERATIONS	4,962	1,844
DISCONTINUED OPERATIONS (Note 14)		
Income from discontinued operations	900	3,023
Net gain on dispositions of discontinued operations	72,809	—
Total income from discontinued operations	73,709	3,023
NET INCOME	78,671	4,867
Net income attributable to noncontrolling common units of the Operating Partnership	(1,795)	(34)
NET INCOME ATTRIBUTABLE TO KILROY REALTY CORPORATION	76,876	4,833
PREFERRED DISTRIBUTIONS AND DIVIDENDS:		
Distributions to noncontrolling cumulative redeemable preferred units of the Operating Partnership	(1,397)	(1,397)
Preferred dividends (Note 7)	(3,021)	(2,402)
Original issuance costs of preferred stock called for redemption (Note 7)	(4,918)	—
Total preferred distributions and dividends	(9,336)	(3,799)
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	\$67,540	\$ 1,034
Loss from continuing operations available to common stockholders per common share - basic (Note 15)	\$(0.07)	\$(0.04)
Loss from continuing operations available to common stockholders per common share - diluted (Note 15)	\$(0.07)	\$(0.04)
Net income available to common stockholders per share - basic (Note 15)	\$ 1.06	\$ 0.01
Net income available to common stockholders per share - diluted (Note 15)	\$ 1.06	\$ 0.01

Edgar Filing: KILROY REALTY CORP - Form 10-Q

Weighted average common shares outstanding - basic (Note 15)	63,648,704	52,302,075
Weighted average common shares outstanding - diluted (Note 15)	63,648,704	52,302,075
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)

	Common Stock					Total Stockholders' Equity	Noncontrolling Interests - Common Units of the Operating Partnership	Total Equity
	Preferred Stock	Number of Shares	Common Stock	Additional Paid-in Capital	Distributions in Excess of Earnings			
BALANCE AS OF DECEMBER 31, 2010	\$ 121,582	52,349,670	\$ 523	\$ 1,211,498	\$(247,252)	\$ 1,086,351	\$ 31,379	\$ 1,117,730
Net income					4,833	4,833	34	4,867
Issuance of share-based compensation awards		66,208	1	1,874		1,875		1,875
Noncash amortization of share-based compensation				1,420		1,420		1,420
Repurchase of common stock and restricted stock units		(11,485)		(732)		(732)		(732)
Exercise of stock options		15,000		395		395		395
Adjustment for noncontrolling interest				8		8	(8)	—
Preferred distributions and dividends					(3,799)	(3,799)		(3,799)
Dividends declared per common share and common unit (\$0.35 per share/unit)					(18,630)	(18,630)	(603)	(19,233)
BALANCE AS OF MARCH 31, 2011	\$ 121,582	52,419,393	\$ 524	\$ 1,214,463	\$(264,848)	\$ 1,071,721	\$ 30,802	\$ 1,102,523

	Common Stock					Total Stockholders' Equity	Noncontrol-Total ling InterestEquity - Common
	Preferred	Number of	Common	Additional	Distributions		

Edgar Filing: KILROY REALTY CORP - Form 10-Q

	Stock	Shares	Stock	Paid-in Capital	in Excess of Earnings	Equity	Units of the Operating Partnership	
BALANCE AS OF DECEMBER 31, 2011	\$ 121,582	58,819,717	\$ 588	\$ 1,448,997	\$(277,450)	\$ 1,293,717	\$ 33,765	\$ 1,327,482
Net income					76,876	76,876	1,795	78,671
Issuance of Series G Preferred stock (Note 7)	96,155					96,155		96,155
Series E and Series F Preferred stock, called for redemption (Note 7)	(121,582)				(4,918)	(126,500)		(126,500)
Issuance of common stock (Note 8)		9,487,500	95	381,968		382,063		382,063
Issuance of share-based compensation awards (Note 10)		59,938		294		294		294
Noncash amortization of share-based compensation (Note 10)				1,469		1,469		1,469
Repurchase of common stock and restricted stock units (Note 10)		(22,312)		(603)		(603)		(603)
Exercise of stock options		5,000		129		129		129
Adjustment for noncontrolling interest				(4,578)		(4,578)	4,578	—
Preferred distributions and dividends					(4,418)	(4,418)		(4,418)
Dividends declared per common share and common unit (\$0.35 per share/unit)					(24,289)	(24,289)	(603)	(24,892)
BALANCE AS OF MARCH 31, 2012	\$ 96,155	68,349,843	\$ 683	\$ 1,827,676	\$(234,199)	\$ 1,690,315	\$ 39,535	\$ 1,729,850

See accompanying notes to consolidated financial statements.

