

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(MARK ONE)

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

For the fiscal year ended December 31, 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)

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

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

90064
(Zip Code)

Registrant's telephone number, including area code: (310) 481-8400
Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, \$.01 par value	New York Stock Exchange
7.80% Series E Cumulative Redeemable Preferred Stock, \$.01 par value	New York Stock Exchange
7.50% Series F Cumulative Redeemable Preferred Stock, \$.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 ☐ 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 Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common shares held by non-affiliates of the registrant was approximately \$886,275,571 based on the closing price on the New York Stock Exchange for such shares on June 30, 2009.

As of February 11, 2010, 43,096,729 shares of common stock, par value \$.01 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company's Proxy Statement with respect to its 2010 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the registrant's fiscal year are incorporated by reference into Part III of this Form 10-K.

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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.

PART I

This document contains certain forward-looking statements (as such term is defined in Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the “1934 Act”). These statements relate to, among other things, our future results of operations, cash available for distribution, property acquisitions, level of future property dispositions, ability to timely lease or re-lease space at current or anticipated rents, ability to complete current and future development or redevelopment properties within budget and on schedule, sources of growth, planned development and expansion of owned or leased property, capital requirements, compliance with contractual obligations and federal, state, and local regulations, conditions of properties, environmental findings, and general business, industry, and economic conditions applicable to us. These statements are based largely on our current expectations and are subject to a number of risks and uncertainties. Actual results could differ materially from these forward-looking statements. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date this annual report was filed with the Securities and Exchange Commission (the “SEC”).

ITEM 1. BUSINESS

The Company

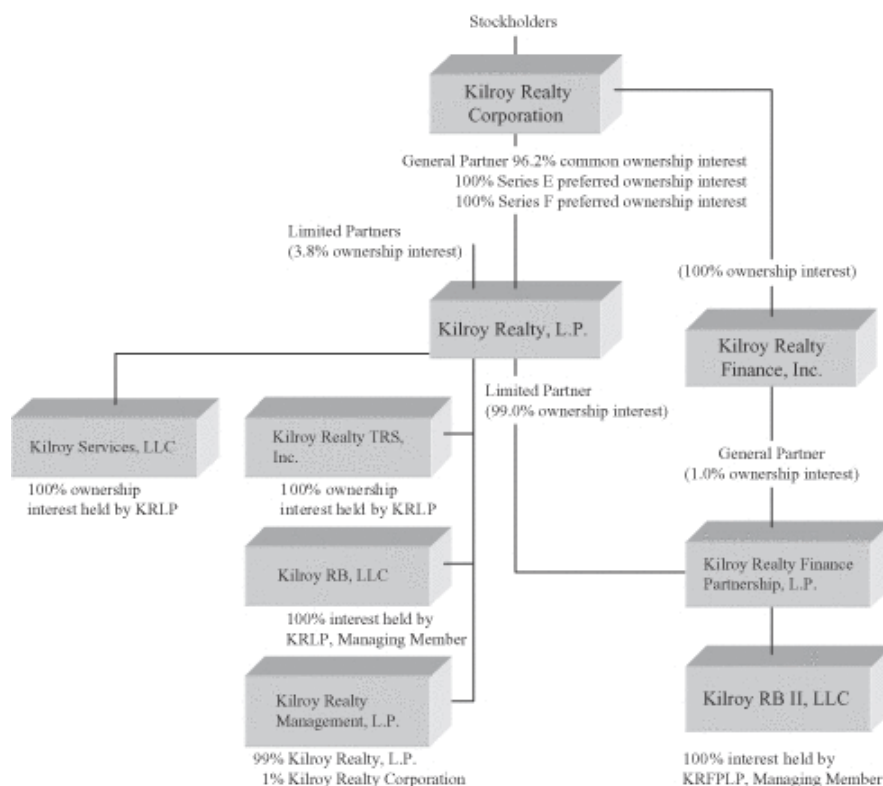
We are a real estate investment trust, or REIT, which owns, operates, develops, and acquires Class A suburban office and industrial real estate in key submarkets in Southern California, which we believe have strategic advantages and strong barriers to entry.

As of December 31, 2009, our stabilized portfolio of operating properties was comprised of 93 office buildings (the “Office Properties”) and 41 industrial buildings (the “Industrial Properties”), which encompassed an aggregate of approximately 8.7 million and 3.7 million rentable square feet, respectively. As of December 31, 2009, the Office Properties were approximately 80.6% leased to 286 tenants, and the Industrial Properties were approximately 88.2% leased to 58 tenants. All of our properties are located in Southern California. Our stabilized portfolio excludes undeveloped land and one industrial property that we are in the process of reentitling for residential use.

We own our interests in all of our properties through Kilroy Realty, L.P., a Delaware limited partnership (the “Operating Partnership”), and Kilroy Realty Finance Partnership, L.P., a Delaware limited partnership (the “Finance Partnership”). We conduct substantially all of our activities through the Operating Partnership in which, as of December 31, 2009, we owned an approximate 96.2% general partnership interest. The remaining 3.8% limited partnership interest in the Operating Partnership was owned by certain of our executive officers and directors, certain of their affiliates, and other outside investors. Kilroy Realty Finance, Inc., one of our wholly-owned subsidiaries, is the sole general partner of the Finance Partnership and owns a 1.0% general partnership interest. The Operating Partnership owns the remaining 99.0% limited partnership interest of the Finance Partnership. We conduct substantially all of our development activities through Kilroy Services, LLC (“KSLLC”), a wholly-owned subsidiary of the Operating Partnership. Unless otherwise indicated, all references to “we,” “us,” “our,” or the “Company” include the Operating Partnership, the Finance Partnership, KSLLC, Kilroy Realty Finance, Inc., and all other wholly-owned subsidiaries, which include, Kilroy Realty TRS, Inc., Kilroy Realty Management, L.P., Kilroy RB, LLC, and Kilroy RB II, LLC.

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The following diagram illustrates the structure of Kilroy Realty Corporation and our subsidiaries as of December 31, 2009:



Available Information; Website Disclosure; Corporate Governance Documents

We make our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports available free of charge on our website at www.kilroyrealty.com as soon as reasonably practicable after we file these materials with, or furnish them to, the SEC.

The following documents relating to corporate governance are also available free of charge on our website under “Investor Relations—Corporate Governance” and available in print to any security holder upon request:

- Corporate Governance Guidelines
- Code of Business Conduct and Ethics
- Audit Committee Charter
- Executive Compensation Committee Charter
- Nominating / Corporate Governance Committee Charter

You may also request copies of any of these documents by writing to:

Attention: Investor Relations
Kilroy Realty Corporation
12200 West Olympic Boulevard, Suite 200
Los Angeles, CA 90064

Business and Growth Strategies

Growth Strategies. We believe that a number of factors and strategies will enable us to continue to achieve our objectives of long-term sustainable growth in Net Operating Income (defined below) and FFO (defined below) as well as maximization of long-term stockholder value. These factors and strategies include:

- the quality and location of our properties;
- our ability to efficiently manage our assets as a low cost provider of commercial real estate through our seasoned management team possessing core capabilities in all aspects of real estate ownership, including property management, leasing, marketing, financing, accounting, legal, construction management, and new development;
- the development of our existing development pipeline land holdings;
- our access to development, redevelopment, and leasing opportunities as a result of our extensive experience and significant working relationships with major Southern California corporate tenants, municipalities, and landowners given our over 60-year presence in the Southern California market; and
- our strong financial position that will allow us to pursue attractive acquisition opportunities.

“Net Operating Income” is defined as operating revenues (rental income, tenant reimbursements, and other property income) less property and related expenses (property expenses, real estate taxes, provision for bad debts, and ground leases) before depreciation. “FFO” is funds from operations as defined by the National Association of Real Estate Investment Trusts (“NAREIT”). See Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations “—Results of Operations” and “—Non-GAAP Supplemental Financial Measures: Funds From Operations” for a reconciliation of these measures to generally accepted accounting principles (“GAAP”) net income available for common stockholders.

Operating Strategies. We focus on enhancing long-term growth in Net Operating Income and FFO from our properties by:

- maximizing cash flow from our properties through active leasing, early renewals, and effective property management;
- structuring leases to maximize returns and internal growth;
- managing portfolio credit risk through effective underwriting, including the use of credit enhancements and interests in collateral to mitigate portfolio credit risk;
- managing operating expenses through the efficient use of internal management, leasing, marketing, financing, accounting, legal, and construction management functions;
- maintaining and developing long-term relationships with a diverse tenant base;
- managing our properties to offer the maximum degree of utility and operational efficiency to tenants;
- continuing to effectively manage capital improvements to enhance our properties’ competitive advantages in their respective markets and improve the efficiency of building systems; and
- attracting and retaining motivated employees by providing financial and other incentives to meet our operating and financial goals.

Acquisition Strategies. We believe we are well positioned to acquire properties due to our extensive experience, strong financial position, and ability to access capital. We will focus on acquiring additional high quality office and industrial properties that:

- provide attractive initial yields and significant potential for growth in cash flow from property operations;
- present growth opportunities in our existing or other strategic markets; and

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- demonstrate the potential for improved performance through intensive management and leasing that will result in increased occupancy and rental revenues.

Development Strategies. We and our predecessors have developed office and industrial properties primarily located in Southern California since 1947. As of December 31, 2009, our development pipeline included 116.7 gross acres of undeveloped land, with which we believe we will have the potential to develop over two million rentable square feet of office space in the future, depending upon economic conditions. Our strategy with respect to development is to:

- maintain a disciplined approach by emphasizing pre-leasing, phasing, and cost control;
- continue to execute our build-to-suit philosophy in which we develop properties to be leased by specific committed tenants providing for lower-risk development;
- be the premier provider of two- to six-story campus style office buildings in Southern California;
- reinvest capital from dispositions of nonstrategic assets into new state-of-the-market development assets with higher cash flow and rates of return; and
- evaluate redevelopment opportunities in land-constrained markets since such efforts generally achieve similar returns to new development with reduced entitlement risk and shorter construction periods.

We may engage in the additional development or redevelopment of office and/or industrial properties, primarily in Southern California, when market conditions support a favorable risk-adjusted return on such development or redevelopment. We expect that our significant working relationships with tenants, municipalities, and landowners in Southern California will give us further access to development opportunities. We cannot assure you that we will be able to successfully develop or redevelop any of our properties or that we will have access to additional development or redevelopment opportunities.

Financing Strategies. Our financing policies and objectives are determined by our board of directors. Our goal is to limit our dependence on leverage and maintain a conservative ratio of debt-to-total market capitalization. Our funding strategies are to:

- maintain financial flexibility, including a low secured to unsecured debt ratio, to maximize our ability to access a variety of capital sources;
- maintain a staggered debt maturity schedule to limit risk exposure at any particular point in the capital and credit market cycles;
- complete financing in advance of the need for capital; and
- manage interest rate exposure by generally maintaining a greater amount of fixed-rate debt as compared to variable-rate debt.

We utilize multiple sources of capital, including borrowings under our \$550 million unsecured line of credit (the “Credit Facility”), proceeds from the issuance of debt or equity securities and other bank and/or institutional borrowings, and dispositions of nonstrategic assets. There can be no assurance that we will be able to obtain capital as needed on terms favorable to us or at all. See Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations “—Factors That May Influence Future Results of Operations” and “—Risk Factors” below.

Significant Tenants

As of December 31, 2009, our fifteen largest tenants in terms of annualized base rental revenues represented approximately 48.6% of total annualized base rental revenues, defined as annualized monthly contractual rents from existing tenants as of December 31, 2009 determined on a straight-line basis over the term of the related lease in accordance with GAAP. Of this amount, our largest tenant, Intuit Inc. (“Intuit”), leased an aggregate of approximately 536,800 rentable square feet of office space under two separate leases, representing 6.7% of our total annualized base rental revenues as of December 31, 2009.

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For further information on the composition of our tenant base, see Item 2: Properties “—Significant Tenants.”

Competition

We compete with several developers, owners, and operators of office, industrial, and other commercial real estate, many of which own properties similar to ours in the same submarkets in which our properties are located. For further discussion of the potential impact of competitive conditions on our business, see Item 1A: Risk Factors below.

Segment and Geographic Financial Information

For financial information about our two reportable segments, Office Properties and Industrial Properties, see Note 14 to our consolidated financial statements.

All of our business is conducted in Southern California. For information about our revenues and long-lived assets and other financial information, see our consolidated financial statements included in this report and Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations “—Results of Operations.”

Employees

As of December 31, 2009, we employed 132 people through the Operating Partnership, KSLLC, and Kilroy Realty TRS, Inc. We believe that relations with our employees are good.

Government Regulations Relating to the Environment

Many laws and governmental regulations relating to the environment are applicable to our properties, and changes in these laws and regulations, or their interpretation by agencies and the courts, occur frequently and may adversely affect us.

Existing conditions at some of our properties. Independent environmental consultants have conducted Phase I or similar environmental site assessments on all of our properties. We generally obtain these assessments prior to the acquisition of a property and may later update them as required for subsequent financing of the property or as requested by a tenant. Site assessments are generally performed to American Society for Testing and Materials standards then-existing for Phase I site assessments and typically include a historical review, a public records review, a visual inspection of the surveyed site, and the issuance of a written report. These assessments do not generally include any soil samplings or subsurface investigations. Depending on the age of the property, the Phase I may have included an assessment of asbestos-containing materials. For properties where asbestos-containing materials were identified or suspected, an operations and maintenance plan was generally prepared and implemented.

Historical operations at or near some of our properties, including the presence of underground storage tanks, may have caused soil or groundwater contamination. The prior owners of the affected properties conducted remediation of known contamination in the soils on our properties, and we do not believe that further clean-up of the soils is required. We are not aware of any such condition, liability, or concern by any other means that would give rise to material environmental liability. However, the assessments may have failed to reveal all environmental conditions, liabilities, or compliance concerns; there may be material environmental conditions, liabilities, or compliance concerns that arose at a property after the review was completed; future laws, ordinances, or regulations may impose material additional environmental liability; and current environmental conditions at our properties may be affected in the future by tenants, third parties, or the condition of land or operations near our properties, such as the presence of underground storage tanks. We cannot be certain that costs of future environmental compliance will not have an adverse effect on our financial condition, results of operations, cash flow, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders.

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Use of hazardous materials by some of our tenants. Some of our tenants handle hazardous substances and wastes on our properties as part of their routine operations. Environmental laws and regulations may subject these tenants, and potentially us, to liability resulting from such activities. We generally require our tenants in their leases to comply with these environmental laws and regulations and to indemnify us for any related liabilities. As of December 31, 2009, approximately 5% of our tenants handled hazardous substances and/or wastes on less than 5% of the aggregate square footage of our properties as part of their routine operations. These tenants are primarily involved in the life sciences and the light industrial and warehouse business. We are not aware of any material noncompliance, liability, or claim relating to hazardous or toxic substances or petroleum products in connection with any of our properties, and management does not believe that on-going activities by our tenants will have a material adverse effect on our operations.

Costs related to government regulation and private litigation over environmental matters. Under applicable environmental laws and regulations, we may be liable for the costs of removal, remediation, or disposal of certain hazardous or toxic substances present or released on our properties. These laws could impose liability without regard to whether we are responsible for, or even knew of, the presence or release of the hazardous materials. Government investigations and remediation actions may have substantial costs, and the presence or release of hazardous substances on a property could result in governmental clean-up actions, personal injury actions, or similar claims by private plaintiffs.

Potential environmental liabilities may exceed our environmental insurance coverage limits. We carry what our management believes to be sufficient environmental insurance to cover any potential liability for soil and groundwater contamination and the presence of asbestos-containing materials at the affected sites identified in the environmental site assessments. The policy is subject to various terms, conditions, qualifications, and limitations of coverage. Therefore, we cannot provide any assurance that our insurance coverage will be sufficient or that our liability, if any, will not have a material adverse effect on our financial condition, results of operations, cash flows, quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders.

ITEM 1A. RISK FACTORS

The following section sets forth material factors that may adversely affect our business and operations. The following factors, as well as the factors discussed in Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations—"Factors That May Influence Future Results of Operations," and other information contained in this report, should be considered in evaluating us and our business.

Global Market and Economic Conditions. In the U.S., market and economic conditions continue to be challenging with tighter credit conditions and modest growth. While recent economic data reflects a stabilization of the economy and credit markets, the cost and availability of credit may continue to be adversely affected. Concern about continued stability of the economy and credit markets generally, and the strength of counterparties specifically, has led many lenders and institutional investors to reduce, and in some cases, cease to provide funding to borrowers. Volatility in the U.S. and international capital markets and continued recessionary conditions in global economies, and in the California economy in particular, may adversely affect our liquidity and financial condition and the liquidity and financial condition of our tenants. If these market conditions continue, they may limit our ability and the ability of our tenants to timely refinance maturing liabilities and access the capital markets to meet liquidity needs.

Our operations depend upon the Southern California economy. As of December 31, 2009, all of our properties and undeveloped land were located in Southern California. The continuing economic crisis has particularly affected the economy of California. The State of California began its fiscal year on July 1, 2009 with a significant reported deficit, which continues to impact and aggravate current recessionary conditions within the State. Given the budgetary situation in California, there is also the possibility that the California State Legislature could enact new tax legislation, increasing tax rates in California. The economic and legislative environment within the State could have an adverse impact on businesses operating in California, including us and our tenants.

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As of December 31, 2009, all of our undeveloped land and properties representing 5.1 million rentable square feet, or 56.3% of our Net Operating Income for the year ended December 31, 2009, were located in San Diego County. As a result, our operations are significantly affected by conditions in San Diego County (see additional information on San Diego County under Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations "—Current Regional Information").

As a result of these factors, continued economic weakness in California and San Diego County could impact our ability to generate revenues sufficient to meet our operating expenses or other obligations, which would adversely impact our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders.

Our performance and value are subject to risks associated with our investments in real estate assets and with trends in the real estate industry . Our economic performance and the value of our real estate assets, and consequently the value of our securities, are subject to the risk that our properties may not generate revenues sufficient to meet our operating expenses or other obligations. A deficiency of this nature would adversely impact our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders.

Events and conditions applicable to owners and operators of real estate that are beyond our control and could impact our economic performance and the value of our real estate assets may include:

- local oversupply or reduction in demand for office, industrial, or other commercial space, which may result in decreasing rental rates and greater concessions to tenants;
- inability to collect rent from tenants;
- vacancies or inability to rent spaces on favorable terms or at all;
- inability to finance property development and acquisitions on favorable terms or at all;
- increased operating costs, including insurance premiums, utilities, and real estate taxes;
- costs of complying with changes in governmental regulations;
- the relative liquidity of real estate investments;
- changing submarket demographics; and
- property damage resulting from seismic activity or other natural disasters.

We depend on significant tenants. As of December 31, 2009, our fifteen largest tenants represented approximately 48.6% of total annualized base rental revenues. Of this amount, our largest tenant, Intuit, leased an aggregate of approximately 536,800 rentable square feet of office space under two separate leases, representing 6.7% of our total annualized base rental revenues as of December 31, 2009. See further discussion on the composition of our tenants by industry and our largest tenants under Item 1: Business "—Significant Tenants" and Item 2: Properties "—Significant Tenants."

Although we have been able to mitigate the impact of past significant tenant defaults on our financial condition, revenues, and results of operations, our financial condition, results of operations, ability to borrow funds, and cash flows would be adversely affected if any of our significant tenants fails to renew its lease(s), renews its lease(s) on terms less favorable to us, or becomes bankrupt or insolvent or otherwise unable to satisfy its lease obligations.

Downturn in tenants' businesses may reduce our cash flows . For the year ended December 31, 2009, we derived approximately 98.7% of our revenues from continuing operations from rental income and tenant reimbursements. A tenant may experience a downturn in its business, which may weaken its financial condition and result in its failure to make timely rental payments or result in defaults under our leases. In the event of default by a tenant, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment.

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The bankruptcy or insolvency of a major tenant also may adversely affect the income produced by our properties. If any tenant becomes a debtor in a case under the Bankruptcy Code, we cannot evict the tenant solely because of the bankruptcy. In addition, the bankruptcy court might permit the tenant to reject and terminate its lease with us. Our claim against the tenant for unpaid and future rent could be subject to a statutory cap that might be substantially less than the remaining rent actually owed under the lease. Therefore, our claim for unpaid rent would likely not be paid in full. Any losses resulting from the bankruptcy of any of our existing tenants could adversely impact our financial condition, results of operations, cash flows, the quoted trading prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders.

We may be unable to renew leases or re-lease available space. As of December 31, 2009, we had office and industrial space available for lease representing approximately 17.2% of the total square footage of our properties. In addition, leases representing approximately 10.7% and 9.0% of the leased rentable square footage of our properties are scheduled to expire in 2010 and 2011, respectively. Above market rental rates on some of our properties may force us to renew or re-lease expiring leases at rates below current lease rates. Management believes that the weighted average cash rental rates for our overall portfolio are approximately 5% to 10% above the current average market rental rates, and weighted average cash rental rates for leases scheduled to expire in 2010 are up to approximately 5% above the current average quoted market rates, although individual properties within any particular submarket presently may be leased at, above, or below the current market rental rates within that submarket. We cannot give any assurance that leases will be renewed or that available space will be re-leased at rental rates equal to or above the current rental rates. If the average rental rates for our properties decrease or existing tenants do not renew their leases, our financial condition, results of operations, cash flows, the quoted trading prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders could be adversely affected.

We are subject to governmental regulations that may affect the development, redevelopment, and use of our properties. We are subject to governmental regulations that may have a material adverse effect on our financial condition, results of operations, cash flow, the quoted trading prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders.

Our properties are subject to regulation under federal laws, such as the Americans with Disabilities Act of 1990 (the “ADA”) and updates thereof under which all public accommodations must meet federal requirements related to access and use by disabled persons, and state and local laws addressing earthquake, fire, and life safety requirements. Although we believe that our properties substantially comply with requirements under applicable governmental regulations, none of our properties have been audited or investigated for compliance by any regulatory agency. If we were not in compliance with material provisions of the ADA or other regulations affecting our properties, we might be required to take remedial action, which could include making modifications or renovations to properties. Federal, state, or local governments may also enact future laws and regulations that could require us to make significant modifications or renovations to our properties. If we were to incur substantial costs to comply with the ADA or any other regulations, our financial condition, results of operations, cash flows, the quoted trading prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders could be adversely affected.

Our properties are subject to land use rules and regulations that govern our development, redevelopment, and use of our properties. Restrictions on our ability to develop, redevelop, or use our properties resulting from changes in the existing land use rules and regulations could have an adverse effect on our financial position, results of operations, cash flows, quoted trading prices of our securities, our ability to satisfy our debt service obligations and to pay distributions to stockholders. For example, the Airport Land Use Commission is currently evaluating updates to the existing airport compatibility plans for all public and military airports in San Diego County, which if adopted could adversely impact our business in this region.

Increasing utility costs in California may have an adverse effect on our operating results and occupancy levels. The State of California continues to address issues related to the supply of electricity, water, and natural gas. In recent years, shortages of electricity have resulted in increased costs for consumers and certain

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interruptions in service. Increased consumer costs and consumer perception that the State is not able to effectively manage its utility needs may reduce demand for leased space in California office and industrial properties.

Our debt level reduces cash available for distribution and may expose us to the risk of default under our debt obligations. Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate our properties or to pay in cash the distributions necessary to maintain our REIT qualification. Our level of debt and the limitations imposed by our debt agreements may have substantial consequences to us, including the following:

- we may be unable to refinance our indebtedness at maturity, or the refinancing terms may be less favorable than the terms of our original indebtedness;
- cash flows may be insufficient to meet required principal and interest payments;
- we may be forced to dispose of one or more of our properties, possibly on disadvantageous terms;
- we may default on our obligations, and the lenders or mortgagees may foreclose on our properties that secure the loans and receive an assignment of rents and leases; and
- our default under one mortgage loan could result in a default on other indebtedness with cross default provisions.

If one or more of these events were to occur, our financial condition, results of operations, cash flow, the quoted trading prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders could be adversely affected. In addition, foreclosures could create taxable income without accompanying cash proceeds, which could require us to pay income or excise tax notwithstanding our tax status as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”). As of December 31, 2009, we had approximately \$1.0 billion aggregate principal amount of indebtedness, \$260.6 million of which is contractually due prior to December 31, 2010 not considering available debt maturity extension options. Our total debt and preferred equity represented 46.8% of our total market capitalization (which we define as the aggregate of our long-term debt, liquidation value of our preferred equity, and the market value of our common stock and equity) at December 31, 2009. For the calculation of our market capitalization and additional information on debt maturities see Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations “—Liquidity and Capital Resources.”

We face significant competition, which may decrease the occupancy and rental rates of our properties. We compete with several developers, owners, and operators of office, industrial, and other commercial real estate, many of which own properties similar to ours in the same submarkets in which our properties are located but which have lower occupancy rates than our properties. Therefore, our competitors have an incentive to decrease rental rates until their available space is leased. If our competitors offer space at rental rates below the rates currently charged by us for comparable space, we may be pressured to reduce our rental rates below those currently charged in order to retain tenants when our tenant leases expire. As a result, our financial condition, results of operations, cash flow, the quoted trading prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders may be adversely affected.

Potential losses may not be covered by insurance. We carry comprehensive liability, fire, extended coverage, rental loss, and terrorism insurance covering all of our properties. Management believes the policy specifications and insured limits are appropriate given the relative risk of loss, the cost of the coverage, and industry practice. We do not carry insurance for generally uninsurable losses such as loss from riots or acts of God. Some of our policies, like those covering losses due to floods, are subject to limitations involving large deductibles or co-payments.

We are subject to environmental and health and safety laws and regulations and any costs to comply with, or liabilities arising under, such laws and regulations could be material. As an owner, operator, manager, and developer of real properties, we are subject to environmental and health and safety laws and regulations. Certain of these laws and regulations impose joint and several liability, without regard to fault, for investigation and

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clean-up costs on current and former owners and operators of real property and persons who have disposed of or released hazardous substances into the environment. At some of the properties, there are asbestos-containing materials, or tenants routinely handle hazardous substances as part of their operations. In addition, historical operations, including the presence of underground storage tanks, have caused soil or groundwater contamination at or near some of the properties. Although we believe that the prior owners of the affected properties conducted remediation of known soil contamination at these properties, we cannot assure you that all such contamination has been remediated. The discovery of previously unknown contamination or the compliance with existing or new environmental or health and safety laws and regulations could require us to incur costs or liabilities that could be material.

Earthquake damage to our properties could have an adverse effect on our financial condition and operating results . As of December 31, 2009, all of our properties are located in Southern California. We carry earthquake insurance on our properties in an amount and with deductibles that management believes are commercially reasonable. However, the amount of our earthquake insurance coverage may not be sufficient to cover losses from earthquakes. In addition, our earthquake insurance policies include substantial self-insurance portions, and we may discontinue earthquake insurance on some or all of our properties in the future if the cost of premiums for earthquake insurance exceeds the value of the coverage discounted for the risk of loss. If we experience a loss that is uninsured or which exceeds policy limits, we could lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if the properties were irreparable.

We may be unable to complete acquisitions and successfully operate acquired properties . We continually evaluate the market of available properties and may acquire office and industrial properties and undeveloped land when strategic opportunities exist. Our ability to acquire properties on favorable terms and successfully operate them is subject to the following risks:

- we may potentially be unable to acquire a desired property because of competition from other real estate investors with significant capital, including both publicly traded REITs and institutional investment funds;
- the possibility that, even if we enter into agreements for the acquisition of office and industrial properties, we may be unable to complete such acquisitions since they remain subject to customary conditions to closing including the completion of due diligence investigations to management's satisfaction;
- we may be unable to finance acquisitions on favorable terms;
- we may spend more than budgeted amounts to make necessary improvements or renovations to acquired properties;
- we may lease acquired properties at below expected rental rates;
- we may acquire properties that are subject to liabilities for which we may have limited or no recourse; and
- we may be unable to complete an acquisition after making a nonrefundable deposit and incurring certain other acquisition related costs.

If we cannot finance property acquisitions on favorable terms or operate acquired properties to meet financial expectations, our financial condition, results of operations, cash flows, the quoted trading prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders could be adversely affected.

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We may be unable to successfully complete and operate acquired, developed, and redeveloped properties. There are significant risks associated with property acquisition, development, and redevelopment including the possibility that:

- we may be unable to lease acquired, developed, or redeveloped properties at expected rental rates or within budgeted timeframes;
- we may not complete development or redevelopment properties on schedule or within budgeted amounts;
- we may expend funds on and devote management's time to acquisition, development, or redevelopment properties that we may not complete;
- we may encounter delays or refusals in obtaining all necessary zoning, land use, and other required entitlements, and building, occupancy, and other required governmental permits and authorizations;
- we may encounter delays, refusals, unforeseen cost increases, and other impairments due to third-party litigation; and
- we may fail to obtain the financial results expected from properties we acquire, develop, or redevelop.

If one or more of these events were to occur in connection with our acquired properties, undeveloped land, or development or redevelopment properties under construction, we could be required to recognize an impairment loss. These events could also have an adverse impact on our financial condition, results of operations, cash flow, the quoted trading prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders.

While we historically have acquired, developed, and redeveloped office properties in Southern California markets, we may in the future acquire, develop, or redevelop properties for other uses and expand our business to other geographic regions where we expect the development or acquisition of property to result in favorable risk-adjusted returns on our investment. Presently, we do not possess the same level of familiarity with development of property types other than office and industrial, or with outside markets, which could adversely affect our ability to acquire or develop properties or to achieve expected performance.

We could default on leases for land on which some of our properties are located. As of December 31, 2009, we owned one office complex, Kilroy Airport Center in Long Beach, California, located on various land parcels, which we lease individually on a long-term basis. As of December 31, 2009, we had approximately 949,100 aggregate rentable square feet, or 7.7% of our total stabilized portfolio, of rental space located on these leased parcels. If we default under the terms of any particular lease, we may lose the ownership rights to the property subject to the lease. Upon expiration of a lease, we may not be able to renegotiate a new lease on favorable terms, if at all. The loss of the ownership rights to these properties or an increase of rental expense could have an adverse effect on our financial condition, results of operations, cash flow, the quoted trading prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders.

Real estate assets are illiquid, and we may not be able to sell our properties when we desire. Our investments in our properties are relatively illiquid, limiting our ability to sell our properties quickly in response to changes in economic or other conditions. In addition, the Code generally imposes a 100% prohibited transaction tax on profits we derive from sales of properties held primarily for sale to customers in the ordinary course of business, which effectively limits our ability to sell properties other than on a selected basis. These restrictions on our ability to sell our properties could have an adverse effect on our financial condition, results of operations, cash flow, the quoted trading prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to stockholders.

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Our common limited partners have limited approval rights, which may prevent us from completing a change of control transaction that may be in the best interests of our stockholders. We may not withdraw from the Operating Partnership or transfer our general partnership interest without the approval of the holders of at least 60% of the units representing common limited partnership interests in the Operating Partnership, including the common units held by us in our capacity as its general partner. In addition, we may not engage in a merger, consolidation, or other combination or the sale of substantially all of its assets or such similar transaction, without the approval of the holders of 60% of the common units, including the common units held by us in our capacity as its general partner. The right of our common limited partners to vote on these transactions could limit our ability to complete a change of control transaction that might otherwise be in the best interest of our stockholders.

In certain circumstances, our limited partners must approve the dissolution of the Operating Partnership and the disposition of properties they contributed. For as long as limited partners own at least 5% of all of the partnership interests in the Operating Partnership, we must obtain the approval of limited partners holding a majority of the units representing common limited partnership interests in the Operating Partnership before we may dissolve the Operating Partnership. As of December 31, 2009, limited partners owned approximately 3.8% of the outstanding partnership interests in the Operating Partnership, of which 3.0% was owned by John B. Kilroy, Sr. and John B. Kilroy, Jr. In addition, we agreed to use commercially reasonable efforts to minimize the tax consequences to common limited partners resulting from the repayment, refinancing, replacement, or restructuring of debt, or any sale, exchange, or other disposition of any of our other assets. The exercise of one or more of these approval rights by the limited partners could delay or prevent us from completing a transaction that may be in the best interest of our stockholders.

The Chairman of our board of directors and our President and Chief Executive Officer each have substantial influence over our affairs. John B. Kilroy, Sr. is the Chairman of the board of directors and the father of John B. Kilroy, Jr., the President and Chief Executive Officer. Each is a member of our board of directors, and together, as of December 31, 2009, they beneficially owned approximately 4.0% of the total outstanding shares of common stock as of December 31, 2009. The percentage of outstanding shares of common stock beneficially owned includes 265,614 shares of common stock, 165,475 restricted stock units that were vested and held by John B. Kilroy, Jr. at December 31, 2009, and assumes the exchange, at our option, of the 1,335,135 common units (which are redeemable in exchange for, at our option, an equal number of shares of common stock) held by Messrs. Kilroy into shares of our common stock. The beneficial ownership percentage excludes 148,478 nonvested restricted stock units held by John B. Kilroy, Jr. at December 31, 2009.

Pursuant to our charter, no other stockholder may own, actually or constructively, more than 7.0% of our outstanding common stock without obtaining a waiver from the board of directors. The board of directors has waived the ownership limits with respect to John B. Kilroy, Sr., John B. Kilroy, Jr., members of their families, and some of their affiliated entities. These named individuals and entities may own either actually or constructively, in the aggregate, up to 19.6% of our outstanding common stock. Consequently, Messrs. Kilroy have substantial influence on us and could exercise their influence in a manner that is not in the best interest of our noteholders or our stockholders. Also, they may, in the future, have a substantial influence on the outcome of any matters submitted to our stockholders for approval.

There are restrictions on the ownership of our capital stock, which limit the opportunities for a change of control at a premium to existing stockholders. Provisions of the Maryland General Corporation Law, our charter, our bylaws, and the Operating Partnership's partnership agreement may delay, deter, or prevent a change of control over us or the removal of existing management. Any of these actions might prevent the stockholders from receiving a premium for their shares of stock over the then-prevailing market prices.

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The Code contains stringent ownership limits on us as a result of our decision to be taxed as a REIT, including:

- no more than 50% in value of our capital stock may be owned, actually or constructively, by five or fewer individuals, including some entities, during the last half of a taxable year;
- subject to exceptions, our common stock must be held by a minimum of 100 persons for at least 335 days of a 12-month taxable year, or a proportionate part of a short taxable year; and
- if we, or any entity which owns 10% or more of our capital stock, actually or constructively own 10% or more of one of our tenants, or a tenant of any partnership in which we are a partner, then any rents that we receive from that tenant in question will not be qualifying income for purposes of the Code's REIT gross income tests, regardless of whether we receive the rents directly or through a partnership.

Our charter also establishes clear ownership limits to protect our REIT status. No single stockholder may own, either actually or constructively, absent a waiver from the board of directors, more than 7.0% (by value or by number of shares, whichever is more restrictive) of our common stock outstanding. Similarly, absent a waiver from the board of directors, no single holder of our 7.45% Series A Cumulative Redeemable Preferred stock (the "Series A Preferred Stock"), if issued, may actually or constructively own any class or series of our preferred stock, so that their total capital stock ownership would exceed 7.0% by value of our total outstanding shares of capital stock; no single holder of our 7.8% Series E Cumulative Redeemable Preferred stock (the "Series E Preferred Stock") may actually or constructively own more than 9.8% (by value or by number of shares, whichever is more restrictive) of our Series E Preferred Stock; and no single holder of our 7.5% Series F Cumulative Redeemable Preferred stock (the "Series F Preferred Stock") may actually or constructively own more than 9.8% (by value or by number of shares, whichever is more restrictive) of our Series F Preferred Stock.

The board of directors may waive the ownership limits if it is satisfied that the excess ownership would not jeopardize our REIT status and if it believes that the waiver would be in our best interests. The board of directors has waived the ownership limits with respect to John B. Kilroy, Sr., John B. Kilroy, Jr., members of their families, and some of their affiliated entities. These named individuals and entities may own either actually or constructively, in the aggregate, up to 19.6% of our outstanding common stock. Our board of directors has also waived the ownership limits with respect to the initial purchasers of each of our 3.25% Exchangeable Notes and 4.25% Exchangeable Notes and certain of their affiliated entities to beneficially own up to 9.8%, in the aggregate, of our common stock in connection with hedging the capped call transactions.

If anyone acquires shares in excess of any ownership limits, the transfer to the transferee will be void with respect to the excess shares, the excess shares will be automatically transferred from the transferee or owner to a trust for the benefit of a qualified charitable organization, the purported transferee or owner will have no right to vote those excess shares, and the purported transferee or owner will have no right to receive dividends or other distributions from those excess shares.

Our charter contains provisions that may delay, deter, or prevent a change of control transaction. The following provisions of our charter may delay or prevent a change of control over the Company, even if a change of control might be beneficial to our stockholders, deter tender offers that may be beneficial to our stockholders, or limit stockholders' opportunity to receive a potential premium for their shares if an investor attempted to gain shares beyond our ownership limits or otherwise to effect a change of control:

- Our charter authorizes our board of directors to issue up to 30,000,000 shares of preferred stock, including convertible preferred stock, without stockholder approval. The board of directors may establish the preferences, rights, and other terms, including the right to vote and the right to convert into common stock any shares issued. The issuance of preferred stock could delay or prevent a tender offer or a change of control even if a tender offer or a change of control was in our stockholders' interest. As of December 31, 2009, 5,060,000 shares of our preferred stock were issued and outstanding, consisting of 1,610,000 shares of our Series E Preferred Stock and 3,450,000 shares of our

Series F Preferred Stock, and an additional 1,500,000 shares of preferred stock were designated as Series A Preferred Stock, which was reserved for possible issuance in exchange for outstanding Series A Preferred Units; and

- Our charter states that any director, or the entire board of directors, may be removed from office at any time, but only for cause and then only by the affirmative vote of the holders of at least two thirds of the votes entitled to be cast in the election of directors.

Loss of our REIT status would have significant adverse consequences to us and the value of our stock. We currently operate in a manner that is intended to allow us to qualify as a REIT for federal income tax purposes under the Code. If we were to lose our REIT status, we would face serious tax consequences that would substantially reduce the funds available for distribution to stockholders for each of the years involved due to the following:

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to federal income tax at regular corporate rates;
- we could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and
- unless entitled to relief under statutory provisions, we could not elect to be taxed as a REIT for four taxable years following the year during which we were disqualified.

In addition, if we fail to qualify as a REIT, we will not be required to make distributions to stockholders and all distributions to stockholders will be subject to tax as regular corporate dividends to the extent of our current and accumulated earnings and profits. As a result of all these factors, our failure to qualify as a REIT also could impair our ability to expand our business and raise capital and could adversely affect the value of our common stock.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The complexity of these provisions and of the applicable treasury regulations that have been promulgated under the Code is greater in the case of a REIT that holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. For example, to qualify as a REIT, at least 95% of our gross income in any year must be derived from qualifying sources. Also, we must make distributions to stockholders aggregating annually at least 90% of our net taxable income, excluding capital gains. For distributions with respect to taxable years ending on or before December 31, 2011, recent IRS guidance allows us to satisfy up to 90% of this requirement through the distribution of shares of our common stock, if certain conditions are met. In addition, legislation, new regulations, administrative interpretations, or court decisions may adversely affect our investors or our ability to qualify as a REIT for federal income tax purposes or the desirability of an investment in a REIT relative to other investments. Although management believes that we are organized and operate in a manner to qualify as a REIT, we cannot be certain that we have been or will continue to be organized or be able to operate in a manner to qualify or remain qualified as a REIT for federal income tax purposes.

To maintain our REIT status, we may be forced to borrow funds on a short-term basis during unfavorable market conditions. To qualify as a REIT, we generally must distribute to our stockholders at least 90% of our net taxable income each year, excluding capital gains, and we will be subject to regular corporate income taxes to the extent that we distribute less than 100% of our net taxable income each year. In addition, we will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions paid by us in any calendar year are less than the sum of 85% of our ordinary income, 95% of our capital gain net income, and 100% of our undistributed income from prior years. For distributions with respect to taxable years ending on or before December 31, 2011, recent IRS guidance allows us to satisfy up to 90% of these requirements through the distribution of shares of our common stock, if certain conditions are met. To maintain our REIT status and avoid the payment of federal income and excise taxes, we may need to borrow funds on a short-term basis to meet the

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REIT distribution requirements even if the then-prevailing market conditions are not favorable for these borrowings. These short-term borrowing needs could result from differences in timing between the actual receipt of income and inclusion of income for federal income tax purposes, or the effect of nondeductible capital expenditures, the creation of reserves, or required debt or amortization payments.

Our growth depends on external sources of capital that are outside of our control. We are required under the Code to distribute at least 90% of our taxable income, determined without regard to the dividends-paid deduction and excluding any net capital gain. For distributions with respect to taxable years ending on or before December 31, 2011, recent IRS guidance allows us to satisfy up to 90% of this requirement through the distribution of shares of our common stock, if certain conditions are met. Because of this distribution requirement, we may not be able to fund future capital needs, including any necessary acquisition financing, from operating cash flow. Consequently, management relies on third-party sources of capital to fund our capital needs. We may not be able to obtain the financing on favorable terms or at all. Any additional debt we incur will increase our leverage. Access to third-party sources of capital depends, in part, on general market conditions and the availability of credit, the market's perception of our growth potential, our current and expected future earnings, our cash flows and cash distributions, and the quoted market prices of our securities. If we cannot obtain capital from third-party sources, our financial condition, results of operations, cash flows, the quoted trading prices of our securities, and our ability to satisfy our debt service obligations and to pay distributions to our stockholders may be adversely affected.

Our board of directors may change investment and financing policies without stockholder approval causing us to become more highly leveraged, which may increase our risk of default under our debt obligations.

We are not limited in our ability to incur debt. Our financing policies and objectives are determined by our board of directors. Our goal is to limit our dependence on leverage and maintain a conservative ratio of debt to total market capitalization. However, our organizational documents do not limit the amount or percentage of indebtedness, funded or otherwise, that we may incur. As of December 31, 2009, we had approximately \$1.0 billion aggregate principal amount of indebtedness outstanding, which represented 39.0% of our total market capitalization. Our total debt and the liquidation value of our preferred equity as a percentage of total market capitalization was approximately 46.8% as of December 31, 2009. See Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations—"Liquidity and Capital Resources" for a calculation of our market capitalization. These ratios may be increased or decreased without the consent of our stockholders. Increases in the amount of debt outstanding would result in an increase in our debt service, which could adversely affect cash flow and our ability to make distributions to stockholders. Higher leverage also increases the risk of default on our obligations and limits our ability to obtain additional financing in the future.

We may issue additional shares of capital stock without stockholder approval, which may dilute stockholder investment. We may issue shares of our common stock, preferred stock, or other equity or debt securities without stockholder approval. Similarly, we may cause the Operating Partnership to offer its common or preferred units for contributions of cash or property without approval by the limited partners of the Operating Partnership or our stockholders. Further, under certain circumstances, we may issue shares of our common stock in exchange for the 3.25% Exchangeable Senior Notes due 2012 (the "3.25% Exchangeable Notes") and the 4.25% Exchangeable Senior Notes due 2014 (the "4.25% Exchangeable Notes," and, collectively, the "Exchangeable Notes") issued by the Operating Partnership. Existing stockholders have no preemptive rights to acquire any of these securities, and any issuance of equity securities under these circumstances may dilute a stockholder's investment.

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We may invest in securities related to real estate which could adversely affect our ability to make distributions to stockholders. We may purchase securities issued by entities which own real estate and may, in the future, also invest in mortgages. In general, investments in mortgages are subject to several risks, including:

- borrowers may fail to make debt service payments or pay the principal when due;
- the value of the mortgaged property may be less than the principal amount of the mortgage note securing the property; and
- interest rates payable on the mortgages may be lower than our cost for the funds used to acquire these mortgages.

Owning these securities may not entitle us to control the ownership, operation, and management of the underlying real estate. In addition, we may have no control over the distributions with respect to these securities, which could adversely affect our ability to make distributions to stockholders.

Sales of a substantial number of shares of our securities, or the perception that this could occur, could result in decreasing the quoted market price per share for our securities. Management cannot predict whether future issuances of shares of our common stock or the availability of shares for resale in the open market will result in decreasing the market price per share of common stock. As of December 31, 2009, 43,148,762 shares of common stock and 5,060,000 shares of preferred stock, consisting of 1,610,000 shares of our Series E Preferred Stock and 3,450,000 shares of our Series F Preferred Stock, were issued and outstanding, and an additional 1,500,000 shares of preferred stock were designated as Series A Preferred Stock, which was reserved for possible issuance in exchange for outstanding Series A Preferred Units.

As of December 31, 2009, we had reserved for future issuance the following shares of common stock: 1,723,131 shares issuable upon the exchange, at our option, of common units; 2,020,000 shares remained available for grant under our 2006 Incentive Award Plan (see Note 8 to our consolidated financial statements included in this report); 631,331 shares issuable upon settlement of restricted stock units; 24,000 shares issuable upon exercise of outstanding options; and 975,895 shares issuable under our Dividend Reinvestment and Direct Stock Purchase Plan, as well as 3,386,353 and 4,800,796 shares potentially issuable under certain circumstances, in exchange for the 3.25% Exchangeable Notes and 4.25% Exchangeable Notes, respectively. We have a currently effective registration statement registering 1,723,131 shares of common stock for possible issuance to the holders of common units. This registration statement also registered 306,808 shares of common stock held by certain stockholders for possible resale. We also have a currently effective registration statement registering the 3,386,353 shares of common stock that may potentially be issued in exchange for the 3.25% Exchangeable Notes. Consequently, if and when the shares are issued, they may be freely traded in the public markets. We are required and intend to file a registration statement for the shares of common stock that may potentially be issued in exchange for the 4.25% Exchangeable Notes by May 2010 pursuant to the terms of a registration rights agreement with the initial purchasers of the 4.25% Exchangeable Notes.

Future terrorist activity or engagement in war by the U.S. may have an adverse effect on our financial condition and operating results. Terrorist attacks in the U.S. and other acts of terrorism or war, may result in declining economic activity, which could harm the demand for and the value of our properties. In addition, the public perception that certain locations are at greater risk for attack, such as major airports, ports, and rail facilities, may decrease the demand for and the value of our properties near these sites. A decrease in demand could make it difficult for us to renew or re-lease our properties at these sites at lease rates equal to or above historical rates. Terrorist activities also could directly impact the value of our properties through damage, destruction, or loss, and the availability of insurance for these acts may be less, and cost more, which could adversely affect our financial condition. To the extent that our tenants are impacted by future attacks, their businesses similarly could be adversely affected, including their ability to continue to honor their existing leases.

Terrorist acts and engagement in war by the U.S. also may adversely affect the markets in which our securities trade and may cause further erosion of business and consumer confidence and spending and may result

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in increased volatility in national and international financial markets and economies. Any one of these events may cause a decline in the demand for our office and industrial leased space, delay the time in which our new or renovated properties reach stabilized occupancy, increase our operating expenses, such as those attributable to increased physical security for our properties, and limit our access to capital or increase our cost of raising capital.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

General

As of December 31, 2009, our stabilized portfolio of operating properties was comprised of 93 Office Properties and 41 Industrial Properties, which encompassed an aggregate of approximately 8.7 million and 3.7 million rentable square feet, respectively. As of December 31, 2009, the Office Properties were approximately 80.6% leased to 286 tenants, and the Industrial Properties were approximately 88.2% leased to 58 tenants. Our stabilized portfolio excludes undeveloped land and one industrial property that we are in the process of reentitling for residential use.

All of our properties are located in Southern California. We own all of our properties through the Operating Partnership and the Finance Partnership. The seven office buildings located at Kilroy Airport Center in Long Beach, California all are held subject to leases for the land that expire in 2084.

In general, the Office Properties are leased to tenants on a full service gross or modified gross basis, and the Industrial Properties are leased to tenants on a triple net basis. Under a full service lease, the landlord is obligated to pay the tenant's proportionate share of real estate taxes, insurance, and operating expenses up to the amount incurred during the tenant's first year of occupancy ("Base Year") or a negotiated amount approximating the tenant's pro rata share of real estate taxes, insurance, and operating expenses ("Expense Stop"). The tenant pays its pro rata share of increases in expenses above the Base Year or Expense Stop. A modified gross lease is similar to a full service gross lease, except tenants are obligated to pay their proportionate share of certain operating expenses, usually electricity, directly to the service provider. Under a triple net lease and a modified net lease, tenants pay their proportionate share of real estate taxes, operating costs, and utility costs.

We believe that all of our properties are well maintained and do not require significant capital improvements. As of December 31, 2009, we managed all of our properties through internal property managers.

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Office and Industrial Properties

The following table sets forth certain information relating to each of the stabilized Office Properties and Industrial Properties owned as of December 31, 2009.

Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/09 ⁽¹⁾	Annualized Base Rental Revenue (\$000's) ⁽²⁾	Average Base Rental Revenue Per Sq. Ft. (\$) ⁽³⁾
Office Properties:						
<i>Los Angeles County</i>						
23925 Park Sorrento, Calabasas, California	1	2001	11,789	100.0%	\$ 421	\$ 35.71
23975 Park Sorrento, Calabasas, California	1	2002	100,592	72.9%	2,657	37.36
24025 Park Sorrento, Calabasas, California	1	2000	102,264	100.0%	3,941	38.54
26541 Agoura Road Calabasas, California	1	1988	91,327	0.0%	—	—
2240 E. Imperial Highway, El Segundo, California	1	1983/2008	122,870	100.0%	2,643	21.51
2250 E. Imperial Highway, El Segundo, California	1	1983	293,261	88.3%	8,072	31.41
2260 E. Imperial Highway, El Segundo, California	1	1983	286,151	100.0%	5,409	18.90
909 Sepulveda Blvd., El Segundo, California	1	1972/2005	241,607	97.2%	5,943	25.32
999 Sepulveda Blvd., El Segundo, California	1	1962/2003	127,901	100.0%	2,649	22.86
3750 Kilroy Airport Way, Long Beach, California ⁽⁵⁾	1	1989	10,457	100.0%	137	19.85
3760 Kilroy Airport Way, Long Beach, California	1	1989	165,278	100.0%	4,411	27.76
3780 Kilroy Airport Way, Long Beach, California	1	1989	219,745	89.8%	5,239	27.72
3800 Kilroy Airport Way, Long Beach, California	1	2000	192,476	100.0%	5,436	29.08
3840 Kilroy Airport Way, Long Beach, California	1	1999	136,026	100.0%	4,915	36.13
3880 Kilroy Airport Way, Long Beach, California	1	1987	98,243	100.0%	1,474	15.00
3900 Kilroy Airport Way, Long Beach, California	1	1987	126,840	66.2%	2,047	24.52
12100 W. Olympic Blvd., Los Angeles, California	1	2003	150,167	100.0%	5,214	34.72
12200 W. Olympic Blvd., Los Angeles, California	1	2000	150,302	94.7%	4,048	36.82
12312 W. Olympic Blvd., Los Angeles, California ⁽⁴⁾	1	1950/1997	78,000	100.0%	1,782	22.85
1633 26th Street, Santa Monica, California	1	1972/1997	44,915	100.0%	1,152	25.65
2100 Colorado Avenue, Santa Monica, California ⁽¹⁶⁾	3	1992/2009	94,844	0.0%	—	—
3130 Wilshire Blvd., Santa Monica, California	1	1969/1998	88,339	80.3%	2,249	31.71
501 Santa Monica Blvd., Santa Monica, California	1	1974	73,115	86.3%	2,491	39.92
Subtotal/Weighted Average— Los Angeles County	25		3,006,509	88.2%	72,330	28.06
<i>San Diego County</i>						
12225 El Camino Real, Del Mar, California	1	1998	60,148	24.5%	488	33.13
12235 El Camino Real, Del Mar, California ⁽⁶⁾	1	1998	54,673	100.0%	2,042	37.35
12340 El Camino Real, Del Mar, California ⁽⁶⁾	1	2002	87,405	100.0%	4,130	47.25
12390 El Camino Real, Del Mar, California ⁽⁶⁾	1	2000	72,332	100.0%	3,069	42.43
12348 High Bluff Drive, Del Mar, California ⁽⁶⁾	1	1999	38,710	100.0%	1,211	31.28
12400 High Bluff Drive, Del Mar, California ⁽⁶⁾	1	2004	208,464	100.0%	9,897	47.48
3579 Valley Centre Drive, Del Mar, California ⁽¹⁷⁾	1	1999	52,375	0.0%	—	—
3611 Valley Centre Drive, Del Mar, California ⁽⁶⁾	1	2000	130,178	100.0%	4,504	36.42
3661 Valley Centre Drive, Del Mar, California ⁽⁶⁾	1	2001	129,752	100.0%	3,693	35.04
3721 Valley Centre Drive, Del Mar, California ⁽⁶⁾	1	2003	114,780	100.0%	3,767	32.82
3811 Valley Centre Drive, Del Mar, California ⁽⁷⁾	1	2000	112,067	100.0%	5,199	46.39
6200 Greenwich Drive, Governor Park, California ⁽⁷⁾	1	1999	71,000	100.0%	1,637	23.06
6220 Greenwich Drive, Governor Park, California	1	1996	141,214	0.0%	—	—
15051 Avenue of Science, I-15 Corridor, California ⁽⁷⁾	1	2002	70,617	100.0%	2,035	28.82
15073 Avenue of Science, I-15 Corridor, California ⁽⁷⁾	1	2002	46,759	100.0%	1,233	26.37
15231 Avenue of Science, I-15 Corridor, California ⁽¹⁸⁾	1	2005	65,638	0.0%	—	—
15253 Avenue of Science, I-15 Corridor, California ⁽¹⁹⁾	1	2005	37,437	0.0%	—	—
15333 Avenue of Science, I-15 Corridor, California	1	2006	78,880	0.0%	—	—
15378 Avenue of Science, I-15 Corridor, California ⁽⁷⁾	1	1990	68,910	100.0%	978	14.19
15004 Innovation Drive, I-15 Corridor, California ⁽⁷⁾	1	2008	150,801	100.0%	7,364	48.83
15435 Innovation Drive, I-15 Corridor, California ⁽²⁰⁾	1	2000	51,500	0.0%	—	—
15445 Innovation Drive, I-15 Corridor, California	1	2000	51,500	0.0%	—	—
13280 Evening Creek Drive South, I-15 Corridor, California ⁽⁸⁾	1	2008	42,971	46.5%	520	26.03
13290 Evening Creek Drive South, I-15 Corridor, California	1	2008	61,176	0.0%	—	—
13480 Evening Creek Drive North, I-15 Corridor, California ⁽⁶⁾	1	2008	149,817	100.0%	7,779	51.92
13500 Evening Creek Drive North, I-15 Corridor, California ⁽⁶⁾	1	2004	142,742	97.6%	5,595	40.16
13520 Evening Creek Drive North, I-15 Corridor, California ⁽⁶⁾	1	2004	141,368	93.0%	4,866	37.87

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<u>Property Location</u>	<u>No. of Buildings</u>	<u>Year Built/Renovated</u>	<u>Rentable Square Feet</u>	<u>Percentage Occupied at 12/31/09⁽¹⁾</u>	<u>Annualized Base Rental Revenue (\$000's)⁽²⁾</u>	<u>Average Base Rental Revenue Per Sq. Ft. (\$)⁽³⁾</u>
7525 Torrey Santa Fe, 56 Corridor, California ⁽⁷⁾	1	2007	103,979	100.0%	3,012	28.97
7535 Torrey Santa Fe, 56 Corridor, California ⁽⁷⁾	1	2007	130,243	100.0%	3,693	28.35
7545 Torrey Santa Fe, 56 Corridor, California ⁽⁷⁾	1	2007	130,354	100.0%	3,609	27.69
7555 Torrey Santa Fe, 56 Corridor, California ⁽⁷⁾	1	2007	101,236	100.0%	3,175	31.36
10020 Pacific Mesa Blvd, Sorrento Mesa, California ⁽⁴⁾	1	2007	318,000	100.0%	7,683	24.16
4910 Directors Place, Sorrento Mesa, California	1	2009	50,925	0.0%	—	—
4921 Directors Place, Sorrento Mesa, California	1	2008	55,500	0.0%	—	—
4939 Directors Place, Sorrento Mesa, California ⁽⁷⁾	1	2002	60,662	100.0%	2,276	37.52
4955 Directors Place, Sorrento Mesa, California ⁽⁷⁾	1	2008	76,246	100.0%	2,881	37.79
5005 Wateridge Vista Drive, Sorrento Mesa, California	1	1999	61,460	0.0%	—	—
5010 Wateridge Vista Drive, Sorrento Mesa, California	1	1999	111,318	0.0%	—	—
10243 Genetic Center Drive, Sorrento Mesa, California	1	2001	102,875	0.0%	—	—
6055 Lusk Avenue, Sorrento Mesa, California ⁽⁴⁾	1	1997	93,000	100.0%	1,554	16.71
6260 Sequence Drive, Sorrento Mesa, California ⁽⁷⁾	1	1997	130,536	100.0%	1,717	13.15
6290 Sequence Drive, Sorrento Mesa, California ⁽⁷⁾	1	1997	90,000	100.0%	2,098	23.31
6310 Sequence Drive, Sorrento Mesa, California ⁽⁴⁾	1	2000	62,415	100.0%	1,200	19.23
6340 Sequence Drive, Sorrento Mesa, California ⁽⁷⁾	1	1998	66,400	100.0%	1,246	18.77
6350 Sequence Drive, Sorrento Mesa, California	1	1998	132,600	100.0%	2,507	18.91
10390 Pacific Center Court, Sorrento Mesa, California ⁽⁷⁾	1	2002	68,400	100.0%	2,771	40.51
10394 Pacific Center Court, Sorrento Mesa, California ⁽⁷⁾	1	1995	59,630	100.0%	1,096	18.38
10398 Pacific Center Court, Sorrento Mesa, California	1	1995	43,645	0.0%	—	—
10421 Pacific Center Court, Sorrento Mesa, California	1	1995/2002	79,871	0.0%	—	—
10445 Pacific Center Court, Sorrento Mesa, California ⁽⁷⁾	1	1995	48,709	100.0%	831	17.06
10455 Pacific Center Court, Sorrento Mesa, California	1	1995	90,000	100.0%	1,112	12.36
10350 Barnes Canyon, Sorrento Mesa, California ⁽⁶⁾	1	1998	38,018	100.0%	915	24.07
10120 Pacific Heights Drive, Sorrento Mesa, California ⁽⁷⁾	1	1995	52,540	100.0%	977	18.60
5717 Pacific Center Blvd, Sorrento Mesa, California ⁽⁴⁾	1	2001/2005	67,995	100.0%	1,503	22.10
4690 Executive Drive, UTC, California ⁽⁹⁾	1	1999	47,212	88.3%	1,048	25.15
9455 Towne Center Drive, UTC, California	1	1998	45,195	0.0%	—	—
9785 Towne Center Drive, UTC, California ⁽⁴⁾	1	1999	75,534	100.0%	1,374	18.19
9791 Towne Center Drive, UTC, California ⁽⁴⁾	1	1999	50,466	100.0%	916	18.15
Subtotal/Weighted Average— San Diego County	58		5,078,178	76.8%	119,201	30.83
Orange County						
4175 E. La Palma Avenue, Anaheim, California	1	1985	43,263	91.7%	805	20.30
8101 Kaiser Blvd. Anaheim, California	1	1988	59,790	88.0%	1,199	22.80
601 Valencia Avenue, Brea, California	1	1982	60,891	0.0%	—	—
603 Valencia Avenue, Brea, California	1	1983	45,900	10.1%	—	—
111 Pacifica, Irvine Spectrum, California	1	1991	67,496	61.2%	936	25.24
Subtotal/Weighted Average— Orange County	5		277,340	49.8%	2,940	22.36
Other						
5151 Camino Ruiz, Camarillo, California ⁽¹⁵⁾	2	1982	187,861	89.4%	1,879	11.19
5153 Camino Ruiz, Camarillo, California ⁽¹⁰⁾	1	1982	38,655	100.0%	626	16.19
5155 Camino Ruiz, Camarillo, California ⁽¹⁰⁾	1	1982	38,856	100.0%	625	16.09
2829 Townsgate Road, Thousand Oaks, California	1	1990	81,067	98.4%	2,367	30.26
Subtotal/Weighted Average— Other	5		346,439	93.9%	5,497	16.99
TOTAL/WEIGHTED AVERAGE OFFICE PROPERTIES	93		8,708,466	80.6%	199,968	28.98
Industrial Properties:						
Los Angeles County						
2031 E. Mariposa Avenue, El Segundo, California	1	1954/1990	192,053	100.0%	2,960	15.41
Subtotal/Weighted Average— Los Angeles County	1		192,053	100.0%	2,960	15.41
Orange County						
1000 E. Ball Road, Anaheim, California	1	1956	100,000	100.0%	757	7.57
1230 S. Lewis Road, Anaheim, California	1	1982	57,730	100.0%	388	6.72
1250 N. Tustin Avenue, Anaheim, California	1	1984	84,185	100.0%	593	7.04
3125 E. Coronado Street, Anaheim, California	1	1970	144,000	0.0%	—	—
3130/3150 Miraloma, Anaheim, California ⁽¹¹⁾	1	1970	144,000	100.0%	838	5.82
3250 E. Carpenter, Anaheim, California	1	1998	41,225	100.0%	314	7.62
3340 E. La Palma Avenue, Anaheim, California ⁽²¹⁾	1	1966	153,320	0.0%	—	—
3355 E. La Palma Avenue, Anaheim, California	1	1999	98,200	100.0%	923	9.40
4123 E. La Palma Avenue, Anaheim, California ⁽¹³⁾	1	1985	70,863	100.0%	764	10.79

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Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/09 ⁽¹⁾	Annualized Base Rental Revenue (\$000's) ⁽²⁾	Average Base Rental Revenue Per Sq. Ft. (\$) ⁽³⁾
4155 E. La Palma Avenue, Anaheim, California ⁽¹²⁾	1	1985	74,618	88.8%	788	11.89
5115 E. La Palma Avenue, Anaheim, California	1	1967/1998	286,139	100.0%	2,078	7.26
5325 E. Hunter Avenue, Anaheim, California	1	1983	110,487	100.0%	433	3.92
1145 N. Ocean Boulevard, Anaheim, California	1	1999	65,447	100.0%	495	7.56
1201 N. Miller Street, Anaheim, California	1	1999	119,612	100.0%	881	7.37
1211 N. Miller Street, Anaheim, California	1	1999	200,646	100.0%	1,349	6.72
1231 N. Miller Street, Anaheim, California	1	1999	113,242	0.0%	—	—
660 N. Puente Street, Brea, California	1	1981	51,567	100.0%	402	7.80
950 W. Central Avenue, Brea, California	1	1983	24,000	75.0%	188	10.44
1050 W. Central Avenue, Brea, California ⁽⁶⁾	1	1984	30,000	100.0%	298	9.93
1150 W. Central Avenue, Brea, California	1	1984	30,000	100.0%	284	9.47
895 Beacon Street, Brea, California	1	1987	54,795	100.0%	400	7.30
955 Beacon Street, Brea, California	1	1987	37,916	100.0%	219	5.78
1125 Beacon Street, Brea, California	1	1988	49,178	100.0%	420	8.54
925 Lambert Road, Brea, California ⁽¹⁴⁾	1	1999	80,000	100.0%	533	6.66
1075 Lambert Road, Brea, California ⁽¹⁴⁾	1	1999	98,811	100.0%	743	7.52
1675 MacArthur Blvd, Costa Mesa, California	1	1986	50,842	100.0%	625	12.29
25902 Towne Center Drive, Foothill Ranch, California	1	1998	309,685	100.0%	2,459	7.94
12681/12691 Pala Drive, Garden Grove, California ⁽⁷⁾	1	1970	84,700	100.0%	680	8.03
7421 Orangewood Avenue, Garden Grove, California ⁽⁷⁾	1	1981	82,602	100.0%	643	7.78
7091 Belgrave Avenue, Garden Grove, California	1	1971	70,000	100.0%	310	4.43
12271 Industry Street, Garden Grove, California ⁽⁶⁾	1	1972	20,000	75.0%	137	9.13
12311 Industry Street, Garden Grove, California ⁽⁶⁾	1	1972	25,000	100.0%	200	8.00
7261 Lampson Avenue, Garden Grove, California	1	1974	47,092	100.0%	330	7.01
12472 Edison Way, Garden Grove, California	1	1984	55,576	100.0%	416	7.49
12442 Knott Street, Garden Grove, California	1	1985	58,303	100.0%	546	9.36
2055 S.E. Main Street, Irvine, California	1	1973	47,583	100.0%	541	11.37
1951 E. Carnegie Avenue, Santa Ana, California	1	1981	100,000	100.0%	746	7.46
2525 Pullman Street, Santa Ana, California	1	1976	103,380	100.0%	548	5.30
14831 Franklin Avenue, Tustin, California	1	1978	36,256	100.0%	279	7.70
2911 Dow Avenue, Tustin, California	1	1998	51,410	100.0%	316	6.15
Subtotal/Weighted Average— Orange County	40		3,462,410	87.6%	22,864	7.54
TOTAL/WEIGHTED AVERAGE INDUSTRIAL PROPERTIES	41		3,654,463	88.2%	25,824	8.01
TOTAL/WEIGHTED AVERAGE ALL PROPERTIES	134		12,362,929	82.8%	\$ 225,792	\$ 22.30

(1) Based on all leases at the respective properties in effect as of December 31, 2009. Includes month-to-month leases as of December 31, 2009.

(2) Calculated as contractual base rental revenues as of December 31, 2009, determined in accordance with GAAP, annualized to reflect a twelve-month period. Annualized base rental revenues excludes the amortization of deferred revenue recorded for tenant-funded tenant improvements. Excludes month-to-month leases and vacant space as of December 31, 2009.

(3) Calculated as annualized base rent divided by net rentable square feet leased as of December 31, 2009. Excludes month-to-month leases and vacant space as of December 31, 2009.

(4) For this property, the lease is written on a triple net basis.

(5) For this property, leases of approximately 4,000 rentable square feet are written on a modified gross basis, and leases of approximately 6,000 rentable square feet are written on a full service gross basis.

(6) For this property, the leases are written on a modified gross basis.

(7) For this property, the lease is written on a modified net basis.

(8) For this property, a lease of approximately 20,000 rentable square feet is written on a modified net basis. The remaining 23,000 rentable square feet is currently being marketed for lease.

(9) For this property, leases of approximately 19,000 rentable square feet are written on a modified net basis, and leases of approximately 22,000 rentable square feet are written on a modified gross basis.

(10) For this property, leases of approximately 20,000 rentable square feet are written on a full service gross basis, and leases of approximately 19,000 rentable square feet are written on a triple net basis.

(11) For this property, a lease of approximately 144,000 rentable square feet is written on a modified net basis.

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- (12) For this property, leases of approximately 17,000 rentable square feet are written on a full service gross basis, leases of approximately 31,000 rentable square feet are written on a triple net basis, and leases of approximately 18,000 rentable square feet are written on a modified triple net basis.
- (13) For this property, a lease of approximately 15,000 rentable square feet is written on a modified gross basis, and a lease of approximately 56,000 rentable square feet is written on a triple net basis.
- (14) For these properties, leases of approximately 142,000 rentable square feet are written on a modified net basis, and a lease of approximately 37,000 rentable square feet is written on a modified gross basis.
- (15) For this property, leases of approximately 168,000 rentable square feet are written on a triple net basis, and the remaining 20,000 rentable square feet are vacant.
- (16) For this property, a lease of approximately 56,000 rentable square feet was executed with one tenant during the third quarter of 2009. The new lease is expected to commence during the second quarter of 2010.
- (17) For this property, a lease of approximately 34,000 rentable square feet was executed with one tenant during the fourth quarter of 2009. The new lease is expected to commence during the first quarter of 2010.
- (18) For this property, a lease of approximately 47,000 rentable square feet was executed with one tenant during the fourth quarter of 2009. The new lease is expected to commence during the first quarter of 2010.
- (19) For this property, a lease for the entire building was executed with one tenant during the fourth quarter of 2009. The new lease is expected to commence during the first quarter of 2010.
- (20) For this property, a lease of approximately 33,000 rentable square feet was executed with one tenant during the fourth quarter of 2009. The new lease is expected to commence during the third quarter of 2010.
- (21) A lease of approximately 153,000 rentable square feet was executed with one tenant during the fourth quarter of 2009. The new lease is expected to commence during the third quarter of 2010.

Reentitlement Property

As of December 31, 2009, we were in the process of reentitling the following property for residential use:

<u>Property Location</u>	<u>No. of Buildings</u>	<u>Year Acquired</u>	<u>Net Rentable Square Feet</u>	<u>Percentage Occupied at 12/31/09</u>
17150 Von Karman Irvine, California	1	1997	157,458	0.0%

Future Development Pipeline

The following table sets forth certain information relating to our undeveloped land located in San Diego, California as of December 31, 2009.

<u>Project</u>	<u>Submarket</u>	<u>Gross Site Acreage</u>
Carlsbad Oaks—Lots 4, 5, 7 & 8	Carlsbad	32.0
Pacific Corporate Center—Lot 8	Sorrento Mesa	5.0
Rancho Bernardo Corporate Center	I-15 Corridor	21.0
San Diego Corporate Center—Phase I and II	Del Mar	23.0
Santa Fe Summit—Phase II and III	56 Corridor	21.8
Sorrento Gateway—Lot 2	Sorrento Mesa	6.3
Sorrento Gateway—Lot 7	Sorrento Mesa	7.6
Total		<u>116.7</u>

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Significant Tenants

The following table sets forth information about our fifteen largest tenants based upon annualized rental revenues as of December 31, 2009.

<u>Tenant Name</u>	<u>Property Segment</u>	<u>Annualized Base Rental Revenues⁽¹⁾</u> (in thousands)	<u>Percentage of Total Annualized Base Rental Revenues⁽¹⁾</u>	<u>Lease Expiration Date</u>
Intuit Inc.	Office	\$ 15,126	6.7%	Various ⁽²⁾
Bridgepoint Education, Inc.	Office	14,257	6.3	Various ⁽³⁾
Scripps Health	Office	12,562	5.6	Various ⁽⁴⁾
CareFusion Corporation	Office	10,087	4.5	Various ⁽⁵⁾
DIRECTV, Inc.	Office	8,540	3.8	July 2014
AMN Healthcare, Inc.	Office	8,341	3.7	July 2018
Fish & Richardson P.C.	Office	6,071	2.7	October 2018
The Boeing Company	Office/Industrial	5,905	2.6	Various ⁽⁶⁾
Verenum Corporation	Office	5,158	2.3	Various ⁽⁷⁾
Epson America, Inc.	Office	4,915	2.2	October 2019
Hewlett-Packard Company	Office	4,348	1.9	April 2012
Scan Health Plan	Office	3,810	1.7	June 2015
Avnet, Inc.	Office	3,768	1.7	February 2013
Comcast Corporation	Office	3,308	1.5	Various ⁽⁸⁾
Northrup Grumman Corporation	Office	3,268	1.4	Various ⁽⁹⁾
Total		<u>\$ 109,464</u>	<u>48.6%</u>	

(1) Based upon annualized contractual base rental revenue, which is calculated on a straight-line basis in accordance with GAAP, for leases for which rental revenue is being recognized by us as of December 31, 2009.

(2) The Intuit leases, which contribute \$1.6 million and \$13.5 million of annualized base rental revenues, expire in August 2012 and August 2017, respectively.

(3) The Bridgepoint Education leases, which contribute \$0.8 million, \$5.7 million, and \$7.8 million of annualized base rental revenues, expire in February 2017, July 2018, and September 2018, respectively.

(4) The Scripps Health leases, which contribute \$5.2 million and \$7.4 million of annualized base rental revenues, expire in June 2021 and February 2027, respectively.

(5) The CareFusion Corporation leases, which contribute \$0.8 million and \$9.3 million of annualized base rental revenues, expire in February 2012 and August 2017, respectively.

(6) The Boeing Company leases, which contribute \$5.4 million and \$0.5 million of annualized base rental revenues, expire in July 2010 and October 2010, respectively. The Boeing Company is expected to vacate the premises when the leases expire.

(7) The Verenum Corporation leases, which contribute \$2.9 million and \$2.3 million of annualized base rental revenues, expire in November 2015 and March 2017, respectively.

(8) The Comcast Corporation leases, which contribute \$1.2 million and \$2.1 million of annualized base rental revenues, expire in July 2010 and December 2012, respectively.

(9) The Northrup Grumman Corporation leases, which contribute \$2.0 million and \$1.3 million of annualized base rental revenues, expire in February 2012 and April 2012, respectively.

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The following table sets forth the composition of our tenant base by industry based on Standard Industrial Classifications as of December 31, 2009.

<u>Industry</u>	Percentage of Total Annualized Base Rental Revenues at December 31,
	<u>2009</u>
Professional, business, and other services	32.8%
Education and health services	21.1%
Manufacturing	18.3%
Finance, insurance, and real estate	12.3%
Information technology	11.1%
Wholesale and retail trade	2.0%
Construction	1.4%
Government	0.5%
Leisure and hospitality	0.4%
Transportation, warehousing, and public utilities	0.1%
Total	<u>100.0%</u>

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Lease Expirations

The following table sets forth a summary of our lease expirations for the Office Properties and Industrial Properties for each of the next ten years beginning with 2010, assuming that none of the tenants exercise renewal options or termination rights. See further discussion of our lease expirations under Item 1A: Risk Factors.