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

	Three Months Ended March	
	31,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$78,671	\$4,867
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	36,464	29,059
Increase in provision for bad debts	2	26
Depreciation of furniture, fixtures and equipment	288	252
Noncash amortization of share-based compensation awards	1,287	1,106
Noncash amortization of deferred financing costs and debt discounts and premiums	2,976	3,450
Noncash amortization of net (below)/above market rents (Note 3)	(525)	) 653
Net gain on dispositions of discontinued operations (Note 14)	(72,809)) —
Noncash amortization of deferred revenue related to tenant-funded tenant improvements	(2,261)	) (2,326)
Straight-line rents	(5,487)	) (4,340)
Net change in other operating assets	(3,869)	) (1,816)
Net change in other operating liabilities	14,956	12,866
Insurance proceeds received for property damage	(951)) —
Net cash provided by operating activities	48,742	43,797
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for acquisition of operating properties (Note 2)	(162,380)	) (33,000)
Expenditures for operating properties	(17,307)	) (15,985)
Expenditures for development and redevelopment properties and undeveloped land	(13,477)	) (6,714)
Net proceeds received from dispositions of operating properties (Note 14)	100,765	—
Insurance proceeds received for property damage	951	—
Increase in acquisition-related deposits	(5,250)	) (5,000)
Increase in restricted cash	(386)	) (438)
Net cash used in investing activities	(97,084)	) (61,137)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of Series G preferred stock (Note 7)	96,757	—
Net proceeds from issuance of common stock (Note 8)	382,063	—
Borrowings on unsecured line of credit	30,000	42,000
Repayments on unsecured line of credit	(212,000)	) (144,000)
Proceeds from issuance of secured debt	—	135,000
Principal payments on secured debt	(1,546)	) (1,598)
Proceeds from the issuance of unsecured debt (Note 5)	150,000	—
Financing costs	(1,877)	) (1,160)
Decrease in loan deposits	—	2,027
Repurchase of common stock and restricted stock units (Note 10)	(603)	) (732)
Proceeds from exercise of stock options	129	395
Dividends and distributions paid to common stockholders and common unitholders	(21,191)	) (18,925)

Edgar Filing: KILROY REALTY CORP - Form 10-Q

Dividends and distributions paid to preferred stockholders and preferred unitholders	(3,799	) (3,799)
Net cash provided by financing activities	417,933	9,208	
Net increase (decrease) in cash and cash equivalents	369,591	(8,132)
Cash and cash equivalents, beginning of period	4,777	14,840	
Cash and cash equivalents, end of period	\$374,368	\$6,708	

4

KILROY REALTY CORPORATION
 CONSOLIDATED STATEMENTS OF CASH FLOWS-(Continued)
 (unaudited, in thousands)

	Three Months Ended March	
	31, 2012	2011
SUPPLEMENTAL CASH FLOWS INFORMATION:		
Cash paid for interest, net of capitalized interest of \$3,251 and \$1,620 as of March 31, 2012 and 2011, respectively	\$4,487	\$6,965
NONCASH INVESTING TRANSACTIONS:		
Accrual for expenditures for operating properties and development and redevelopment properties	\$5,421	\$4,753
Tenant improvements funded directly by tenants to third parties	\$95	\$2,800
Assumption of other liabilities with property acquisitions (Note 2)	\$137	\$—
Net disposition proceeds held by a qualified intermediary in connection with Section 1031 exchange (Note 14)	\$42,395	\$—
NONCASH FINANCING TRANSACTIONS:		
Accrual of preferred stock issuance costs	\$602	\$—
Accrual of dividends and distributions payable to common stockholders and common unitholders	\$24,524	\$18,950
Accrual of dividends and distributions payable to preferred stockholders and preferred unitholders	\$2,431	\$1,909
Issuance of share-based compensation awards (Note 10)	\$29,989	\$6,432
Reclassification of preferred stock called for redemption from equity to liabilities (Note 7)	\$126,500	\$—

See accompanying notes to consolidated financial statements.