Lease Expirations by Segment Type⁽¹⁾

Year of Lease Expiration	Number of Expiring Leases	Net Rentable Area Subject to Expiring Leases (Sq. Ft.)	Percentage of Leased Square Feet Represented by Expiring Leases	Annualized Base Rental Revenue Under Expiring Leases (000's) ⁽²⁾	Percentage of Annualized Base Rental Revenue Represented by Expiring Leases ⁽²⁾	Average Annualized Base Rental Revenue Per Square Foot Under Expiring Leases (000's) ⁽²⁾
Office Properties:						
2010	70	843,916	12.2%	\$ 20,301	10.2%	\$ 24.06
2011	58	537,893	7.8	11,485	5.7	21.35
2012	58	758,736	11.0	19,973	10.0	26.32
2013	45	579,059	8.4	14,426	7.2	24.91
2014	41	1,019,348	14.8	25,918	13.0	25.43
2015	30	616,477	8.9	18,308	9.2	29.70
2016	7	159,552	2.3	3,709	1.9	23.25
2017	17	1,186,858	17.2	33,527	16.8	28.25
2018	13	639,502	9.3	28,982	14.5	45.32
2019	4	215,375	3.1	7,987	4.0	37.08
2020 and beyond	4	342,868	5.0	15,352	7.5	44.78
	<u>347</u>	<u>6,899,584</u>	<u>100.0%</u>	<u>\$ 199,968</u>	<u>100.0%</u>	<u>\$ 28.98</u>
Industrial Properties:						
2010	10	243,060	7.5%	\$ 1,941	7.5%	\$ 7.99
2011	12	376,658	11.7	3,345	13.0	8.88
2012	12	511,805	15.9	3,224	12.5	6.30
2013	7	602,455	18.7	4,410	17.1	7.32
2014	9	466,578	14.5	3,743	14.5	8.02
2015	9	539,864	16.7	3,777	14.6	7.00
2016	2	233,278	7.3	3,274	12.7	14.03
2017	—	—	—	—	—	—
2018	1	82,602	2.6	643	2.5	7.78
2019	2	168,200	5.1	1,467	5.6	8.72
2020 and beyond	—	—	—	—	—	—
	<u>64</u>	<u>3,224,500</u>	<u>100.0%</u>	<u>\$ 25,824</u>	<u>100.0%</u>	<u>\$ 8.01</u>
Total Portfolio	<u>411</u>	<u>10,124,084</u>	<u>100.0%</u>	<u>\$ 225,792</u>	<u>100.0%</u>	<u>\$ 22.30</u>

(1) The information presented reflects leasing activity through December 31, 2009. For leases that have been renewed early or space that has been re-leased to a new tenant, the expiration date and annualized base rent information presented takes into consideration the renewed or re-leased lease terms. Excludes space leased under month-to-month leases and vacant space as of December 31, 2009.

(2) Reflects annualized contractual base rental revenue calculated on a straight-line basis.

Secured Debt

As of December 31, 2009, the Operating Partnership had six outstanding mortgage notes payable and one secured line of credit, which were secured by certain of our properties. Our secured debt represents an aggregate indebtedness of approximately \$294.6 million. See additional information regarding our secured debt in Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations—"Liquidity and Capital Resources—Liquidity Sources," Note 4 to our consolidated financial statements, and Schedule III—Real Estate and Accumulated Depreciation included with this report. Management believes that, as of December 31, 2009, the value of the properties securing the applicable secured obligations in each case exceeded the principal amount of the outstanding obligation.

ITEM 3. LEGAL PROCEEDINGS

Other than routine litigation incidental to the business, we are not a defendant in, and our properties are not subject to, any legal proceedings that, if determined adversely to us, would have a material adverse effect upon our financial condition, results of operations, or cash flows.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of stockholders during the fourth quarter of the year ended December 31, 2009.

PART II**ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Our common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "KRC." The following table illustrates the high, low, and closing prices by quarter during 2009 and 2008 as reported on the NYSE. As of the date this report was filed, there were approximately 124 registered holders of our common stock.

				Per Share Common Stock Dividends Declared
<u>2009</u>	<u>High</u>	<u>Low</u>	<u>Close</u>	
First quarter	\$ 32.83	\$ 15.40	\$ 17.19	\$ 0.5800
Second quarter	23.35	16.16	20.54	0.3500
Third quarter	30.75	18.67	27.74	0.3500
Fourth quarter	31.99	26.00	30.67	0.3500

				Per Share Common Stock Dividends Declared
<u>2008</u>	<u>High</u>	<u>Low</u>	<u>Close</u>	
First quarter	\$ 53.64	\$ 44.81	\$ 49.11	\$ 0.5800
Second quarter	55.54	46.52	47.03	0.5800
Third quarter	52.30	42.37	47.79	0.5800
Fourth quarter	45.97	21.71	33.46	0.5800

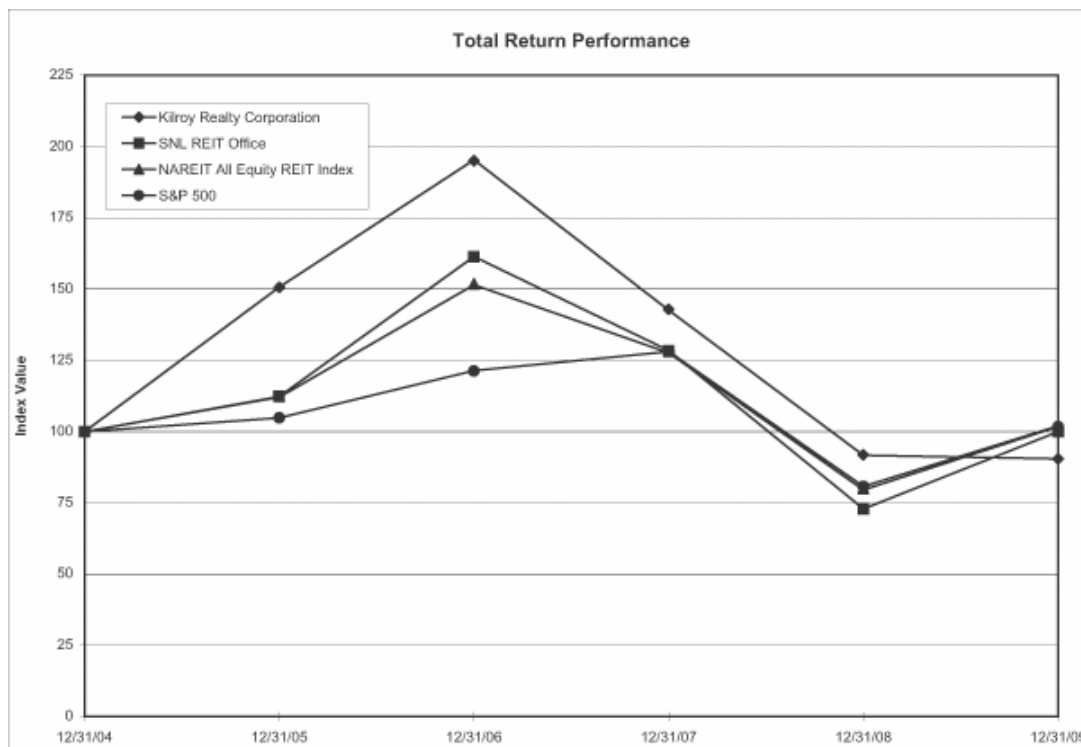
We pay distributions to common stockholders quarterly each January, April, July, and October at the discretion of the board of directors. Distribution amounts depend on our FFO, financial condition, capital requirements, the annual distribution requirements under the REIT provisions of the Code, and such other factors as the board of directors deems relevant.

During the years ended December 31, 2009 and 2008, we issued 30,598 and 435,596 shares of common stock, respectively, in redemption of 30,598 and 435,596 common units by limited partners. The issuances were not dilutive to capitalization or distributions as the common shares were issued on a one-for-one basis pursuant to the terms of the partnership agreement of the Operating Partnership, and the common units share in distributions with the common stock.

During the years ended December 31, 2009 and 2008, we accepted the return, at the current quoted market price, of 86,482 and 61,111 shares of our common stock, respectively, from certain key employees in accordance with the provisions of our incentive award plan to satisfy minimum statutory tax-withholding requirements related to shares that vested during these periods.

PERFORMANCE GRAPH

The following line graph compares the change in cumulative stockholder return on our shares of common stock to the cumulative total return of the NAREIT All Equity REIT Index, the Standard & Poor's 500 Stock Index, and the SNL REIT Office Index for the five-year period ended December 31, 2009. We include an additional index, the SNL REIT Office Index, to the performance graph since management believes it provides additional information to investors about our performance relative to a more specific peer group. The SNL REIT Office Index is a published and widely recognized index that comprises 17 office equity REITs, including us. The graph assumes the investment of \$100 in us and each of the indices on December 31, 2004 and, as required by the SEC, the reinvestment of all distributions. The return shown on the graph is not necessarily indicative of future performance.



ITEM 6. SELECTED FINANCIAL DATA

Kilroy Realty Corporation Consolidated (in thousands, except per share, square footage and occupancy data)

	Year Ended December 31,				
	2009	2008	2007	2006	2005
Statements of Operations Data:					
Rental income	\$ 247,649	\$ 251,520	\$ 229,126	\$ 216,389	\$ 204,714
Tenant reimbursements	28,075	30,986	25,272	22,393	20,223
Other property income	3,710	6,849	3,478	2,356	771
Total revenues	279,434	289,355	257,876	241,138	225,708
Property expenses	49,709	48,861	43,276	39,692	36,053
Real estate taxes	24,330	22,063	19,495	18,107	16,293
Provision for bad debts	569	4,051	473	744	(667)
Ground leases	1,597	1,617	1,582	1,583	1,207
General and administrative expenses	39,938	38,260	36,580	22,800	66,456
Interest expense	46,119	45,346	40,762	43,541	38,956
Depreciation and amortization	87,627	83,215	72,754	68,756	64,199
Total expenses	249,889	243,413	214,922	195,223	222,497
Interest income and other net investment gains (losses)	1,300	(93)	1,606	1,653	604
Gain on early extinguishment of debt	4,909				
Net settlement receipts on interest rate swaps				991	364
(Loss) gain on derivative instruments				(818)	378
Total other income (loss)	6,209	(93)	1,606	1,826	1,346
Income from continuing operations	35,754	45,849	44,560	47,741	4,557
Discontinued operations:					
Revenues from discontinued operations		812	10,908	23,191	17,137
Expenses from discontinued operations	(224)	16	(6,656)	(8,749)	(9,902)
Net gain on dispositions of discontinued operations	2,485	234	74,505	31,259	30,764
Total income from discontinued operations	2,261	1,062	78,757	45,701	37,999
Net income	38,015	46,911	123,317	93,442	42,556
Net income attributable to noncontrolling common units of the Operating Partnership	(1,025)	(1,886)	(6,957)	(5,990)	(3,149)
NET INCOME ATTRIBUTABLE TO KILROY REALTY CORPORATION	36,990	45,025	116,360	87,452	39,407
PREFERRED DISTRIBUTIONS AND DIVIDENDS					
Distributions to noncontrolling cumulative redeemable preferred units of the Operating Partnership	(5,588)	(5,588)	(5,588)	(5,588)	(5,588)
Preferred dividends	(9,608)	(9,608)	(9,608)	(9,608)	(9,608)
Total preferred distributions and dividends	(15,196)	(15,196)	(15,196)	(15,196)	(15,196)
Net income available for common stockholders	\$ 21,794	\$ 29,829	\$ 101,164	\$ 72,256	\$ 24,211
Share Data:					
Weighted average common shares outstanding—basic	38,705,101	32,466,591	32,379,997	31,244,062	28,710,726
Weighted average common shares outstanding—diluted	38,732,126	32,540,872	32,408,966	31,292,628	28,710,726
Income (loss) from continuing operations available to common stockholders per common share—basic	\$ 0.47	\$ 0.88	\$ 0.82	\$ 0.96	\$ (0.33)
Income (loss) from continuing operations available to common stockholders per common share—diluted	\$ 0.47	\$ 0.88	\$ 0.82	\$ 0.96	\$ (0.33)
Net income available to common stockholders per share—basic	\$ 0.53	\$ 0.91	\$ 3.09	\$ 2.30	\$ 0.84
Net income available to common stockholders per share—diluted	\$ 0.53	\$ 0.91	\$ 3.09	\$ 2.30	\$ 0.84
Dividends declared per common share	\$ 1.63	\$ 2.32	\$ 2.22	\$ 2.12	\$ 2.04

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Kilroy Realty Corporation Consolidated					
	December 31,				
	2009	2008	2007	2006	2005
Balance Sheet Data:					
Total real estate held for investment, before accumulated depreciation and amortization	\$ 2,520,083	\$2,475,596	\$ 2,370,004	\$ 2,040,761	\$1,953,971
Total assets	2,084,281	2,102,918	2,069,810	1,799,352	1,674,474
Total debt	972,016	1,142,348	1,072,659	879,198	842,282
Total liabilities	1,126,805	1,314,394	1,229,138	1,011,790	1,031,106
Noncontrolling interest ⁽¹⁾	73,638	73,638	73,638	73,638	73,638
Total preferred stock	121,582	121,582	121,582	121,582	121,582
Total equity ⁽²⁾	883,838	714,886	767,034	713,924	569,730
Other Data:					
Funds From Operations ⁽³⁾	\$ 107,159	\$ 113,972	\$ 107,324	\$ 118,184	\$ 63,603
Cash flows provided by (used in):					
Operating activities	124,965	144,481	147,500	61,570	116,002
Investing activities	(50,474)	(93,825)	(244,802)	(136,193)	(75,682)
Financing activities	(74,161)	(52,835)	97,086	82,690	(41,292)
Office Properties:					
Rentable square footage	8,708,466	8,650,126	8,088,769	7,835,040	7,948,152
Occupancy	80.6%	86.2%	93.7%	95.8%	92.5%
Industrial Properties:					
Rentable square footage	3,654,463	3,718,663	3,869,969	3,869,969	4,587,491
Occupancy	88.2%	96.3%	94.7%	95.8%	99.3%

(1) Represents the redemption value, less issuance costs of our issued and outstanding 1,500,000 Series A Preferred Units.

(2) Includes the noncontrolling interest of the common units of the Operating Partnership.

(3) We calculate FFO in accordance with the White Paper on FFO approved by the Board of Governors of NAREIT. The White Paper defines FFO as net income or loss calculated in accordance with GAAP, excluding extraordinary items, as defined by GAAP, and gains and losses from sales of depreciable operating property, plus real estate-related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets), and after adjustment for unconsolidated partnerships and joint ventures.

We believe that FFO is a useful supplemental measure of our operating performance. The exclusion from FFO of gains and losses from the sale of operating real estate assets allows investors and analysts to readily identify the operating results of the assets that form the core of our activity and assists in comparing those operating results between periods. Also, because FFO is generally recognized as the industry standard for reporting the operations of REITs, it facilitates comparisons of operating performance to other REITs. However, other REITs may use different methodologies to calculate FFO, and accordingly, our FFO may not be comparable to all other REITs.

Implicit in historical cost accounting for real estate assets in accordance with GAAP is the assumption that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered presentations of operating results for real estate companies using historical cost accounting alone to be insufficient. Because FFO excludes depreciation and amortization of real estate assets, we believe that FFO along with the required GAAP presentations provides a more complete measurement of our performance relative to our competitors and a more appropriate basis on which to make decisions involving operating, financing, and investing activities than the required GAAP presentations alone would provide.

However, FFO should not be viewed as an alternative measure of our operating performance since it does not reflect either depreciation and amortization costs or the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties, which are significant economic costs and could materially impact our results of operations.

Noncash adjustments to arrive at FFO were as follows: noncontrolling interest in earnings of the Operating Partnership, depreciation and amortization of real estate assets, and net gain (loss) from dispositions of operating properties. For additional information, see Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations "—Non-GAAP Supplemental Financial Measure: Funds From Operations" including a reconciliation of our GAAP net income available for common stockholders to FFO for the years ended December 31, 2009, 2008, 2007, 2006, and 2005.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion relates to our consolidated financial statements and should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. Statements contained in this "Management's Discussion and Analysis of Financial Condition and Results of Operations" that are not historical facts may be forward-looking statements. Such statements are subject to certain risks and uncertainties, which could cause actual results to differ materially from those projected. Some of the information presented is forward-looking in nature, including information concerning projected future occupancy rates, rental rate increases, property development timing, and investment amounts. Although the information is based on our current expectations, actual results could vary from expectations stated in this report. Numerous factors will affect our actual results, some of which are beyond our control. These include the breadth and duration of the current economic recession and its impact on our tenants, the strength of commercial and industrial real estate markets, market conditions affecting tenants, competitive market conditions, interest rate levels, volatility in our stock price, and capital market conditions. You are cautioned not to place undue reliance on this information, which speaks only as of the date of this report. We assume no obligation to update publicly any forward-looking information, whether as a result of new information, future events, or otherwise, except to the extent we are required to do so in connection with our ongoing requirements under federal securities laws to disclose material information. For a discussion of important risks related to our business, and related to investing in our securities, including risks that could cause actual results and events to differ materially from results and events referred to in the forward-looking information, see Item 1A: Risk Factors and the discussion under the captions "—Factors That May Influence Future Results of Operations" and "—Liquidity and Capital Resources" below. In light of these risks, uncertainties, and assumptions, the forward-looking events discussed in this report might not occur.

Overview and Background

We own, operate, develop, and acquire office and industrial real estate in Southern California. We operate as a self-administered REIT. We own our interests in all of our properties through the Operating Partnership and the Finance Partnership and conduct substantially all of our operations through the Operating Partnership. We owned a 96.2% and 95.0% general partnership interest in the Operating Partnership as of December 31, 2009 and 2008, respectively.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires management to make estimates, assumptions, and judgments that affect the reported amounts of assets, liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting periods.

Certain accounting policies are considered to be critical accounting policies. Critical accounting policies are those policies that require management to make significant estimates and/or assumptions about matters that are uncertain at the time the estimates and/or assumptions are made or where management is required to make significant judgments and assumptions with respect to the practical application of accounting principles in its business operations. Critical accounting policies are by definition those policies that are material to our financial statements and for which the impact of changes in estimates, assumptions, and judgments could have a material impact to our financial statements.

The following critical accounting policies discussion reflects what we believe are the most significant estimates, assumptions, and judgments used in the preparation of our consolidated financial statements. This discussion of our critical accounting policies is intended to supplement the description of our accounting policies in the footnotes to our consolidated financial statements and to provide additional insight into the information used by management when evaluating significant estimates, assumptions, and judgments. For further discussion of our significant accounting policies, see Note 2 to our consolidated financial statements included in this report.

Rental Revenue Recognition

Rental revenue is our principal source of revenue. The timing of when we commence rental revenue recognition depends largely on our conclusion as to whether we are or the tenant is the owner for accounting purposes of the tenant improvements at the leased property. When we conclude that we are the owner of tenant improvements for accounting purposes, we record the cost to construct the tenant improvements as an asset, and we commence rental revenue recognition when the tenant takes possession of the finished space, which is typically when such tenant improvements are substantially complete.

The determination of whether we are or the tenant is the owner of the tenant improvements for accounting purposes is subject to significant judgment. In making that determination, we consider numerous factors and perform a detailed evaluation of each individual lease. No one factor is determinative in reaching a conclusion. The factors we evaluate include but are not limited to the following:

- whether the lease agreement requires landlord approval of how the tenant improvement allowance is spent prior to installation of the tenant improvements;
- whether the lease agreement requires the tenant to provide evidence to the landlord supporting the cost and what the tenant improvement allowance was spent on prior to payment by the landlord for such tenant improvements;
- whether the tenant improvements are unique to the tenant or reusable by other tenants;
- whether the tenant is permitted to alter or remove the tenant improvements without the consent of the landlord or without compensating the landlord for any lost utility or diminution in fair value; and
- whether the ownership of the tenant improvements remains with the landlord or remains with the tenant at the end of the lease term.

In addition, we also record the cost of certain tenant improvements paid for or reimbursed by tenants when we conclude that we are the owner of such tenant improvements using the factors discussed above. For these tenant-funded tenant improvements, we record the amount funded or reimbursed by tenants as deferred revenue, which is amortized and recognized as rental revenue over the term of the related lease beginning upon substantial completion of the leased premises. During the years ended December 31, 2009, 2008, and 2007, we recorded \$2.0 million, \$28.1 million, and \$41.1 million, respectively, of tenant-funded tenant improvements. The decreasing trend corresponds to the decrease in our development and redevelopment activities since leases at our development and redevelopment properties generally have higher tenant-funded tenant improvements. For those periods, we also recognized \$9.8 million, \$11.3 million, and \$4.3 million, respectively, of noncash rental revenue related to the amortization of deferred revenue recorded in connection with tenant-funded tenant improvements.

When we conclude that we are not the owner and the tenant is the owner of tenant improvements for accounting purposes, we record our contribution towards those improvements as a lease incentive, which is amortized as a reduction to rental revenue on a straight-line basis over the term of the related lease, and rental revenue recognition begins when the tenant takes possession of or controls the space.

Our judgment as to whether we are or the tenant is the owner of tenant improvements for accounting purposes is made on a lease-by-lease basis and has a significant impact on the amount of noncash rental revenue that we record related to the amortization of deferred revenue for tenant-funded tenant improvements and, therefore, on our results of operations. Our judgment as to whether we are, or the tenant is, the owner of the tenant improvements for accounting purposes can also have a significant effect on the timing of our overall revenue recognition and therefore on our results of operations.

Tenant Reimbursement Revenue

Reimbursements from tenants consist of amounts due from tenants for common area maintenance, real estate taxes, and other recoverable costs. Calculating tenant reimbursement revenue requires an in-depth analysis of the complex terms of each applicable underlying lease. Examples of judgments and estimates used when determining the amounts recoverable include:

- estimating the final expenses, net of accruals, that are recoverable;
- estimating the fixed and variable components of operating expenses for each building;
- conforming recoverable expense pools to those used in establishing the base year or base allowance for the applicable underlying lease; and
- concluding whether an expense or capital expenditure is recoverable pursuant to the terms of the underlying lease.

During the year, we accrue estimated tenant reimbursement revenue in the period in which the reimbursable expenses are incurred and thus recoverable from the tenant based on our best estimate of the amounts to be recovered. Throughout the year, we perform analyses to properly match tenant reimbursement revenue with reimbursable costs incurred to date. Additionally, during the fourth quarter of each year, we perform preliminary reconciliations and accrue additional tenant reimbursement revenue or refunds. Subsequent to year end, we perform final detailed reconciliations and analyses on a lease-by-lease basis and bill or refund each tenant for any cumulative annual adjustments in the first and second quarters of each year for the previous year's activity.

Our historical experience for the years ended December 31, 2008, 2007, and 2006 has been that our final reconciliation and billing process resulted in final amounts that approximated the total annual tenant reimbursement revenues recognized. We are currently in the process of performing our 2009 final reconciliations.

Allowances for Uncollectible Current Tenant Receivables and Deferred Rent Receivables

Tenant receivables and deferred rent receivables are carried net of the allowances for uncollectible current tenant receivables and deferred rent receivables. Current tenant receivables consist primarily of amounts due for contractual lease payments and reimbursements of common area maintenance expenses, property taxes, and other expenses recoverable from tenants. Deferred rent receivables represent the amount by which the cumulative straight-line rental revenue recorded to date exceeds cash rents billed to date under the lease agreement. As of December 31, 2009 and 2008, current receivables were carried net of an allowance for uncollectible amount of \$3.1 million and \$4.0 million, respectively, and deferred rent receivables were carried net of an allowance for uncollectible accounts of \$6.4 million and \$7.3 million, respectively.

Management's determination of the adequacy of the allowance for uncollectible current tenant receivables and the allowance for deferred rent receivables is performed using a methodology that incorporates a specific identification analysis and an aging analysis and includes an overall evaluation of our historical loss trends and the current economic and business environment. This determination requires significant judgment and estimates about matters that are uncertain at the time the estimates are made, including the creditworthiness of specific tenants, specific industry trends and conditions, and general economic trends and conditions. Since these factors are beyond our control, actual results can differ from our estimates, and such differences could be material.

With respect to the allowance for uncollectible tenant receivables, the specific identification methodology analysis relies on factors such as the age and nature of the receivables, the payment history and financial condition of the tenant, our assessment of the tenant's ability to meet its lease obligations, and the status of negotiations of any disputes with the tenant. With respect to the allowance for deferred rent receivables, given the longer-term nature of these receivables, the specific identification methodology analysis evaluates each of our

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significant tenants and any tenants on our internal watchlist and relies on factors such as each tenant's financial condition and its ability to meet its lease obligations. We evaluate our reserve levels quarterly based on changes in the financial condition of tenants and our assessment of the tenant's ability to meet its lease obligations, overall economic conditions, and the current business environment.

For the years ended December 31, 2009, 2008, and 2007, we recorded a total provision for bad debts for both current tenant receivables and deferred rent receivables of approximately 0.2%, 1.4%, and 0.2%, respectively, of recurring rental revenue. Included in the provision amount for 2008 is approximately \$3.1 million for the unrecoverable portion of the deferred rent receivable balance related to an early termination at one of our properties in San Diego (see Note 13 to our consolidated financial statements included in this report). Excluding the impact of the early termination on the provision for bad debts, for the year ended December 31, 2008, we recorded a provision for bad debts of approximately 0.3% of recurring revenue. Our historical experience has been that actual write-offs of current tenant receivables and deferred rent receivables has approximated the provision for bad debts recorded for the years ended December 31, 2009, 2008, and 2007. In the event our estimates were not accurate and we had to change our allowances by 1% of recurring revenue, the potential impact to our net income available to common stockholders would be approximately \$2.8 million, \$2.8 million, and \$2.6 million for the years ended December 31, 2009, 2008, and 2007, respectively.

Evaluation of Asset Impairment

We evaluate our real estate assets for potential impairment whenever events or changes in circumstances indicate that the carrying amount of a given asset may not be recoverable. We evaluate our real estate assets for impairment on a property-by-property basis. Indicators we use to determine whether an impairment evaluation is necessary include:

- low occupancy levels or forecasted low occupancy levels at a specific property;
- current period operating or cash flow losses combined with a historical pattern or future projection of potential continued operating or cash flow losses at a specific property;
- deterioration in rental rates for a specific property as evidenced by sudden significant rental rate decreases or continuous rental rate decreases over numerous quarters, which could signal a decrease in future cash flow for that property;
- deterioration of a given rental submarket as evidenced by significant increases in market vacancy and/or negative absorption rates or continuous increases in market vacancy and/or negative absorption rates over numerous quarters, which could signal a decrease in future cash flow for properties within that submarket;
- significant increases in market capitalization rates, continuous increases in market capitalization rates over several quarters, or recent property sales at a loss within a given submarket, each of which could signal a decrease in the market value of properties;
- significant change in strategy or use of a specific property or any other event that could result in a decreased holding period or significant development delay;
- instances of physical damage to the property; and
- default by a significant tenant when other indicators are present.

When evaluating real estate assets to be held and used for potential impairment, we first evaluate whether there are any indicators of impairment. If any impairment indicators are present for a specific real estate asset, we then perform an undiscounted cash flow analysis and compare the net carrying amount of the real estate asset to the real estate asset's estimated undiscounted future cash flow over the anticipated holding period. If the estimated undiscounted future cash flow is less than the net carrying amount of the real estate asset, we perform an impairment loss calculation to determine if the fair value of the real estate asset is less than the net carrying

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value of the real estate asset. Our impairment loss calculation compares the net carrying amount of the real estate asset to the real estate asset's estimated fair value, which may be based on estimated discounted future cash flow calculations or third-party valuations or appraisals. We recognize an impairment loss if the amount of the asset's net carrying amount exceeds the asset's estimated fair value. If we recognize an impairment loss, the estimated fair value of the asset becomes its new cost basis. For a depreciable long-lived asset, the new cost basis will be depreciated (amortized) over the remaining useful life of that asset.

Our undiscounted cash flow and fair value calculations contain uncertainties because they require management to make assumptions and to apply judgment to estimate future cash flow and property fair values, including selecting the discount or capitalization rate that reflects the risk inherent in future cash flow. Estimating projected cash flow is highly subjective as it requires assumptions related to future rental rates, tenant allowances, operating expenditures, property taxes, capital improvements, and occupancy levels. We are also required to make a number of assumptions relating to future economic and market events and prospective operating trends. Determining the appropriate capitalization rate also requires significant judgment and is typically based on many factors including the prevailing rate for the market or submarket, as well as the quality and location of the properties. Further, capitalization rates can fluctuate due to a variety of factors in the overall economy or within regional markets. If the actual net cash flow or actual market capitalization rates significantly differ from our estimates, the impairment evaluation for an individual asset could be materially affected.

During the years ended December 31, 2009, 2008, and 2007, we did not record any impairment losses.

Cost Capitalization and Depreciation

We capitalize costs associated with development and redevelopment activities, capital improvements, tenant improvements, and leasing activities. Amounts capitalized are depreciated or amortized over estimated useful lives determined by management. We depreciate buildings and improvements based on the estimated useful life of the asset, and we amortize tenant improvements and leasing costs over the shorter of the estimated useful life or estimated remaining life of the related lease. All capitalized costs are depreciated or amortized using the straight-line method.

Determining whether expenditures meet the criteria for capitalization and the assignment of depreciable lives requires management to exercise significant judgment. Expenditures that meet one or more of the following criteria generally qualify for capitalization:

- provide benefit in future periods;
- extend the useful life of the asset beyond our original estimates; and
- increase the quality of the asset beyond our original estimates.

Our historical experience has demonstrated that we have not had material write-offs of assets and that our depreciation and amortization estimates have been reasonable and appropriate.

Factors That May Influence Future Results of Operations

Leasing Activity and Rental Rates. The amount of net rental income generated by our properties depends principally on our ability to maintain the occupancy rates of currently leased space and to lease currently available space, newly developed or redeveloped properties, and space available from unscheduled lease terminations. The amount of rental income we generate also depends on our ability to maintain or increase rental rates in our submarkets. Negative trends in one or more of these factors could adversely affect our rental income in future periods. The following tables set forth certain information regarding leases that commenced during 2009.

Lease Commencement Information by Segment
For Leases that Commenced During the Year Ended December 31, 2009

	1st & 2nd Generation				2nd Generation			Weighted Average Lease Term (in months)
	Number of Leases ⁽¹⁾		Rentable Square Feet ⁽¹⁾		Changes in Rents ⁽²⁾	Changes in Cash Rents ⁽³⁾	Retention Rates ⁽⁴⁾	
	New	Renewal	New	Renewal				
Office Properties	37	45	221,229	680,977	15.1%	6.5%	59.5%	66
Industrial Properties	6	9	248,380	545,143	9.1%	(5.4)%	60.5%	74
Total portfolio	43	54	469,609	1,226,120	13.8%	3.8%	60.0%	70

(1) Represents leasing activity for leases commenced during the period shown, including first and second generation space, net of month-to-month leases. Excludes leasing on new construction.

(2) Calculated as the change between GAAP rents for new/renewed leases and the expiring GAAP rents for the same space. Excludes leases for which the space was vacant longer than one year.

(3) Calculated as the change between stated rents for new/renewed leases and the expiring stated rents for the same space. Excludes leases for which the space was vacant longer than one year.

(4) Calculated as the percentage of space either renewed or expanded into by existing tenants or subtenants at lease expiration.

The increase in rental rates for office leases that commenced during the year ended December 31, 2009 was largely due to two lease renewals totaling approximately 268,600 rentable square feet. The increase in rental rates for industrial leases that commenced during the year ended December 31, 2009 was largely due to two lease renewals totaling approximately 298,800 rentable square feet.

While changes in rents were positive for leases that commenced during the year ended December 31, 2009, we cannot give any assurance that future leases will be renewed or that available space will be re-leased at rental rates equal to or above expiring stated rates for the same space. Leasing activity statistics for any given period are impacted by the number and mix of leases commencing, the terms of the individual leases, and the submarkets in which leasing activity is located. Therefore, current period lease commencement activity may not be indicative of leasing trends in the future. An extended economic slowdown and continued tightening of the credit markets could have an adverse effect on our tenants and could impact our ability to maintain or increase rental rates in our submarkets.

In general, we have been experiencing decreases in rental rates in many of our submarkets due to recent recessionary conditions and other related factors. During the fourth quarter of 2009, we executed 53 leases for an aggregate of 1.1 million rentable square feet. The weighted average change in rents as compared to the expiring rents for the same space for these new leases was a 14.7% decrease in cash rents and a 4.0% decrease in GAAP rents. As of December 31, 2009, we believe that the weighted average cash rental rates for our overall portfolio are approximately 5% to 10% above the current average market rental rates, although individual properties within any particular submarket presently may be leased either above, below, or at the current market rates within that submarket, and the average rental rates for individual submarkets may be above, below, or at the average cash rental rate of our portfolio. As a result of the continuing economic conditions, we are also experiencing decreased occupancy rates and protracted lease negotiations. As previously discussed, our rental rates and occupancy are impacted by general economic conditions, including the pace of regional economic growth and access to capital. Therefore, given the impact of the current economy on our submarkets, we cannot give any assurance that leases will be renewed or that available space will be re-leased at rental rates equal to or above the current market rates. Additionally, decreased demand and other negative trends or unforeseeable events that impair our ability to timely renew or re-lease space could have further negative effects on our future financial condition, results of operations, and cash flows.

Scheduled Lease Expirations. In addition to the 2.1 million rentable square feet, or 17.2%, of currently available space in our stabilized portfolio, leases representing approximately 10.7% and 9.0% of the occupied

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square footage of our stabilized portfolio are scheduled to expire during 2010 and in 2011, respectively. The leases scheduled to expire during 2010 and in 2011 represent approximately 1.4 million rentable square feet of office space, or 14.1% of our total annualized base rental revenue, and 0.6 million rentable square feet of industrial space, or 2.3% of our total annualized base rental revenue, respectively. We believe that the weighted average cash rental rates are up to approximately 5% above the current average quoted market rates for leases scheduled to expire during 2010, although individual properties within any particular submarket presently may be leased either above, below, or at the current quoted market rates within that submarket, and the average rental rates for individual submarkets may be above, below, or at the average cash rental rate of our overall portfolio. Our ability to re-lease available space depends upon the market conditions in the specific regions in which our properties are located and general market conditions.

Sublease Space. Of our leased space as of December 31, 2009, approximately 297,100 rentable square feet, or 2.4% of the square footage in our stabilized portfolio, was available for sublease, compared to 485,600 rentable square feet, or 3.9%, at December 31, 2008. Of the 2.4% of available sublease space in our stabilized portfolio as of December 31, 2009, approximately 2.0% was vacant space, and the remaining 0.4% was occupied. Approximately 38.8%, 34.1%, and 27.1% of the available sublease space as of December 31, 2009 is located in the San Diego, Orange County, and Los Angeles regions, respectively. Of the approximately 297,100 rentable square feet available for sublease as of December 31, 2009, approximately 18,000 rentable square feet representing two leases are scheduled to expire in 2010, and approximately 106,700 rentable square feet representing five leases are scheduled to expire in 2011.

Negative trends or other unforeseeable events that impair our ability to renew or re-lease space and our ability to maintain or increase rental rates in our submarkets could have an adverse effect on our future financial condition, results of operations, and cash flow.

Real Estate Asset Valuation. General economic conditions and the resulting impact on market conditions such as the downturn in tenants' businesses, declining demand for office or industrial properties, or decreases in market rental rates or market values of real estate assets may adversely affect the value of our assets, including the value of our properties and related tenant improvements and the value of our undeveloped land. Although our strategy is to hold our properties and our undeveloped land for long-term use, if our strategy and/or market conditions change or we decide to dispose of an asset, we may be required to recognize an impairment loss to reduce the property or undeveloped land to the lower of the carrying amount or fair value, and such a loss could potentially be material and could adversely affect our results of operations. Likewise, if as a result of an early lease termination we were required to remove and write off material amounts of tenant improvements that were not reusable to another tenant, our results of operations could be adversely affected.

Development and Redevelopment Programs. Historically, a significant portion of our growth has come from our development and redevelopment efforts. We have a proactive planning process by which we continually evaluate the size, timing, costs, and scope of our development and redevelopment programs and, as necessary, scale activity to reflect the economic conditions and the real estate fundamentals that exist in our strategic submarkets.

We believe that a portion of our future potential growth will continue to come from our newly developed or redeveloped properties and our development pipeline. However, while we continue to evaluate development opportunities throughout Southern California and specifically in our core markets, we have currently delayed the timing and reduced the scope of our development program as a result of the present economic conditions in our submarkets. As of December 31, 2009, we had no development projects under, or committed for, construction. We are focusing on enhancing the entitlements for our existing development land pipeline and performing other activities to prepare for the time when development will again be economically attractive.

We believe that other possible sources of potential future growth are redevelopment opportunities within our existing portfolio and/or targeted acquisitions. Redevelopment efforts can achieve similar returns to new

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development with reduced entitlement risk and shorter construction periods. Depending on market conditions, we will continue to evaluate redevelopment opportunities within our portfolio when there is limited land for development in our strategic submarkets. We had no redevelopment properties in process as of December 31, 2009. Over the next two years we are planning to redevelop certain properties, which have been occupied by long-term tenants and require significant capital expenditures to upgrade and modernize the buildings.

In light of current economic conditions, we may be unable to lease completed development or redevelopment properties at expected rental rates or within projected timeframes, which could adversely affect our financial condition, results of operations, and cash flows. During the year ended December 31, 2009, we added one development property, which encompasses approximately 51,000 rentable square feet of new medical office space, to our stabilized portfolio since one year had passed since the cessation of major construction activities. This property is currently 25% leased. During the year ended December 31, 2008, we added three properties to the stabilized portfolio encompassing approximately 159,000 rentable square feet, which had not yet reached stabilized occupancy of 95%. These properties are currently 31% leased.

Delays and scope reductions in our development program impact the average development and redevelopment asset balances qualifying for interest and other carry cost capitalization. As of December 31, 2009, our development pipeline included 116.7 gross acres of land with an aggregate cost basis of approximately \$254 million. During the year ended December 31, 2009, we did not capitalize interest and carry costs on five of our seven development pipeline properties with an aggregate cost basis of approximately \$82 million, as we determined these projects did not qualify for interest and other carry cost capitalization under GAAP. Additional delays and scope reductions could further impact the average development and redevelopment asset balances qualifying for interest and other carry cost capitalization and thus could further impact our results from operations.

City of San Diego. Given the geographic concentration of our development program in San Diego County, our operating results may be affected by (i) the city of San Diego's current financial difficulties and ongoing investigations with respect to the city's finances, (ii) the city of San Diego's General Plan and Land Use update and future updates, (iii) the city of San Diego's zoning ordinance updates, (iv) the city of San Diego, state, and federal agencies' future adoption of potential impact fees to address water supply infrastructure, climate change legislation, and mandatory energy and sustainable building code requirements, and (v) recent storm water runoff regulations and other pending ordinances currently under consideration by the city, county, and state water agencies and other agencies. Any of these factors and others may affect the city of San Diego's ability to finance capital projects and may impact real estate development, entitlements, costs of development, and market conditions in this important submarket. As of the date this report was filed, we have not experienced any material adverse effects arising from these factors.

Incentive Compensation. Our Executive Compensation Committee determines compensation, including equity and cash incentive programs, for our executive officers. The programs approved by the Executive Compensation Committee have historically provided for equity and cash compensation to be earned by our executive officers based on certain performance measures, including financial, operating, and development targets.

In the first quarter of 2010, our Executive Compensation Committee approved the 2010 Annual Bonus Program for executive management that will allow for executive management to receive bonus compensation for achieving certain specified corporate performance measures for the fiscal year ending December 31, 2010. The provisions of the 2010 program were reported on Form 8-K filed with the SEC on February 3, 2010. As a result of the structure of these programs and other such programs that the Executive Compensation Committee may adopt in the future, accrued incentive compensation and compensation expense for these programs will be affected by our operating and development performance, financial results, the performance of our common stock, and market conditions. Consequently, we cannot predict the amounts that will be recorded in future periods related to compensation programs.

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Share-Based Compensation. As of December 31, 2009, there was \$7.7 million of total unrecognized compensation cost related to outstanding nonvested shares and nonvested restricted stock units issued under share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 1.5 years. Additional unrecognized compensation cost of \$3.3 million related to 146,650 nonvested restricted stock units issued under share-based compensation arrangements subsequent to December 31, 2009 is expected to be recognized over a weighted-average period of 2.0 years. See Note 8 to our consolidated financial statements included with this report for additional information regarding our share-based incentive compensation plan.

As of December 31, 2009, we were still in the performance period for the development leasing component of the 2007 Development Performance Plan (the “DPP”). The incentive award that may be earned under the development leasing component of the DPP will be based on whether certain future leasing targets are achieved by the first quarter of 2011 for development and redevelopment properties on which we commenced construction during 2007. If the performance measures are not ultimately achieved, we would reverse the cumulative compensation expense recorded to date, which was \$0.8 million as of December 31, 2009.

Stabilized Portfolio Information

The following table reconciles the changes in the rentable square feet in our stabilized portfolio of operating properties from December 31, 2008 to December 31, 2009:

	Quarter of Activity	Office Properties		Industrial Properties		Total	
		Number of Buildings	Rentable Square Feet	Number of Buildings	Rentable Square Feet	Number of Buildings	Rentable Square Feet
Total as of December 31, 2008		92	8,650,126	42	3,718,663	134	12,368,789
Property added from the Development Portfolio	Q4	1	50,925			1	50,925
Disposition ⁽¹⁾	Q2			(1)	(64,200)	(1)	(64,200)
Remeasurement			7,415				7,415
Total as of December 31, 2009		93	8,708,466	41	3,654,463	134	12,362,929

(1) Operating results and gains (losses) on dispositions of operating properties are included in discontinued operations in the consolidated statement of operations.

2009 Stabilized Development Property

The following table sets forth certain information regarding the development property that was added to the stabilized portfolio during 2009:

Property Name / Address	Completion Date	Stabilization Date ⁽¹⁾	Number of Buildings	Rentable Square Feet	Percentage Leased
Sorrento Gateway—Lot 1 4910 Directors Place San Diego, CA	2008	2009	1	50,925	25.0% ⁽²⁾

(1) The earlier of stabilized occupancy of 95% or one year from the date of cessation of major construction activities.

(2) Represents one lease that is scheduled to commence in the third quarter of 2010.

Occupancy Information

The following table sets forth certain information regarding our stabilized portfolio:

Stabilized Portfolio Occupancy by Segment Type

Region	Number of Buildings	Square Feet Total	Occupancy at ⁽¹⁾		
			12/31/2009	12/31/2008	12/31/2007
Office Properties:					
Los Angeles County	25	3,006,509	88.2%	92.1%	96.1%
San Diego County	58	5,078,178	76.8	83.1	91.4
Orange County	5	277,340	49.8	67.9	99.1
Other	5	346,439	93.9	94.2	99.6
	93	8,708,466	80.6	86.2	93.7
Industrial Properties:					
Los Angeles County	1	192,053	100.0	100.0	100.0
Orange County	40	3,462,410	87.6	96.1	94.4
	41	3,654,463	88.2	96.3	94.7
Total stabilized portfolio	134	12,362,929	82.8%	89.2%	94.0%

	Average Occupancy			
	Stabilized Portfolio ⁽¹⁾		Core Portfolio ⁽²⁾	
	2009	2008	2009	2008
Office Properties	83.3%	92.0%	84.0%	91.9%
Industrial Properties	89.8	93.0	89.8	96.5
Total	85.3%	92.3%	85.8%	93.3%

(1) Occupancy percentages reported are based on our stabilized portfolio for the period presented.

(2) Occupancy percentages reported are based on Office Properties and Industrial Properties owned and stabilized at January 1, 2008 and still owned and stabilized as of December 31, 2009.

As of December 31, 2009, the Office Properties and Industrial Properties represented approximately 88.6% and 11.4%, respectively, of our total annualized base rental revenue.

Current Regional Information

Over the last two years, fundamentals in the real estate market have deteriorated. We have generally seen an increase in vacancy rates across many of our regional submarkets, a decrease in occupancy within our regional portfolios as discussed below, as well as a downward trend in rental rates. Generally, we believe that there may continue to be increasing vacancy rates, downward trends in market rates, and continuing pressure on landlords for concession packages throughout 2010. See additional information regarding rental rates under the captions “—Leasing Activity and Rental Rates” and “—Scheduled Lease Expirations.”

Los Angeles County. Our Los Angeles County stabilized office portfolio of 3.0 million rentable square feet was 88.2% occupied with approximately 355,200 vacant rentable square feet as of December 31, 2009 compared to 92.1% occupied with approximately 236,800 vacant rentable square feet as of December 31, 2008. The decrease in Los Angeles County stabilized office portfolio occupancy is primarily attributable to one lease with one tenant that expired during the first quarter of 2009, which represented approximately 94,800 rentable square feet. Approximately 55,900 rentable square feet of the 94,800 rentable square feet has been re-leased to a new tenant. The new lease is expected to commence during the second quarter of 2010.

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As of December 31, 2009, an aggregate of approximately 602,500 and 240,300 rentable square feet are scheduled to expire in this region during 2010 and 2011, respectively. The aggregate rentable square feet scheduled to expire in this region during 2010 and 2011 represents approximately 30.5% of the total occupied rentable square feet in this region and 9.1% of our annualized base rental revenues for our total stabilized portfolio. Of the 842,800 rentable square feet scheduled to expire during 2010 and 2011, approximately 427,200 rentable square feet is located in the El Segundo submarket. Over the last two years, the El Segundo Class A office market has experienced an increase in total vacancy from 11.3% to 14.0%. Of the approximately 427,200 rentable square feet scheduled to expire in the El Segundo submarket, approximately 286,200 rentable square feet is occupied by The Boeing Company. We expect that The Boeing Company will move out of our building into space it currently owns. Since The Boeing Company and its predecessors have occupied the building for more than 25 years, we are planning to redevelop this property to upgrade and modernize the asset and to ensure it is well positioned as the El Segundo tenant base is currently diversifying from an aerospace industry concentration.

San Diego County. Our San Diego County stabilized office portfolio of 5.1 million rentable square feet was 76.8% occupied with approximately 1.2 million vacant rentable square feet as of December 31, 2009 compared to 83.1% occupied with approximately 849,800 vacant rentable square feet as of December 31, 2008. The decrease in occupancy from 2008 was primarily attributable to the following:

- termination of one lease with Accredited Home Lenders, Inc. for approximately 182,000 rentable square feet;
- expiration of one lease with Epicor Software Corporation for approximately 172,800 rentable square feet; and
- stabilization of one development property encompassing approximately 50,900 rentable square feet, which was not occupied as of December 31, 2009.

During 2009, demand in Central San Diego, where all our properties in this region are located, increased slightly, and leasing activity increased moderately although vacancy rates continued to increase. Lease negotiations continue to be protracted, and it is taking significantly longer for us to lease vacant space in San Diego County than in prior years. However, as of the date of this filing, the Company has leased approximately 288,500 rentable square feet of space that was vacant at December 31, 2009. The new leases are scheduled to commence at various dates during the first three quarters of 2010.

As of December 31, 2009, leases representing an aggregate of approximately 191,000 and 68,700 rentable square feet are scheduled to expire during 2010 and 2011, respectively, in this region. The aggregate rentable square feet scheduled to expire in this region during 2010 and 2011 represents approximately 6.7% of the total occupied rentable square feet in this region and 3.2% of our annualized base rental revenues for our total stabilized portfolio. Of the 259,700 rentable square feet scheduled to expire during 2010 and 2011, approximately 122,000 and 73,700 rentable square feet are located in the Sorrento Mesa and Del Mar submarkets, respectively. Over the last two years, the Sorrento Mesa two- and three-story office and Del Mar office markets have experienced an increase in total vacancy from 7.5% to 15.4% and 12.8% to 21.6%, respectively.

Orange County. As of December 31, 2009, our Orange County stabilized industrial portfolio was 87.6% occupied with approximately 429,900 vacant rentable square feet compared to 96.1% occupied with approximately 137,100 vacant rentable square feet as of December 31, 2008. The decrease in Orange County stabilized industrial portfolio occupancy is primarily attributable to two leases totaling approximately 175,800 rentable square feet that expired during the year ended December 31, 2009. Additionally, one tenant ceased paying rent and vacated an industrial building encompassing approximately 144,000 rentable square feet in this region during the third quarter of 2009. Approximately 153,300 rentable square feet of the 429,900 rentable square feet that was vacant at December 31, 2009 has been re-leased to a new tenant. The new lease is expected to commence during the third quarter of 2010. Our Orange County stabilized office portfolio of approximately

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277,300 rentable square feet was 49.8% occupied with approximately 139,100 vacant rentable square feet as of December 31, 2009 compared to 67.9% occupied with approximately 89,000 vacant rentable square feet as of December 31, 2008. The decrease in Orange County stabilized office portfolio occupancy is primarily attributable to one lease that expired during the third quarter.