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

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

	March 31, 2012 (unaudited)	December 31, 2011
ASSETS		
REAL ESTATE ASSETS:		
Land and improvements (Note 2)	\$576,433	\$537,574
Buildings and improvements	2,970,967	2,830,310
Undeveloped land and construction in progress	446,237	430,806
Total real estate held for investment	3,993,637	3,798,690
Accumulated depreciation and amortization	(770,688)	(742,503)
Total real estate assets held for investment, net	3,222,949	3,056,187
REAL ESTATE ASSETS AND OTHER ASSETS HELD FOR SALE, NET (Note 14)	—	84,156
CASH AND CASH EQUIVALENTS	374,368	4,777
RESTRICTED CASH (Note 14)	43,140	358
MARKETABLE SECURITIES (Note 12)	6,459	5,691
CURRENT RECEIVABLES, NET (Note 4)	6,990	8,395
DEFERRED RENT RECEIVABLES, NET (Note 4)	106,309	101,142
DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLE ASSETS, NET (Notes 2 and 3)	158,132	155,522
DEFERRED FINANCING COSTS, NET	19,060	18,368
PREPAID EXPENSES AND OTHER ASSETS, NET (Note 11)	21,934	12,199
TOTAL ASSETS	\$3,959,341	\$3,446,795
LIABILITIES, NONCONTROLLING INTEREST AND CAPITAL		
LIABILITIES:		
Secured debt, net (Notes 5 and 12)	\$350,219	\$351,825
Exchangeable senior notes, net (Notes 5, 12 and 17)	308,689	306,892
Unsecured debt, net (Notes 5 and 12)	1,130,651	980,569
Unsecured line of credit (Notes 5, 12 and 17)	—	182,000
Accounts payable, accrued expenses and other liabilities	92,574	81,713
Accrued distributions (Note 17)	26,622	22,692
Deferred revenue and acquisition-related intangible liabilities, net (Notes 2 and 3)	90,206	79,781
Rents received in advance and tenant security deposits	30,392	26,917
Liabilities and deferred revenue of real estate assets held for sale (Note 14)	—	13,286
7.80% Series E and 7.50% Series F Cumulative Redeemable Preferred units, called for redemption (Note 9)	126,500	—
Total liabilities	2,155,853	2,045,675
COMMITMENTS AND CONTINGENCIES (Note 11)		
7.45% SERIES A CUMULATIVE REDEEMABLE PREFERRED UNITS	73,638	73,638
CAPITAL:		

Edgar Filing: KILROY REALTY CORP - Form 10-Q

Partners' Capital (Note 9):

7.80% Series E Cumulative Redeemable Preferred units, 1,610,000 units issued and outstanding (\$40,250 liquidation preference)	—	38,425
7.50% Series F Cumulative Redeemable Preferred units, 3,450,000 units issued and outstanding (\$86,250 liquidation preference)	—	83,157
6.875% Series G Cumulative Redeemable Preferred units, 4,000,000 units issued and outstanding (\$100,000 liquidation preference)	96,155	—
Common units, 68,349,843 and 58,819,717 held by the general partner and 1,718,131 and 1,718,131 held by common limited partners issued and outstanding, respectively	1,631,001	1,203,259
Total partners' capital	1,727,156	1,324,841
Noncontrolling interest in consolidated subsidiaries	2,694	2,641
Total capital	1,729,850	1,327,482
TOTAL LIABILITIES, NONCONTROLLING INTEREST AND CAPITAL	\$3,959,341	\$3,446,795

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,	
	2012	2011
REVENUES:		
Rental income	\$90,219	76,997
Tenant reimbursements	8,304	6,022
Other property income	887	754
Total revenues	99,410	83,773
EXPENSES:		
Property expenses	17,535	17,509
Real estate taxes	8,389	7,890
Provision for bad debts	2	26
Ground leases	802	339
General and administrative expenses	8,767	6,560
Acquisition-related expenses	1,528	472
Depreciation and amortization	36,746	28,441
Total expenses	73,769	61,237
OTHER (EXPENSES) INCOME:		
Interest income and other net investment gains (Note 12)	484	184
Interest expense (Note 5)	(21,163)	(20,876)
Total other (expenses) income	(20,679)	(20,692)
INCOME FROM CONTINUING OPERATIONS	4,962	1,844
DISCONTINUED OPERATIONS (Note 14)		
Income from discontinued operations	900	3,023
Net gain on dispositions of discontinued operations	72,809	—
Total income from discontinued operations	73,709	3,023
NET INCOME	78,671	4,867
Net income attributable to noncontrolling interests in consolidated subsidiaries	(53)	(34)
NET INCOME ATTRIBUTABLE TO KILROY REALTY, L.P.	78,618	4,833
Preferred distributions (Note 9)	(4,418)	(3,799)
Original issuance costs of preferred units called for redemption (Note 9)	(4,918)	—
Total preferred distributions	(9,336)	(3,799)
NET INCOME AVAILABLE TO COMMON UNITHOLDERS	\$69,282	\$1,034
Loss from continuing operations available to common unitholders per common unit - basic (Note 16)	\$(0.07)	\$(0.04)
Loss from continuing operations available to common unitholders per common unit - diluted (Note 16)	\$(0.07)	\$(0.04)
Net income available to common unitholders per unit - basic (Note 16)	\$1.05	\$0.01
Net income available to common unitholders per unit - diluted (Note 16)	\$1.05	\$0.01
Weighted average common units outstanding - basic (Note 16)	65,366,835	54,025,206
Weighted average common units outstanding - diluted (Note 16)	65,366,835	54,025,206
Distributions declared per common unit	\$0.35	\$0.35

See accompanying notes to consolidated financial statements.

7

KILROY REALTY, L.P.
CONSOLIDATED STATEMENTS OF CAPITAL
(unaudited, in thousands, except unit and per unit data)

	Partners' Capital	Number of Common Units	Common Units	Total Partners' Capital	Noncontrolling Interests in Consolidated Subsidiaries	Total Capital
BALANCE AS OF DECEMBER 31, 2010	\$ 121,582	54,072,801	\$994,511	\$ 1,116,093	\$ 1,637	\$ 1,117,730
Net income			4,833	4,833	34	4,867
Issuance of share-based compensation awards		66,208	1,875	1,875		1,875
Noncash amortization of share-based compensation			1,420	1,420		1,420
Repurchase of common units and restricted stock units		(11,485)	(732)	(732)		(732)
Exercise of stock options		15,000	395	395		395
Other			1	1	(1)	—
Preferred distributions			(3,799)	(3,799)		(3,799)
Distributions declared per common unit (\$0.35 per unit)			(19,233)	(19,233)		(19,233)
BALANCE AS OF MARCH 31, 2011	\$ 121,582	54,142,524	\$979,271	\$ 1,100,853	\$ 1,670	\$ 1,102,523

	Partners' Capital	Number of Common Units	Common Units	Total Partners' Capital	Noncontrolling Interests in Consolidated Subsidiaries	Total Capital
BALANCE AS OF DECEMBER 31, 2011	\$ 121,582	60,537,848	\$ 1,203,259	\$ 1,324,841	\$ 2,641	\$ 1,327,482
Net income			78,618	78,618	53	78,671
Issuance of Series G Preferred units (Note 9)	96,155			96,155		96,155
Series E and Series F Preferred units, called for redemption (Note 9)	(121,582)		(4,918)	(126,500)		(126,500)
Issuance of common units (Note 9)		9,487,500	382,063	382,063		382,063
Issuance of share-based compensation awards (Note 10)		59,938	294	294		294
Noncash amortization of share-based compensation (Note 10)			1,469	1,469		1,469
Repurchase of common units and restricted stock units (Note 10)		(22,312)	(603)	(603)		(603)
Exercise of stock options		5,000				