As of December 31, 2009, leases representing an aggregate of approximately 259,700 and 393,800 rentable square feet are scheduled to expire during 2010 and 2011, respectively, in this region. The aggregate rentable square feet scheduled to expire during 2010 and 2011 represents approximately 20.6% of the total occupied rentable square feet in this region and 2.7% of the annualized base rental revenues for our total stabilized portfolio. Of the 653,500 rentable square feet scheduled to expire during 2010 and 2011, approximately 619,700 rentable square feet is industrial space. Within the overall Orange County market, direct vacancy for industrial space is currently 5.8% compared to 3.8% at December 31, 2008.

Results of Operations

Management internally evaluates the operating performance and financial results of our portfolio based on Net Operating Income for the following segments of commercial real estate property: Office Properties and Industrial Properties. We define "Net Operating Income" as operating revenues (rental income, tenant reimbursements, and other property income) less operating expenses (property expenses, real estate taxes, provision for bad debts, and ground leases). The Net Operating Income segment information presented within this Management's Discussion and Analysis of Financial Condition and Results of Operations consists of the same Net Operating Income segment information disclosed in Note 14 to our consolidated financial statements.

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Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

The following table reconciles our Net Operating Income by segment to our net income available for common stockholders for the years ended December 31, 2009 and 2008.

	Year Ended December 31,		Dollar Change	Percentage Change
	2009	2008		
	(\$ in thousands)			
Net Operating Income, as defined				
Office Properties	\$ 178,247	\$ 185,967	\$ (7,720)	(4.2)%
Industrial Properties	24,982	26,796	(1,814)	(6.8)
Total portfolio	<u>203,229</u>	<u>212,763</u>	<u>(9,534)</u>	<u>(4.5)</u>
Reconciliation to Net Income Available to Common Stockholders:				
Net Operating Income, as defined for reportable segments	203,229	212,763	(9,534)	(4.5)
Unallocated other income (loss):				
Interest income and other net investment gains (losses)	1,300	(93)	1,393	1,497.8
Gain on early extinguishment of debt	4,909	—	4,909	100.0
Other unallocated expenses:				
General and administrative expenses	39,938	38,260	1,678	4.4
Interest expense	46,119	45,346	773	1.7
Depreciation and amortization	<u>87,627</u>	<u>83,215</u>	<u>4,412</u>	<u>5.3</u>
Income from continuing operations	35,754	45,849	(10,095)	(22.0)
Income from discontinued operations	<u>2,261</u>	<u>1,062</u>	<u>1,199</u>	<u>112.9</u>
Net income	38,015	46,911	(8,896)	(19.0)
Net income attributable to noncontrolling common units of the Operating Partnership	<u>(1,025)</u>	<u>(1,886)</u>	<u>861</u>	<u>45.7</u>
Net income attributable to Kilroy Realty Corporation	36,990	45,025	(8,035)	(17.8)
Total preferred dividends and distributions	<u>(15,196)</u>	<u>(15,196)</u>	<u>—</u>	<u>0.0</u>
Net income available to common stockholders	<u>\$ 21,794</u>	<u>\$ 29,829</u>	<u>\$ (8,035)</u>	<u>(26.9)%</u>

Rental Operations

Office Properties

The following table compares the Net Operating Income for the Office Properties for the years ended December 31, 2009 and 2008.

	Office Properties				Core Office Portfolio ⁽¹⁾			
	Total Office Portfolio		Dollar Change	Percentage Change	Core Office Portfolio ⁽¹⁾		Dollar Change	Percentage Change
	2009	2008			2009	2008		
Operating revenues:								
Rental income	\$ 220,393	\$ 223,245	\$ (2,852)	(1.3)%	\$ 199,825	\$ 215,038	\$ (15,213)	(7.1)%
Tenant reimbursements	24,350	26,898	(2,548)	(9.5)	22,286	25,776	(3,490)	(13.5)
Other property income	2,328	5,923	(3,595)	(60.7)	2,286	5,922	(3,636)	(61.4)
Total	247,071	256,066	(8,995)	(3.5)	224,397	246,736	(22,339)	(9.1)
Property and related expenses:								
Property expenses	45,970	45,437	533	1.2	43,561	44,727	(1,166)	(2.6)
Real estate taxes	21,181	19,169	2,012	10.5	18,571	18,334	237	1.3
Provision for bad debts	76	3,876	(3,800)	(98.0)	76	3,876	(3,800)	(98.0)
Ground leases	1,597	1,617	(20)	(1.2)	1,591	1,612	(21)	(1.3)
Total	68,824	70,099	(1,275)	(1.8)	63,799	68,549	(4,750)	(6.9)
Net Operating Income	\$178,247	\$185,967	\$ (7,720)	(4.2)%	\$160,598	\$178,187	\$ (17,589)	(9.9)%

(1) Office Properties owned and stabilized at January 1, 2008 and still owned and stabilized as of December 31, 2009.

Rental Income

Rental income from Office Properties decreased \$2.9 million, or 1.3%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 due to:

- A decrease of \$15.2 million attributable to the Office Properties owned and stabilized at January 1, 2008 and still owned and stabilized as of December 31, 2009 (the "Core Office Portfolio") due to:
 - A decrease of \$12.5 million primarily attributable to a 7.9% decrease in average occupancy from 91.9% for the year ended December 31, 2008 to 84.0% for the year ended December 31, 2009; and
 - A decrease of \$2.7 million of noncash rental income primarily attributable to the acceleration of the amortization of the deferred revenue balance during the year ended December 31, 2008 related to tenant-funded tenant improvements associated with an early lease termination at one of our properties in San Diego (see Note 13 to our consolidated financial statements included with this report for additional information);
- An offsetting increase of \$11.6 million generated by one office development property that was added to the stabilized portfolio in the third quarter of 2008 and two office development properties that were added to the stabilized portfolio in the fourth quarter of 2008 (collectively, the "Office Development Properties"); and
- An offsetting increase of \$0.7 million generated by one office redevelopment property that was added to the stabilized portfolio in the third quarter of 2008 and one office redevelopment project consisting

of two buildings that was added to the stabilized portfolio in the fourth quarter of 2008 (collectively, the “Office Redevelopment Properties”).

Tenant Reimbursements

Tenant reimbursements from Office Properties decreased \$2.5 million, or 9.5%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 due to:

- A decrease of \$3.5 million attributable to the Core Office Portfolio primarily due to a decrease in average occupancy, as discussed above under the caption “—Rental Income;” and
- An offsetting increase of \$1.0 million generated by the Office Development Properties and Office Redevelopment Properties.

Other Property Income

Other property income from Office Properties decreased \$3.6 million, or 60.7%, for the year ended December 31, 2009 compared to the year ended December 31, 2008. Other property income for 2009 included a \$1.4 million net lease termination fee related to a settlement with a former tenant. Other property income for 2008 included a \$5.0 million net lease termination fee related to an early lease termination. Other property income for both periods consisted primarily of lease termination fees and other miscellaneous income within the Core Office Portfolio.

Property Expenses

Property expenses from Office Properties increased \$0.5 million, or 1.2%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 due to:

- An increase of \$1.3 million attributable to the Office Development Properties;
- An increase of \$0.4 million attributable to the Office Redevelopment Properties; and
- An offsetting decrease of \$1.2 million attributable to the Core Office Portfolio primarily due to:
 - A decrease of \$2.4 million primarily attributable to a decrease in certain recurring operating expenses such as utilities, property management expenses, repairs and maintenance costs, and janitorial and other service-related costs primarily due to a decrease in average occupancy as discussed above under the caption “—Rental Income;” and
 - An offsetting increase of \$1.0 million primarily due to nonreimbursable legal fees largely related to tenant defaults and costs associated with nonrecurring repairs at one of our San Diego properties.

Real Estate Taxes

Real estate taxes from Office Properties increased \$2.0 million, or 10.5%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily due to the Office Development Properties and the Office Redevelopment Properties.

Provision for Bad Debts

The provision for bad debts from Office Properties decreased \$3.8 million, or 98.0%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 due to changes in our estimates of collectability of receivables from certain watchlist tenants. The provision for bad debts for the year ended December 31, 2008 included a \$3.1 million charge for the deferred rent receivable related to an early termination

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at one of our properties in San Diego (see Note 13 to our consolidated financial statements included with this report for additional information).

Net Operating Income

Net Operating Income from Office Properties decreased \$7.7 million, or 4.2%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 due to:

- A decrease of \$17.6 million attributable to the Core Office Portfolio primarily due to a decrease in average occupancy year over year; and
- An offsetting increase of \$9.9 million generated by the Office Development Properties and the Office Redevelopment Properties.

Industrial Properties

The following table compares the Net Operating Income for the Industrial Properties for the year ended December 31, 2009 and 2008.

	Total Industrial Portfolio				Core Industrial Portfolio ⁽¹⁾			
	2009	2008	Dollar Change	Percentage Change	2009	2008	Dollar Change	Percentage Change
	(\$ in thousands)							
Operating revenues:								
Rental income	\$27,256	\$28,275	\$(1,019)	(3.6)%	\$27,037	\$28,119	\$(1,082)	(3.8)%
Tenant reimbursements	3,725	4,088	(363)	(8.9)	3,725	4,088	(363)	(8.9)
Other property income	1,382	926	456	49.2	1,382	873	509	58.3
Total	32,363	33,289	(926)	(2.8)	32,144	33,080	(936)	(2.8)
Property and related expenses:								
Property expenses	3,739	3,424	315	9.2	3,229	3,301	(72)	(2.2)
Real estate taxes	3,149	2,894	255	8.8	2,702	2,606	96	3.7
Provision for bad debts	493	175	318	181.7	493	175	318	181.7
Total	7,381	6,493	888	13.7	6,424	6,082	342	5.6
Net Operating Income	\$24,982	\$26,796	\$(1,814)	(6.8)%	\$25,720	\$26,998	\$(1,278)	(4.7)%

(1) Industrial Properties owned and stabilized at January 1, 2008 which are still owned and stabilized as of December 31, 2009.

Rental Income

Rental income from Industrial Properties decreased \$1.0 million, or 3.6%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily due to a decrease in average occupancy for the Industrial Properties owned and stabilized at January 1, 2008 and still owned and stabilized as of December 31, 2009 (the "Core Industrial Portfolio"). Average occupancy for the Core Industrial Portfolio decreased 6.7% from 96.5% for the year ended December 31, 2008 to 89.8% for the year ended December 31, 2009.

Tenant Reimbursements

Tenant reimbursements from Industrial Properties decreased \$0.4 million, or 8.9%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 due to the Core Industrial Portfolio primarily due to a decrease in average occupancy as discussed above under the caption "—Rental Income."

Other Property Income

Other property income from Industrial Properties increased \$0.5 million, or 49.2%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily due to a \$0.7 million net restoration fee received during the first quarter of 2009 from a tenant that vacated one of our Industrial Properties in Orange County. Other property income for both periods consisted primarily of lease termination fees and other miscellaneous income within the Core Industrial Portfolio.

Property Expenses

Property expenses from Industrial Properties increased \$0.3 million, or 9.2%, for the year ended December 31, 2009 compared to the year ended December 31, 2008. The results for the year ended December 31, 2008 included a \$0.6 million credit recorded in June 2008 for insurance proceeds received in connection with a casualty loss at one property, which is in the process of being reentitled for residential use (the "Industrial Reentitlement Property"). Excluding the insurance proceeds credit, property expenses from Industrial Properties decreased approximately \$0.3 million for the year ended December 31, 2009 compared to December 31, 2008.

Real Estate Taxes

Real estate taxes from Industrial Properties increased \$0.3 million, or 8.8%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily due to one building that was moved from our stabilized portfolio to the redevelopment portfolio.

Provision for Bad Debts

The provision for bad debts from Industrial Properties increased \$0.3 million, or 181.7%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 due to changes in our estimates of collectability of receivables from certain watchlist tenants.

Net Operating Income

Net Operating Income from Industrial Properties decreased \$1.8 million, or 6.8%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 due to:

- A decrease of \$1.3 million attributable to the Core Industrial Portfolio primarily due to a decrease in average occupancy year over year; and
- A decrease of \$0.5 million attributable to our Industrial Reentitlement Property and one building that was moved from our stabilized portfolio to the redevelopment portfolio.

Other Income and Expenses

General and Administrative Expense

General and administrative expenses increased \$1.7 million, or 4.4%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily due to a \$7.0 million charge for separation payments (see Note 13 to our consolidated financial statements included in this report for additional information), partially offset by a decrease in incentive compensation expense year over year and severance costs paid in 2008.

[Table of Contents](#)*Interest Expense*

The following table sets forth our gross interest expense, including debt discount and loan cost amortization, net of capitalized interest for the years ended December 31, 2009 and 2008.

	<u>2009</u>	<u>2008</u>	<u>Dollar</u> <u>Change</u>	<u>Percentage</u> <u>Change</u>
		(S in thousands)		
Gross interest expense	\$55,802	\$ 63,478	\$(7,676)	(12.1)%
Capitalized interest	(9,683)	(18,132)	8,449	(46.6)%
Interest expense	<u>\$46,119</u>	<u>\$ 45,346</u>	<u>\$ 773</u>	<u>1.7%</u>

Gross interest expense, before the effect of capitalized interest, decreased \$7.7 million, or 12.1%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily due to a decrease in our average debt balance during the year ended December 31, 2009 compared to the year ended December 31, 2008 and, to a lesser extent, a decrease in our weighted-average effective interest rate from approximately 5.4% during the year ended December 31, 2008 to approximately 5.2% during the year ended December 31, 2009.

Capitalized interest decreased \$8.4 million, or 46.6%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily due to a decrease in our average development and redevelopment asset balances qualifying for interest capitalization during the year ended December 31, 2009 compared to the year ended December 31, 2008 and, to a lesser extent, a decrease in our weighted-average effective interest rate which caused a corresponding decrease in the capitalization rate applied to our development and redevelopment asset balances qualifying for interest capitalization. During the year ended December 31, 2009, we did not capitalize interest for certain development and redevelopment properties (see additional information under the caption “—Development and Redevelopment Programs”). We expect that average development asset balances qualifying for interest capitalization may continue to decrease over the next year as a result of a decrease in the level of our development activities.

Depreciation and Amortization Expense

Depreciation and amortization expense increased \$4.4 million, or 5.3%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily due to the Office Development Properties and the Office Redevelopment Properties.

Interest Income and Other Investment Gains (Losses)

Total interest income and other investment gains (losses) increased approximately \$1.4 million, or 1,497.8%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily due to an increase in the fair value of the marketable securities held in connection with the Kilroy Realty Corporation 2007 Deferred Compensation Plan (the “Deferred Compensation Plan”) during the year ended December 31, 2009.

Gain on Early Extinguishment of Debt

Gain on early extinguishment of debt was approximately \$4.9 million for the year ended December 31, 2009 and represents the net gain from the repurchase of the 3.25% Exchangeable Notes with an aggregate stated principal amount of \$162.0 million (see Note 4 to our consolidated financial statements included in this report for additional information).

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Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

The following table reconciles our Net Operating Income by segment to our net income available for common stockholders for the years ended December 31, 2008 and 2007.

	Year Ended December 31,		Dollar Change	Percentage Change
	2008	2007		
	(\$ in thousands)			
Net Operating Income, as defined				
Office Properties	\$ 185,967	\$ 168,575	\$ 17,392	10.3%
Industrial Properties	26,796	24,475	2,321	9.5
Total portfolio	212,763	193,050	19,713	10.2
Reconciliation to Net Income Available to Common Stockholders:				
Net Operating Income, as defined for reportable segments	212,763	193,050	19,713	10.2
Unallocated other income (loss):				
Interest income and other net investment (losses) gains	(93)	1,606	(1,699)	(105.8)
Other unallocated expenses:				
General and administrative expenses	38,260	36,580	1,680	4.6
Interest expense	45,346	40,762	4,584	11.2
Depreciation and amortization	83,215	72,754	10,461	14.4
Income from continuing operations	45,849	44,560	1,289	2.9
Income from discontinued operations	1,062	78,757	(77,695)	(98.7)
Net income	46,911	123,317	(76,406)	(62.0)
Net income attributable to noncontrolling common units of the Operating Partnership	(1,886)	(6,957)	5,071	72.9
Net income attributable to Kilroy Realty Corporation	45,025	116,360	(71,335)	(61.3)
Total preferred dividends and distributions	(15,196)	(15,196)	—	0.0
Net income available to common stockholders	\$ 29,829	\$ 101,164	\$ (71,335)	(70.5)%

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Rental Operations

Office Properties

The following table compares the Net Operating Income for the Office Properties for the year ended December 31, 2008 and 2007.

	Total Office Portfolio				Core Office Portfolio ⁽¹⁾			
	2008	2007	Dollar Change	Percentage Change	2008	2007	Dollar Change	Percentage Change
(\$ in thousands)								
Operating revenues:								
Rental income	\$ 223,245	\$ 202,601	\$ 20,644	10.2%	\$ 191,126	\$ 190,715	\$ 411	0.2%
Tenant reimbursements	26,898	21,804	5,094	23.4	21,879	20,068	1,811	9.0
Other property income	5,923	3,406	2,517	73.9	5,918	3,405	2,513	73.8
Total	256,066	227,811	28,255	12.4	218,923	214,188	4,735	2.2
Property and related expenses:								
Property expenses	45,437	40,675	4,762	11.7	43,750	40,009	3,741	9.4
Real estate taxes	19,169	16,825	2,344	13.9	15,674	15,560	114	0.7
Provision for bad debts	3,876	154	3,722	2,416.9	3,876	154	3,722	2,416.9
Ground leases	1,617	1,582	35	2.2	1,612	1,576	36	2.3
Total	70,099	59,236	10,863	18.3	64,912	57,299	7,613	13.3
Net Operating Income	\$185,967	\$168,575	\$17,392	10.3%	\$154,011	\$156,889	\$(2,878)	(1.8)%

(1) Office Properties owned and stabilized at January 1, 2007 and still owned and stabilized as of December 31, 2009.

Rental Income

Rental income from Office Properties increased \$20.6 million, or 10.2%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 due to:

- An increase of \$18.4 million generated by the five office development properties that were added to the stabilized portfolio in the third quarter of 2007, the one office development property that was added to the stabilized portfolio in the third quarter of 2008, and one office development property that was added to the stabilized portfolio in the fourth quarter of 2008 (the “2008 Office Development Properties”);
- An increase of \$1.8 million generated by the Office Redevelopment Properties; and
- An increase of \$0.4 million generated by the Core Office Portfolio which was primarily due to:
 - An increase of \$2.7 million of noncash revenue primarily attributable to the acceleration of the amortization of the deferred revenue balance during the year ended December 31, 2008 related to tenant-funded tenant improvements associated with an early lease termination at one of our properties in San Diego (see Note 13 to our consolidated financial statements included in this report for additional information); and
 - An offsetting net decrease of \$2.1 million attributable to the following changes in occupancy:
 - A decrease of \$4.0 million in rental income from our San Diego office portfolio primarily due to a decrease in average occupancy of 4.3% in the San Diego office portfolio to 89.0% for the year ended December 31, 2008 from 93.3% for the year ended December 31, 2007. The decrease in average occupancy is primarily attributable to six vacant buildings representing approximately 475,400 rentable square feet;

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- A decrease of \$0.8 million in rental income from our Orange County office portfolio primarily due to a decrease in average occupancy of 21.2% in the Orange County office portfolio to 77.5% for the year ended December 31, 2008 from 98.7% for the year ended December 31, 2007. The decrease in average occupancy is primarily attributable to one vacant building representing approximately 60,900 rentable square feet; and
- An offsetting increase of \$2.7 million in our Los Angeles office portfolio primarily due to an increase in rental rates and a modest increase in average occupancy of 0.4% in the Los Angeles office portfolio to 94.7% for the year ended December 31, 2008 from 94.3% for the year ended December 31, 2007.

Tenant Reimbursements

Tenant reimbursements from Office Properties increased \$5.1 million, or 23.4%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 due to:

- An increase of \$3.3 million generated by the 2008 Office Development Properties and the Office Redevelopment Properties; and
- An increase of \$1.8 million generated by the Core Office Portfolio due to an increase in reimbursable property expenses as discussed below under the caption “—Property Expenses.”

Other Property Income

Other property income from Office Properties increased \$2.5 million, or 73.9%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. This increase was primarily due to a net lease termination fee related to an early lease termination at one of our Office Properties in Los Angeles County, of which \$5.0 million was recognized during the year ended December 31, 2008 (see Note 13 to our consolidated financial statements included in this report for additional information). During the year ended December 31, 2007, we recognized \$2.8 million in net lease termination fees from two early lease terminations at two of our Office Properties in San Diego. Other property income for both periods consisted primarily of lease termination fees and other miscellaneous income within the Core Office Portfolio.

Property Expenses

Property expenses from Office Properties increased \$4.8 million, or 11.7%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily due to:

- An increase of \$3.7 million generated by the Core Office Portfolio primarily due to:
 - A \$1.8 million increase attributable to general increases in certain recurring operating costs such as utilities, property management expenses, repairs and maintenance costs, and janitorial and other service-related costs;
 - A \$0.9 million increase due to nonreimbursable legal fees primarily related to tenant defaults; and
 - A \$0.8 million increase due to costs associated with nonrecurring repairs at three of our properties in San Diego; and
- An increase of \$0.9 million attributable to the 2008 Office Development Properties and the Office Redevelopment Properties.

Real Estate Taxes

Real estate taxes from Office Properties increased \$2.3 million, or 13.9%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily due to the 2008 Office Development Properties and Office Redevelopment Properties.

Provision for Bad Debts

The provision for bad debts from Office Properties increased \$3.7 million, or 2,416.9%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 due to changes in our estimates of collectability of receivables from certain watchlist tenants. The provision for bad debts for the year ended December 31, 2008 included a \$3.1 million charge for the deferred rent receivable balance related to an early termination at one of our properties in San Diego (see Note 13 to our consolidated financial statements included with this report for additional information).

Net Operating Income

Net Operating Income from Office Properties increased \$17.4 million, or 10.3%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 due to:

- An increase of \$18.2 million generated by the 2008 Office Development Properties;
- An increase of \$2.1 million generated by the Office Redevelopment Properties; and
- An offsetting decrease of \$2.9 million attributable to the Core Office Portfolio as discussed above.

Industrial Properties

The following table compares the Net Operating Income for the Industrial Properties for the year ended December 31, 2008 and 2007.

Industrial Properties								
	Total Industrial Portfolio				Core Industrial Portfolio ⁽¹⁾			
	2008	2007	Dollar Change	Percentage Change	2008	2007	Dollar Change	Percentage Change
(\$ dollars in thousands)								
Operating revenues:								
Rental income	\$ 28,275	\$26,525	\$1,750	6.6%	\$ 28,119	\$26,525	\$1,594	6.0%
Tenant reimbursements	4,088	3,468	620	17.9	4,088	3,468	620	17.9
Other property income	926	72	854	1,186.1	873	72	801	1,112.5
Total	33,289	30,065	3,224	10.7	33,080	30,065	3,015	10.0
Property and related expenses:								
Property expenses	3,424	2,601	823	31.6	3,301	2,294	1,007	43.9
Real estate taxes	2,894	2,670	224	8.4	2,606	2,523	83	3.3
Provision for bad debts	175	319	(144)	(45.1)	175	319	(144)	(45.1)
Total	6,493	5,590	903	16.2	6,082	5,136	946	18.4
Net Operating Income	<u>\$26,796</u>	<u>\$ 24,475</u>	<u>\$ 2,321</u>	9.5%	<u>\$26,998</u>	<u>\$ 24,929</u>	<u>\$ 2,069</u>	8.3%

(1) Industrial Properties owned and stabilized at January 1, 2007 and still owned and stabilized as of December 31, 2009.

Rental Income

Rental income from Industrial Properties increased \$1.8 million, or 6.6%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. This increase was primarily attributable to an increase in rental rates in connection with new leases at two of our Orange County Industrial Properties and an increase in occupancy. Average occupancy in the Industrial Portfolio increased 0.7% to 93.0% for the year ended December 31, 2008 compared to 92.1% for the year ended December 31, 2007.

Tenant Reimbursements

Tenant reimbursements from Industrial Properties increased \$0.6 million, or 17.9%, for the year ended December 31, 2008 compared to the year ended December 31, 2007. The increase in tenant reimbursements was primarily attributable to three leases where our operating expense agreements were either new or restructured at two of our Orange County Industrial Properties and a slight increase in reimbursable operating expenses.

Other Property Income

Other property income from Industrial Properties increased \$0.9 million, or 1,186.1%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 due to an increase in lease termination fees and other miscellaneous income within the industrial portfolio.

Property Expenses

Property expenses from Industrial Properties increased by \$0.8 million, or 31.6%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 due to:

- An increase of \$1.0 million generated by the Core Industrial Portfolio primarily due to:
 - A one-time credit of \$0.7 million during the year ended December 31, 2007 relating to a gain recognized for insurance proceeds received in excess of expenses incurred for one of our Industrial Properties that sustained damage due to a fire sprinkler rupture; and
 - An increase of \$0.2 million in repairs and maintenance, other service-related costs, and legal fees primarily related to tenant defaults; and
- An increase of \$0.5 million generated by one industrial building that was moved from our stabilized portfolio to the redevelopment portfolio; and
- An offsetting decrease of \$0.7 million attributable to the Industrial Reentitlement Property primarily due to a one-time credit in 2008 for insurance proceeds received in connection with a theft, which was previously recognized as a reduction of property expenses when the loss occurred.

Provision for Bad Debts

The provision for bad debts from Industrial Properties decreased by \$0.1 million, or 45.1%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily due to changes in our estimates of the collectibility of receivables from certain watchlist tenants.

Net Operating Income

Net Operating Income from Industrial Properties increased \$2.3 million, or 9.5%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily due to an increase in occupancy in the Core Industrial Portfolio as discussed above.

Other Income and Expenses

General and Administrative Expense

General and administrative expenses increased \$1.7 million, or 4.6%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily due to an increase in compensation-related expenses, including approximately \$1.0 million of severance costs for the year ended December 31, 2008.

[Table of Contents](#)*Interest Expense*

The following table sets forth our gross interest expense, including debt discount and loan cost amortization, net of capitalized interest for the years ended December 31, 2008 and 2007.

	2008	2007	Dollar Change	Percentage Change
		(\$ in thousands)		
Gross interest expense	\$ 63,478	\$ 60,278	\$ 3,200	5.3%
Capitalized interest	(18,132)	(19,516)	1,384	(7.1)%
Interest expense	<u>\$ 45,346</u>	<u>\$ 40,762</u>	<u>\$ 4,584</u>	11.2%

Gross interest expense, before the effect of capitalized interest, increased \$3.2 million, or 5.3%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily due to an increase in our average debt balance due to our development activities during the period, offset by a decrease in our weighted-average interest rate from approximately 6.0% for the year ended December 31, 2007 to approximately 5.4% for the year ended December 31, 2008.

Capitalized interest decreased \$1.4 million, or 7.1%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 due to a decrease in our weighted average interest rate, which caused a corresponding decrease in the capitalization rate applied to our development and redevelopment asset balances qualifying for interest capitalization. In addition, our average development and redevelopment asset balances qualifying for interest capitalization decreased since, in the third and fourth quarters of 2008, we determined that certain development properties did not continue to qualify for interest capitalization under GAAP.

Depreciation and Amortization Expense

Depreciation and amortization expense increased \$10.5 million, or 14.4%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily due to:

- An increase of \$6.3 million from the 2008 Office Development Properties;
- An increase of \$2.8 million from the Core Office Portfolio and Core Industrial Portfolio, which was due primarily to changes in the estimated useful lives for certain unamortized leasing commissions; and
- An increase of \$0.8 million from the Office Redevelopment Properties.

Interest Income and Other Investment Gains (Losses)

Total interest income and other investment gains (losses) decreased approximately \$1.7 million, or 105.8%, for the year ended December 31, 2008 compared to the year ended December 31, 2007 primarily due to:

- A decrease of \$1.0 million in the fair value of the marketable securities held in connection with our Deferred Compensation Plan during the year ended December 31, 2008; and
- A decrease of \$0.5 million due to lower average cash balances and lower interest rates ended December 31, 2008 compared to the year ended December 31, 2007.

Liquidity and Capital Resources

General

Our primary liquidity sources and uses are as follows:

Liquidity Sources

- Net cash flow from operations;
- Borrowings under the Credit Facility;
- Proceeds from the disposition of nonstrategic assets;
- Proceeds from additional secured or unsecured debt financings; and
- Proceeds from public or private issuance of debt or equity securities.

Liquidity Uses

- Operating and corporate expenses;
- Capital expenditures, tenant improvement, and leasing costs;
- Development and redevelopment costs;
- Debt service and principal payment, including debt maturities;
- Distributions to common and preferred stockholders and unitholders; and
- Property or undeveloped land acquisitions.

General Strategy

Our general strategy is to maintain a conservative balance sheet and to seek to create a capital structure that allows for financial flexibility and diversification of capital resources. We manage our capital structure to reflect a long-term investment approach and utilize multiple sources of capital to meet our long-term capital requirements. We believe that our current projected liquidity requirements for 2010, as discussed further below under the caption “—Liquidity Uses,” will be satisfied using cash flows generated from operating activities, availability under the Credit Facility (approximately \$453 million as of December 31, 2009), and, depending on market conditions, proceeds from dispositions of nonstrategic assets. We believe our conservative leverage provides us with financial flexibility and enhances our ability to obtain additional sources of liquidity if necessary, and, therefore, we are well positioned to refinance or repay maturing debt and to pursue attractive acquisition opportunities.

2009 Financing Activities

The following is a summary of our financing activities in 2009:

- In April 2009, we extended the term of one of our fixed-rate mortgage notes payable that was scheduled to mature in April 2009 by one year. In connection with the extension, we repaid \$10.0 million of the \$74.8 million principal balance outstanding at March 31, 2009.
- In the second quarter of 2009, our board of directors decreased our quarterly cash dividend to \$0.35 per common share. This represented an approximately 40% reduction from our quarterly cash dividend of \$0.58 per common share for stockholders of record for the prior quarter and is equivalent to an annual rate of \$1.40 per share.
- In June 2009, we completed an underwritten public offering of 10,062,500 shares of common stock. The net offering proceeds, after deducting underwriting discounts and commissions and offering expenses, were approximately \$191.7 million.

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- In November 2009, we issued \$172.5 million in aggregate stated principal amount of the 4.25% Exchangeable Notes.
- During the second half of 2009, we repurchased 3.25% Exchangeable Notes with an aggregate stated principal amount of \$162.0 million for approximately \$150.4 million in cash.

See Notes to our consolidated financial statements included in this report for additional information regarding these transactions.

Capitalization

As of December 31, 2009, our total debt as a percentage of total market capitalization was 39.0%, and our total debt and liquidation value of our preferred equity as a percentage of total market capitalization was 46.8%, which was calculated based on our closing price per share of our common stock of \$30.67 on December 31, 2009 as follows:

	Shares/Units at December 31, 2009	Aggregate Principal Amount or \$ Value Equivalent (\$ in thousands)	% of Total Market Capitalization
Debt:			
Credit Facility		\$ 97,000	3.8%
3.25% Exchangeable Notes ⁽¹⁾		298,000	11.5
4.25% Exchangeable Notes ⁽²⁾		172,500	6.7
Unsecured Senior Notes due 2010		61,000	2.4
Unsecured Senior Notes due 2014		83,000	3.2
Secured debt		294,574	11.4
Total debt		\$ 1,006,074	39.0
Equity and Noncontrolling Interest:			
7.450% Series A Cumulative Redeemable Preferred Units ⁽³⁾	1,500,000	\$ 75,000	2.9
7.800% Series E Cumulative Redeemable Preferred Stock ⁽⁴⁾	1,610,000	40,250	1.6
7.500% Series F Cumulative Redeemable Preferred Stock ⁽⁴⁾	3,450,000	86,250	3.3
Common Units Outstanding ⁽⁵⁾	1,723,131	52,848	2.0
Common Shares Outstanding ⁽⁵⁾	43,148,762	1,323,373	51.2
Total equity and noncontrolling interests		1,577,721	61.0
Total Market Capitalization		\$ 2,583,795	100.0%

(1) Represents gross aggregate principal amount before the effect of the unamortized discount of approximately \$13.9 million as of December 31, 2009.

(2) Represents gross aggregate principal amount before the effect of the unamortized discount of approximately \$20.1 million as of December 31, 2009.

(3) Value based on \$50.00 per share liquidation preference.

(4) Value based on \$25.00 per share liquidation preference.

(5) Value based on closing price per share of our common stock of \$30.67 as of December 31, 2009.

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Debt Composition

The composition of our aggregate debt balances between fixed- and variable-rate debt as of December 31, 2009 and 2008 were as follows:

	Percentage of Total Debt		Weighted Average Interest Rate	
	December 31, 2009	December 31, 2008	December 31, 2009	December 31, 2008
Secured vs. unsecured:				
Unsecured ⁽¹⁾	70.7%	73.1%	3.8%	3.4%
Secured	29.3	26.9	5.7	5.9
Variable-rate vs. fixed-rate:				
Variable-rate	13.0	24.5	1.1	2.1
Fixed-rate ⁽¹⁾	87.0	75.5	4.8	4.7
Total debt interest rate ⁽¹⁾			4.3	4.1
Total debt interest rate including loan costs ⁽¹⁾			4.8	4.4
GAAP Effective Rate ⁽²⁾			5.9%	5.2%

(1) Excludes the impact of the noncash debt discount on our Exchangeable Notes (see Notes 1 and 4 to our consolidated financial statements included in this report for additional information on the debt discount).

(2) Represents the GAAP effective interest rate for total debt, which includes the impact of the amortization of the noncash debt discount related to the accounting for the Exchangeable Notes.

Credit Facility

As of December 31, 2009, we had borrowings of \$97 million outstanding under our Credit Facility and a borrowing capacity of approximately \$453 million. In addition to the current borrowing capacity, we may also elect to borrow, subject to bank group approval, up to an additional \$100 million under an accordion feature. The Credit Facility bears interest at an annual rate between LIBOR plus 0.85% and LIBOR plus 1.35% depending upon our leverage ratio at the time of borrowing (1.11% and 2.12% as of December 31, 2009 and 2008, respectively). The fee for unused funds under the Credit Facility ranges from an annual rate of 0.15% to 0.20% depending on our leverage ratio.

The Credit Facility is scheduled to expire in April 2010. We have notified the lenders that we intend to exercise the option to extend the maturity date of the Credit Facility by one year for a one time extension fee of 0.15% of the total \$550 million Credit Facility. We have had preliminary discussions with lenders regarding a new line of credit. Based on these preliminary discussions, management believes it will be successful in securing a new line of credit, however, most likely with reduced borrowing capacity and at greater interest rate spreads due to current market conditions. The credit markets remain volatile, and there are no assurances that a replacement line of credit will be available at terms acceptable to us. If we are not successful in achieving the anticipated refinancing on favorable terms, there are options available to generate additional sources of liquidity, including equity offerings, dispositions of operating properties, joint venture investments, securing mortgages on assets currently unencumbered, modifying the nature and amount of dividends to be paid, and decreasing the amount of nonessential capital expenditures.

Debt Maturities

We had two secured loans, with a combined principal balance of \$96.7 million as of December 31, 2009, that were scheduled to mature in April 2010. One of these loans, with a principal balance of \$63.2 million, was repaid in January 2010 with funds from a new \$71.0 million mortgage loan scheduled to mature in 2017. In addition, one of our unsecured senior notes, with a principal balance of \$61.0 million, is scheduled to mature in August 2010. We are currently evaluating refinancing options and may use the borrowings under a new line of credit or our extended Credit Facility to repay the remaining principal amounts of the maturing loans.

Factors That May Influence Future Sources of Capital and Liquidity

The cost and availability of credit have been adversely affected by the continuing state of the capital and commercial lending markets. We continue to evaluate sources of financing for our business activities, including borrowings under the Credit Facility, fixed-rate secured mortgage financing, and public and private unsecured debt. However, our ability to obtain new financing or refinance existing borrowings on favorable terms could be impacted by various factors including the continuing recessionary conditions, significant tenant defaults, a further decline in the demand for office or industrial properties, and a decrease in market rental rates or market values of real estate assets in our submarkets. These events could result in the following:

- further decreases in our cash flows from operations, which could create further dependence on our Credit Facility;
- an increase in the proportion of variable-rate debt, which could increase our sensitivity to interest rate fluctuations in the future; and
- a decrease in the value of our properties, which could have an adverse effect on our ability to incur additional debt or refinance existing debt at competitive rates.

Debt Covenants

Our Credit Facility, unsecured senior notes, and certain other secured debt arrangements contain covenants and restrictions requiring us to meet certain financial ratios and reporting requirements. Key financial covenants and their covenant levels include:

<u>Covenant</u>	<u>Covenant Level</u>	<u>Actual Performance at December 31, 2009</u>
Total debt to total asset value ⁽¹⁾	< 60%	36%
Fixed charge coverage ratio	> 1.5X	2.4X
Minimum consolidated tangible net worth	> \$700 million + 75% of all Net Offering Proceeds ⁽²⁾	\$1.8 billion
Dividend coverage ratio	< 95% of FFO	63% of FFO
Unsecured debt ratio ⁽¹⁾⁽³⁾	> 1.67X	3.09X
Unencumbered asset pool debt service coverage ⁽⁴⁾	≥ 2.0X	5.7X

(1) In the event of an acquisition of one or more properties for \$150 million or more, the total debt to total asset value may exceed 60% for up to two consecutive quarters but in no event exceed 65%, and the unsecured debt ratio may be less than 1.67X for up to two consecutive quarters but in no event be less than 1.54X.

(2) This covenant level was calculated at \$974 million as of December 31, 2009.

(3) The unsecured debt ratio is calculated by dividing the total unsecured asset pool value by the amount of unsecured senior debt.

(4) The unencumbered asset pool debt service coverage is calculated by dividing the unencumbered asset pool net operating cash flows by the unsecured debt service.

We were in compliance with all our debt covenants as of December 31, 2009. Our current expectation is that we will continue to meet requirements of our debt covenants in both the short and long term. However, in the event of a continued economic slow down and a continued crisis in the credit markets, there is no certainty that we will be able to continue to satisfy all the covenant requirements.

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Liquidity Uses

Contractual Obligations

The following table provides information with respect to our contractual obligations as of December 31, 2009. The table indicates: (i) the maturities and scheduled principal repayments of our secured debt, Exchangeable Notes, unsecured senior notes, and Credit Facility; (ii) scheduled interest payments of our fixed-rate and variable-rate debt as of December 31, 2009; and (iii) provides information about the minimum commitments due in connection with our ground lease obligations and other lease and contractual commitments as of December 31, 2009. Note that the table does not reflect our available debt maturity extension options.

	Payment Due by Period				Total
	Less than 1 Year (2010)	1-3 Years (2011-2012)	3-5 Years (2013-2014) (in thousands)	More than 5 Years (After 2014)	
Principal payments—secured debt	\$ 102,587	\$ 177,602	\$ 4,759	\$ 9,626	\$ 294,574
Principal payments—Exchangeable Notes ⁽¹⁾		298,000	172,500		470,500
Principal payments—unsecured senior notes	61,000		83,000		144,000
Principal payments—Credit Facility ⁽²⁾	97,000				97,000
Interest payments—fixed-rate debt ⁽³⁾	39,006	56,315	23,375	3,473	122,169
Interest payments—variable-rate debt ⁽²⁾⁽⁴⁾	618				618
Ground lease obligations ⁽⁵⁾	1,115	1,861	1,582	50,260	54,818
Lease and contractual commitments ⁽⁶⁾	55,037				55,037
Separation payments ⁽⁷⁾	5,650				5,650
Total	<u>\$ 362,013</u>	<u>\$ 533,778</u>	<u>\$ 285,216</u>	<u>\$ 63,359</u>	<u>\$ 1,244,366</u>

(1) Represents gross aggregate principal amount before the effect of the unamortized discount of approximately \$34.1 million as of December 31, 2009.

(2) These amounts do not reflect our option to extend the maturity of the Credit Facility by one year. We have notified the lenders that we intend to exercise the extension option.

(3) As of December 31, 2009, 87.0% of our debt was contractually fixed. The information in the table above reflects our projected interest rate obligations for these fixed-rate payments based on the contractual interest rates, interest payment dates, and scheduled maturity dates.

(4) As of December 31, 2009, 13.0% of our debt bore interest at variable rates. The variable interest rate payments are based on LIBOR plus a spread that ranged from 0.75% to 0.85% as of December 31, 2009. The information in the table above reflects our projected interest rate obligations for these variable-rate payments based on outstanding principal balances as of December 31, 2009, the scheduled interest payment dates, projected LIBOR rates, and the contractual maturity dates.

(5) We have noncancelable ground lease obligations for the Kilroy Airport Center in Long Beach, California with a lease period for Phases I, II, and III expiring in July 2084. See Note 11 to our consolidated financial statements included with this report.

(6) Amounts represent commitments under signed leases and contracts for operating properties, excluding tenant-funded tenant improvements.

(7) Represents the portion of the \$7.0 million charge to be paid in 2010 related to separation payments. See Note 13 in our consolidated financial statements included in this report for additional information.

Potential Future Capital Requirements

Given the current economic conditions, the amounts we are required to spend on tenant improvements and leasing costs are expected to continue to increase in the near future from historical levels for us to be able to execute leases at current market terms, as evidenced in the table below. The amounts we ultimately incur for tenant improvements and leasing costs will depend on actual leasing activity. Tenant improvements and leasing costs generally fluctuate in any given period depending on factors such as the type of property, the term of the lease, the type of the lease, the involvement of external leasing agents, and overall market conditions. Capital expenditures may fluctuate in any given period subject to the nature, extent, and timing of improvements required to maintain our properties.

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The following tables set forth the capital expenditures, tenant improvements, and leasing costs, excluding tenant-funded tenant improvements, for renewed and retenanting space within our stabilized portfolio for each of the three years during the period ended December 31, 2009 on a per square foot basis.

	Year Ended December 31,		
	2009	2008	2007
Office Properties:			
Capital Expenditures:			
Capital expenditures per square foot	\$ 0.86	\$ 0.91	\$ 0.82
Tenant Improvement and Leasing Costs ⁽¹⁾ :			
Replacement tenant square feet	221,229	180,696	405,868
Tenant improvements per square foot leased	\$ 27.47	\$ 24.21	\$ 20.94
Leasing commissions per square foot leased	\$ 9.64	\$ 11.52	\$ 10.99
Total per square foot	37.11	\$ 35.73	\$ 31.93
Renewal tenant square feet	680,977	349,009	658,276
Tenant improvements per square foot leased	\$ 10.38	\$ 5.74	\$ 6.15
Leasing commissions per square foot leased	\$ 8.00	\$ 4.55	\$ 3.63
Total per square foot	\$ 18.38	\$ 10.29	\$ 9.77
Total per square foot per year	\$ 4.18	\$ 4.30	\$ 2.88
Average remaining lease term (in years)	5.5	4.4	6.3
Industrial Properties:			
Capital Expenditures:			
Capital expenditures per square foot	\$ 0.85	\$ 0.28	\$ 0.23
Tenant Improvement and Leasing Costs ⁽¹⁾ :			
Replacement tenant square feet	\$ 248,380	212,698	283,879
Tenant improvements per square foot leased	\$ 2.54	\$ 2.52	\$ 3.08
Leasing commissions per square foot leased	\$ 2.19	\$ 2.31	\$ 2.26
Total per square foot	\$ 4.73	\$ 4.83	\$ 5.35
Renewal tenant square feet	545,143	728,363	243,823
Tenant improvements per square foot leased	\$ 1.49	\$ 2.55	\$ 1.29
Leasing commissions per square foot leased	\$ 3.02	\$ 1.37	\$ 0.64
Total per square foot	\$ 4.50	\$ 3.91	\$ 1.94
Total per square foot per year	\$ 0.74	\$ 0.79	\$ 0.82
Average remaining lease term (in years)	6.2	5.3	4.6

(1) Includes only tenants with lease terms of 12 months or longer. Excludes leases for month-to-month and first generation tenants.

We currently project we could spend up to \$20 million in capital improvements, tenant improvements, and leasing costs for properties within our stabilized portfolio in 2010, depending on leasing activity, in addition to the \$55 million of commitments discussed under capital commitments.

As of December 31, 2009, we did not have any development or redevelopment projects under construction and have not committed to start construction on any development projects in 2010. Over the next two years, we are planning to redevelop certain properties that have been occupied by long-term tenants and require significant capital expenditures to upgrade and modernize the buildings. We currently project we could spend up to \$10 million in 2010 on redevelopment activities. We are also focusing on enhancing the entitlements for our existing development land pipeline and the one property we are in the process of reentitling for residential use. We currently estimate we could spend approximately \$4 million related to the entitlement processes and other development activities in 2010. Depending upon market conditions, we may have additional spending for our future development pipeline during 2010 and beyond.

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We continually evaluate the size, timing, costs, and scope of our development and redevelopment programs and, as necessary, scale activity to reflect the market conditions and the real estate fundamentals that exist in our strategic submarkets. See additional information under the caption “—Factors That May Influence Future Results of Operations—Development and Redevelopment Programs” and information regarding our sources of capital under the caption “—Liquidity and Capital Resources—Liquidity Sources” above.

Distribution Requirements

We are required to distribute 90% of our REIT taxable income (excluding capital gains) on an annual basis to maintain our qualification as a REIT for federal income tax purposes. For distributions with respect to taxable years ending on or before December 31, 2011, IRS guidance allows us to satisfy up to 90% of this requirement through the distribution of shares of our common stock, if certain conditions are met. We intend to continue to make, but have not committed ourselves to make, regular quarterly cash distributions to common stockholders and common unitholders from cash flow from operating activities. All such distributions are at the discretion of the board of directors. We may be required to use borrowings under the Credit Facility, if necessary, to meet REIT distribution requirements and maintain our REIT status. We have historically distributed amounts in excess of our taxable income resulting in a return of capital to our stockholders and currently believe we have the ability to maintain our distributions at the 2009 levels to meet our REIT requirements for 2010. We consider market factors and our performance in addition to REIT requirements in determining our distribution levels. Amounts accumulated for distribution to stockholders are invested primarily in interest-bearing accounts and short-term interest-bearing securities, which are consistent with our intention to maintain our qualification as a REIT. Such investments may include, for example, obligations of the Government National Mortgage Association, other governmental agency securities, certificates of deposit, and interest-bearing bank deposits. On January 15, 2010, we paid a regular quarterly cash dividend of \$0.350 per common share to stockholders of record on December 31, 2009. This dividend is equivalent to an annual rate of \$1.40 per share.

In addition, we are required to make quarterly distributions to our Series A Preferred unitholders and Series E and Series F Preferred stockholders, which in aggregate total approximately \$15 million of annualized preferred dividends and distributions.

Other Potential Liquidity Uses

We continue to position ourselves to take advantage of attractive acquisition opportunities to expand our portfolio and, under the right conditions, may act on such opportunities.

We may seek to repurchase additional Exchangeable Notes depending on prevailing market conditions, our liquidity requirements, and other factors.

We have the ability to repurchase preferred stock in open market transactions. We may opt to repurchase the preferred stock in the future depending upon market conditions and our liquidity and financial position.

An aggregate of 988,025 common shares currently remain eligible for repurchase under a share-repurchase program approved by our board of directors. We did not repurchase shares of common stock under this program during the year ended December 31, 2009. We may opt to repurchase additional shares of our common stock in the future depending upon market conditions.

Historical Cash Flow Summary

Our historical cash flow activity for the year ended December 31, 2009 as compared to the year ended December 31, 2008 is as follows:

	Year Ended December 31,			Percentage Change
	2009	2008	Dollar Change	
	(\$ in thousands)			
Net cash provided by operating activities	\$ 124,965	\$ 144,481	\$ (19,516)	(13.5)%
Net cash used in investing activities	(50,474)	(93,825)	43,351	(46.2)
Net cash used in financing activities	(74,161)	(52,835)	(21,326)	40.4

Operating Activities

Our cash flows from operations is primarily dependent on the occupancy level of our portfolio, the rental rates achieved on our leases, the collectability of rent and recoveries from our tenants and the level of operating expenses, and other general and administrative costs. Our net cash provided by operating activities decreased by \$19.5 million, or 13.5%, for the year ended December 31, 2009 compared to the year ended December 31, 2008 primarily attributable to decreases in average occupancy and cash received for lease termination fees. In addition, we received less cash for tenant-funded tenant improvements during the period due to a decrease in our development activity. While our portfolio has historically generated positive cash flows, in the event of a continued economic slow-down, our occupancy rates or rental rates may decline further, which could result in a further decrease in net cash flows provided by operating activities. At December 31, 2009, our portfolio was 82.8% occupied. See additional information under the captions “Current Regional Information” and “—Rental Operations.”

Investing Activities

Our net cash used in investing activities is generally used to fund development and redevelopment projects and recurring and nonrecurring capital expenditures for our operating properties. Our net cash used in investing activities decreased \$43.4 million, or 46.2%, for the year ended December 31, 2009 compared to the year ended December 31, 2008. This net decrease was primarily comprised of the following:

- A decrease of \$51.1 million in development expenditures. Given the current economic environment and market conditions, we currently expect that our development spending will continue to be lower in 2010 as compared to our historical development spending levels. See additional information under the caption “—Development and Redevelopment Programs;”
- An increase of \$4.9 million in net proceeds from the disposition of operating properties related to the sale of 12400 Industry Street in 2009; and
- An offsetting increase of \$10.6 million in capital expenditures for operating properties primarily due to capital expenditure projects at our Office Properties (see additional information under the caption “—Potential Future Capital Requirements”).

Financing Activities

Our net cash for financing activities is generally impacted by our capital raising activities net of dividends and distributions paid to common and preferred stockholders and unitholders. Net cash used in financing activities increased by \$21.3 million, or 40.4%, for the year ended December 31, 2009 compared to the year ended December 31, 2008. This overall net change in financing activities was primarily due to a decrease in development expenditures, which required us to borrow less from our Credit Facility during 2009. See additional information under the caption “—Liquidity and Capital Resources —2009 Financing Activities.”

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Off-Balance Sheet Arrangements

As of December 31, 2009 and as of the date this report was filed, we did not have any off-balance sheet transactions, arrangements, or obligations, including contingent obligations.

Non-GAAP Supplemental Financial Measure: Funds From Operations

We calculate FFO in accordance with the White Paper on FFO approved by the Board of Governors of NAREIT. The White Paper defines FFO as net income or loss calculated in accordance with GAAP, excluding extraordinary items, as defined by GAAP, and gains and losses from sales of depreciable operating property, plus real estate-related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets), and after adjustment for unconsolidated partnerships and joint ventures.

We believe that FFO is a useful supplemental measure of our operating performance. The exclusion from FFO of gains and losses from the sale of operating real estate assets allows investors and analysts to readily identify the operating results of the assets that form the core of our activity and assists in comparing those operating results between periods. Also, because FFO is generally recognized as the industry standard for reporting the operations of REITs, it facilitates comparisons of operating performance to other REITs. However, other REITs may use different methodologies to calculate FFO, and accordingly, our FFO may not be comparable to all other REITs.

Implicit in historical cost accounting for real estate assets in accordance with GAAP is the assumption that the value of real estate assets diminishes predictably over time. Since real estate values have historically risen or fallen with market conditions, many industry investors and analysts have considered presentations of operating results for real estate companies using historical cost accounting alone to be insufficient. Because FFO excludes depreciation and amortization of real estate assets, we believe that FFO along with the required GAAP presentations provides a more complete measurement of our performance relative to our competitors and a more appropriate basis on which to make decisions involving operating, financing, and investing activities than the required GAAP presentations alone would provide.

However, FFO should not be viewed as an alternative measure of our operating performance since it does not reflect either depreciation and amortization costs or the level of capital expenditures and leasing costs necessary to maintain the operating performance of our properties, which are significant economic costs and could materially impact our results from operations.

The following table presents our FFO for the years ended December 31, 2009, 2008, 2007, 2006, and 2005:

	Year ended December 31,				
	2009	2008	2007 (in thousands)	2006	2005
Net income available for common stockholders	\$ 21,794	\$ 29,829	\$ 101,164	\$ 72,256	\$ 24,211
Adjustments:					
Net income attributable to noncontrolling common units of the Operating Partnership	1,025	1,886	6,957	5,990	3,149
Depreciation and amortization of real estate assets	86,825	82,491	73,708	71,197	67,007
Net gain on dispositions of discontinued operations	(2,485)	(234)	(74,505)	(31,259)	(30,764)
Funds From Operations ⁽¹⁾	<u>\$ 107,159</u>	<u>\$ 113,972</u>	<u>\$ 107,324</u>	<u>\$ 118,184</u>	<u>\$ 63,603</u>

(1) Reported amounts are attributable to common stockholders and common unitholders.

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The following table presents our weighted average common shares and common units outstanding for the years ended December 31, 2009, 2008, 2007, 2006, and 2005:

	Year Ended December 31,				
	2009	2008	2007	2006	2005
Weighted average common shares outstanding	38,705,101	32,466,591	32,379,997	31,244,062	28,710,726
Weighted average common units outstanding	1,731,095	2,065,188	2,235,772	2,598,313	3,749,627
Effect of participating securities—nonvested shares and restricted stock units	785,582	372,444	312,552	154,079	168,117
Total basic weighted average shares / units outstanding	41,221,778	34,904,223	34,928,321	33,996,454	32,628,470
Effect of dilutive securities—stock options and contingently issuable shares	27,025	74,281	28,969	48,566	51,864
Total diluted weighted average shares / units outstanding	41,248,803	34,978,504	34,957,290	34,045,020	32,680,334

Inflation

Since the majority of our leases require tenants to pay most operating expenses, including real estate taxes, utilities, insurance, and increases in common area maintenance expenses, we do not believe our exposure to increases in costs and operating expenses resulting from inflation is material.

New Accounting Pronouncements

There are currently no recently issued accounting pronouncements that are expected to have a material effect on our financial condition and results of operations in future periods.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary market risk we face is interest rate risk. We mitigate this risk by following established risk management policies and procedures. These policies include maintaining prudent amounts of debt, including a greater amount of fixed-rate debt as compared to variable-rate debt in our portfolio, and may include the periodic use of derivative instruments. As of December 31, 2009 and 2008, we did not have any derivative instruments.

Information about our changes in interest rate risk exposures from December 31, 2008 to December 31, 2009 is incorporated herein by reference from Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations "—Liquidity and Capital Resources."

Market Risk

As of December 31, 2009, approximately 13.0% of our total outstanding debt of \$1.0 billion was subject to variable interest rates. The remaining 87.0% bore interest at fixed rates. All of our interest rate sensitive financial instruments are held for purposes other than trading purposes.

In general, interest rate fluctuations applied to our variable-rate debt will impact our future earnings and cash flows. Conversely, interest rate fluctuations applied to our fixed-rate debt will generally not impact our future earnings and cash flows, unless such instruments mature or are otherwise terminated and need to be refinanced. However, interest rate fluctuations will impact the fair value of the fixed-rate debt instruments.

With the exception of the Exchangeable Notes, we generally determine the fair value of our fixed-rate debt by performing discounted cash flow analyses using an appropriate market rate. We calculate the market rate by obtaining period-end treasury rates for maturities that correspond to the maturities of our fixed-rate debt and then adding an appropriate credit spread based on information obtained from third-party financial institutions. These credit spreads take into account factors, including but not limited to, our credit standing, the maturity of the debt, whether the debt is secured or unsecured, and the loan-to-value ratio of the debt. We determine the fair value of the liability component of our Exchangeable Notes by performing discounted cash flow analysis using an appropriate market interest rate for similar non-convertible conventional debt instruments. See Note 12 to our consolidated financial statements included in this report for additional information on the fair value of our financial instruments as of December 31, 2009 and 2008.

The total outstanding balance of our variable-rate debt, which includes our Credit Facility and one secured line of credit, was approximately \$130.5 million and \$287.5 million as of December 31, 2009 and 2008, respectively. The interest rates on our variable-rate debt are indexed to LIBOR plus spreads of 0.75% to 0.85% (weighted average interest rate was 1.1% and 2.1% as of December 31, 2009 and 2008, respectively). Assuming no changes in the outstanding balance of our existing variable-rate debt as of December 31, 2009, a 100 basis point increase in the LIBOR rate would increase our projected annual interest expense, before the effect of capitalization, by approximately \$1.3 million. Comparatively, if interest rates were 100 basis points higher as of December 31, 2008, our projected annual interest expense, before the effect of capitalization, would have been \$2.9 million higher. Our total variable-rate debt is currently scheduled to mature in April 2010. Our Credit Facility, which had a principal balance of \$97.0 million as of December 31, 2009, has a one year extension option. We have notified the lenders that we intend to exercise this option and extend the maturity of the Credit Facility through April 2011. For additional information, see Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations "—Liquidity and Capital Resources."

The total carrying value of our fixed-rate debt, including our Exchangeable Notes, was approximately \$841.5 million and \$854.8 million as of December 31, 2009 and 2008, respectively. The total estimated fair value of our fixed-rate debt was approximately \$842.1 million and \$680.7 million as of December 31, 2009 and 2008, respectively. For sensitivity purposes, a 100 basis point increase in the discount rate equates to a decrease in the total fair value of our fixed-rate debt of approximately \$20.2 million, or 2.4%, as of December 31, 2009. Comparatively, a 100 basis point increase in the discount rate equates to a decrease in the total fair value of our fixed-rate debt of approximately \$16.8 million, or 2.5%, as of December 31, 2008.

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The above sensitivity analyses do not consider interrelationships between different market movements, which could result in additional changes in the fair value of our debt and Exchangeable Notes, beyond the amounts calculated.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See the index included at Item 15: Exhibits, Financial Statement Schedules.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures (as defined in Rule 13a-15(e) or Rule 15d-15(e) under the 1934 Act) that are designed to ensure that information required to be disclosed in our reports under the 1934 Act, is processed, recorded, summarized, and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow for timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management is required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by SEC Rule 13a-15(b), we carried out an evaluation, under the supervision and with the participation of management including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the disclosure controls and procedures as of the end of the period covered by this report. Based on the foregoing, the Chief Executive Officer and Chief Financial Officer concluded, as of that time, that our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There have been no changes that occurred during the fourth quarter of the year covered by this report in our internal control over financial reporting identified in connection with the evaluation referenced above that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Internal control over financial reporting is a process designed by, or under the supervision of, the Chief Executive Officer and Chief Financial Officer and effected by the board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of management and directors; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of assets that could have a material effect on the consolidated financial statements.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is supported by written policies and procedures and by an

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appropriate segregation of responsibilities and duties. We have used the criteria set forth in the *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission to assess our internal control over financial reporting. Based upon this assessment, management concluded that our internal control over financial reporting operated effectively as of December 31, 2009.

Deloitte & Touche LLP, our independent registered public accounting firm, has audited our financial statements and has issued a report on the effectiveness of our internal control over financial reporting.

February 11, 2010

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Kilroy Realty Corporation
Los Angeles, California

We have audited the internal control over financial reporting of Kilroy Realty Corporation (the “Company”) as of December 31, 2009, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2009, of the Company and our report dated February 11, 2010, expressed an unqualified opinion on those financial statements and financial statement schedules and included an explanatory paragraph regarding the Company’s adoption of new accounting provisions.

/s/ DELOITTE & TOUCHE LLP
Los Angeles, California
February 11, 2010

ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is incorporated by reference from our definitive proxy statement for our annual stockholders' meeting presently scheduled to be held in May 2010.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference from our definitive proxy statement for our annual stockholders' meeting presently scheduled to be held in May 2010.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by Item 12 is incorporated by reference from our definitive proxy statement for our annual stockholders' meeting presently scheduled to be held in May 2010.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 is incorporated by reference from our definitive proxy statement for our annual stockholders' meeting presently scheduled to be held in May 2010.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated by reference from our definitive proxy statement for our annual stockholders' meeting presently scheduled to be held in May 2010.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a)(1) and (2) *Financial Statements and Schedules*

The following consolidated financial information is included as a separate section of this annual report on Form 10-K:

Report of Independent Registered Public Accounting Firm	F-2
Consolidated Balance Sheets as of December 31, 2009 and 2008	F-3
Consolidated Statements of Operations for the Years Ended December 31, 2009, 2008, and 2007	F-4
Consolidated Statements of Equity for the Years Ended December 31, 2009, 2008, and 2007	F-5
Consolidated Statements of Cash Flows for the Years Ended December 31, 2009, 2008, and 2007	F-6
Notes to Consolidated Financial Statements	F-8
Schedule II—Valuation and Qualifying Accounts	F-46
Schedule III—Real Estate and Accumulated Depreciation	F-47

All other schedules are omitted since the required information is not present in amounts sufficient to require submission of the schedule or because the information required is included in the financial statements and notes thereto.

(3) *Exhibits*

<u>Exhibit Number</u>	<u>Description</u>
3.(i)1*	Kilroy Realty Corporation Articles of Restatement
3.(ii).1	Second Amended and Restated Bylaws of the Registrant ⁽³¹⁾
3.(ii).2	Amendment No. 1 to Second Amended and Restated Bylaws ⁽³⁵⁾
4.1	Form of Certificate for Common Stock of the Registrant ⁽¹⁾
4.2	Registration Rights Agreement dated January 31, 1997 ⁽¹⁾
4.3	Registration Rights Agreement dated February 6, 1998 ⁽³⁾
4.4	Second Amended and Restated Registration Rights Agreement dated as of March 5, 2004 ⁽²⁾
4.5	Registration Rights Agreement dated as of October 31, 1997 ⁽⁴⁾
4.6	Rights Agreement dated as of October 2, 1998 between Kilroy Realty Corporation and ChaseMellon Shareholder Services, L.L.C., as Rights Agent, which includes the form of Articles Supplementary of the Series B Junior Participating Preferred Stock of Kilroy Realty Corporation as Exhibit A, the form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Shares as Exhibit C ⁽⁵⁾
4.7	Registration Rights Agreement dated as of October 6, 2000 ⁽⁶⁾
4.8	The Company is party to agreements in connection with long-term debt obligations, none of which individually exceeds ten percent of the total assets of the Company on a consolidated basis. Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the Company agrees to furnish copies of these agreements to the Commission upon request
4.9	Note and Guarantee Agreement dated August 4, 2004 by and between Kilroy Realty, L.P. and Kilroy Realty Corporation and the purchasers whose names appear in the acceptance form at the end of the Note and Guarantee Agreement ⁽⁷⁾

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<u>Exhibit Number</u>	<u>Description</u>
4.10	Form of 5.72% Series A Guaranteed Senior Note due 2010 ⁽⁷⁾
4.11	Form of 6.45% Series B Guaranteed Senior Note due 2014 ⁽⁷⁾
4.12†	Kilroy Realty 2006 Incentive Award Plan ⁽²⁴⁾
4.13†	Amendment to Kilroy Realty 2006 Incentive Award Plan ⁽²⁶⁾
4.14†	Second Amendment to Kilroy Realty 2006 Incentive Award Plan ⁽³⁰⁾
4.15†	Third Amendment to Kilroy Realty 2006 Incentive Award Plan ⁽³⁵⁾
4.16†	Form of Restricted Stock Award Agreement ⁽²⁵⁾
4.17	Indenture, dated as of April 2, 2007, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, including the form of 3.250% Exchangeable Senior Notes due 2012 ⁽²⁸⁾
4.18	Registration Rights Agreement, dated April 2, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation, and J.P. Morgan Securities Inc., Banc of America Securities LLC and Lehman Brothers Inc. ⁽²⁸⁾
4.19	Indenture, dated as of November 20, 2009, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, including the form of 4.25% Exchangeable Senior Notes due 2014 and the form of related guarantee ⁽³⁹⁾
4.20	Registration Rights Agreement, dated November 20, 2009, among Kilroy Realty, L.P., Kilroy Realty Corporation, J.P. Morgan Securities Inc., and Merrill Lynch, Pierce, Fenner & Smith Incorporated ⁽³⁹⁾
10.1	Fifth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P. dated as of March 5, 2004 ⁽²⁾
10.2	First Amendment to Fifth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P., dated as of December 7, 2004 ⁽⁸⁾
10.3	Second Amendment to Fifth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P., dated as of October 2, 2008 ⁽³⁴⁾
10.4	Third Amendment to Fifth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P. ⁽³⁶⁾
10.5	Omnibus Agreement dated as of October 30, 1996 by and among Kilroy Realty, L.P. and the parties named therein ⁽¹⁾
10.6	Supplemental Representations, Warranties and Indemnity Agreement by and among Kilroy Realty, L.P. and the parties named therein ⁽¹⁾
10.7	Pledge Agreement by and among Kilroy Realty, L.P., John B. Kilroy, Sr., John B. Kilroy, Jr. and Kilroy Industries ⁽¹⁾
10.8†	1997 Stock Option and Incentive Plan of the Registrant and Kilroy Realty, L.P. ⁽¹⁾
10.9	Lease Agreement dated January 24, 1989 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase I ⁽⁹⁾
10.10	First Amendment to Lease Agreement dated December 28, 1990 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase I ⁽⁹⁾
10.11	Lease Agreement dated July 17, 1985 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III ⁽¹⁰⁾

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<u>Exhibit Number</u>	<u>Description</u>
10.12	Lease Agreement dated April 21, 1988 by and between Kilroy Long Beach Associates and the Board of Water Commissioners of the City of Long Beach, acting for and on behalf of the City of Long Beach, for Long Beach Phase IV ⁽¹⁰⁾
10.13	Lease Agreement dated December 30, 1988 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase II ⁽¹⁰⁾
10.14	First Amendment to Lease dated January 24, 1989 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III ⁽¹⁰⁾
10.15	Second Amendment to Lease Agreement dated December 28, 1990 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III ⁽¹⁰⁾
10.16	First Amendment to Lease Agreement dated December 28, 1990 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase II ⁽¹⁰⁾
10.17	Third Amendment to Lease Agreement dated October 10, 1994 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III ⁽¹⁰⁾
10.18	Development Agreement by and between Kilroy Long Beach Associates and the City of Long Beach ⁽¹⁰⁾
10.19	Amendment No. 1 to Development Agreement by and between Kilroy Long Beach Associates and the City of Long Beach ⁽¹⁰⁾
10.20	Property Management Agreement between Kilroy Realty Finance Partnership, L.P. and Kilroy Realty, L.P. ⁽¹¹⁾
10.21	Form of Environmental Indemnity Agreement ⁽¹¹⁾
10.22	Option Agreement by and between Kilroy Realty, L.P. and Kilroy Airport Imperial Co. ⁽¹²⁾
10.23	Option Agreement by and between Kilroy Realty, L.P. and Kilroy Calabasas Associates ⁽¹²⁾
10.24†	Noncompetition Agreement by and between the Registrant and John B. Kilroy, Sr. ⁽¹⁾
10.25†	Noncompetition Agreement by and between the Registrant and John B. Kilroy, Jr. ⁽¹⁾
10.26	License Agreement by and among the Registrant and the other persons named therein ⁽¹²⁾
10.27	Purchase and Sale Agreement and Joint Escrow Instructions dated April 30, 1997 by and between Mission Land Company, Mission-Vacaville, L.P. and Kilroy Realty, L.P. ⁽¹³⁾
10.28	Agreement of Purchase and Sale and Joint Escrow Instructions dated April 30, 1997 by and between Camarillo Partners and Kilroy Realty, L.P. ⁽¹³⁾
10.29	Purchase and Sale Agreement and Escrow Instructions dated May 5, 1997 by and between Kilroy Realty L.P. and Pullman Carnegie Associates ⁽¹⁴⁾
10.30	Amendment to Purchase and Sale Agreement and Escrow Instructions dated June 27, 1997 by and between Pullman Carnegie Associates and Kilroy Realty, L.P. ⁽¹⁴⁾
10.31	Purchase and Sale Agreement, Contribution Agreement and Joint Escrow Instructions dated May 12, 1997 by and between Shidler West Acquisition Company, LLC and Kilroy Realty, L.P. ⁽¹⁵⁾
10.32	First Amendment to Purchase and Sale Agreement, Contribution Agreement and Joint Escrow Instructions dated June 6, 1997 by and between Shidler West Acquisition Company, L.L.C. and Kilroy Realty, L.P. ⁽¹⁵⁾
10.33	Second Amendment to Purchase and Sale Agreement, Contribution Agreement and Joint Escrow Instructions dated June 12, 1997 by and between Shidler West Acquisition Company, LLC and Kilroy Realty, L.P. ⁽¹⁵⁾

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<u>Exhibit Number</u>	<u>Description</u>
10.34	Agreement of Purchase and Sale and Joint Escrow Instructions dated June 12, 1997 by and between Mazda Motor of America, Inc. and Kilroy Realty, L.P. ⁽¹⁴⁾
10.35	First Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions dated June 30, 1997 by and between Mazda Motor of America, Inc. and Kilroy Realty, L.P. ⁽¹⁴⁾
10.36	Agreement for Purchase and Sale of 2100 Colorado Avenue, Santa Monica, California dated June 16, 1997 by and between Santa Monica Number Seven Associates L.P. and Kilroy Realty, L.P. ⁽¹⁴⁾
10.37	Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners ⁽¹⁶⁾
10.38	First Amendment to Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated August 22, 1997 ⁽¹⁶⁾
10.39	Second Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 5, 1997 ⁽¹⁶⁾
10.40	Third Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 19, 1997 ⁽¹⁶⁾
10.41	Fourth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 22, 1997 ⁽¹⁶⁾
10.42	Fifth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 23, 1997 ⁽¹⁶⁾
10.43	Sixth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1998 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 25, 1997 ⁽¹⁶⁾
10.44	Seventh Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 29, 1997 ⁽¹⁶⁾
10.45	Eighth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated October 2, 1997 ⁽¹⁶⁾
10.46	Ninth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated October 24, 1997 ⁽¹⁶⁾
10.47	Contribution Agreement dated October 21, 1997 by and between Kilroy Realty, L.P. and Kilroy Realty Corporation and The Allen Group and the Allens ⁽¹⁷⁾
10.48	Purchase and Sale Agreement and Escrow Instructions dated December 11, 1997 by and between Kilroy Realty, L.P. and Swede-Cal Properties, Inc., Viking Investors of Southern California, L.P. and Viking Investors of Southern California II, L.P. ⁽¹⁸⁾
10.49	Amendment to the Contribution Agreement dated October 14, 1998 by and between Kilroy Realty, L.P. and Kilroy Realty Corporation and The Allen Group and the Allens dated October 21, 1997 ⁽¹⁹⁾
10.50	Secured Promissory Notes and Deeds of Trusts Aggregating \$80.0 Million payable to Metropolitan Life Insurance Company dated January 10, 2002 ⁽²⁰⁾
10.51	Secured Promissory Notes and Deeds of Trust Aggregating \$115 million payable to Teachers Insurance and Annuity Association of America ⁽²¹⁾

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<u>Exhibit Number</u>	<u>Description</u>
10.52	Fourth Amended and Restated Revolving Credit Agreement dated October 22, 2004 ⁽²²⁾
10.53	Fourth Amended and Restated Guaranty of Payment dated October 22, 2004 ⁽²²⁾
10.54	Amendment No. 1 to Fourth Amended and Restated Credit Agreement dated June 30, 2005 ⁽³⁸⁾
10.55	Amendment No. 2 to Fourth Amended and Restated Credit Agreement dated April 26, 2006 ⁽²³⁾
10.56	Amendment No. 3 to Fourth Amended and Restated Credit Agreement ⁽³⁷⁾
10.57†	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and John B. Kilroy, Jr. effective as of January 1, 2007 ⁽²⁷⁾
10.58†	Addendum No. 1 to Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and John B. Kilroy, Jr. effective as of February 12, 2008 ⁽⁴⁰⁾
10.59†	Amendment No. 2 to Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and John B. Kilroy, Jr. effective as of December 31, 2009 ⁽⁴⁰⁾
10.60†	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Jeffrey C. Hawken effective as of January 1, 2007 ⁽²⁷⁾
10.61†	Amendment No. 1 to Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Jeffrey C. Hawken effective as of December 31, 2009 ⁽⁴⁰⁾
10.62†	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Richard E. Moran Jr. effective as of January 1, 2007 ⁽²⁷⁾
10.63†	Amendment No. 1 to Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Richard E. Moran Jr. effective as of December 31, 2009 ⁽⁴⁰⁾
10.64	Letter confirmation dated March 27, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and JPMorgan Chase Bank, National Association, London Branch ⁽²⁸⁾
10.65	Letter confirmation dated March 27, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and Bank of America, N.A. ⁽²⁸⁾
10.66	Letter confirmation dated March 27, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and Lehman Brothers OTC Derivatives Inc. ⁽²⁸⁾
10.67	Amendment to letter confirmation dated April 4, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and JPMorgan Chase Bank, National Association, London Branch ⁽²⁹⁾
10.68	Amendment to letter confirmation dated April 4, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and Bank of America, N.A. ⁽²⁹⁾
10.69	Amendment to letter confirmation dated April 4, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and Lehman Brothers OTC Derivatives Inc. ⁽²⁹⁾
10.70†	Kilroy Realty Corporation 2007 Deferred Compensation Plan ⁽³²⁾
10.71†	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Steven R. Scott effective as of January 1, 2007 ⁽³²⁾
10.72†	Amendment No. 1 to Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Steven R. Scott effective as of December 31, 2009 ⁽⁴⁰⁾
10.73†	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Tyler H. Rose effective as of January 1, 2007 ⁽³²⁾
10.74†	Amendment No. 1 to Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Tyler H. Rose effective as of December 31, 2009 ⁽⁴⁰⁾

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<u>Exhibit Number</u>	<u>Description</u>
10.75†	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Heidi Roth effective as of January 1, 2007 ⁽³²⁾
10.76†	Amendment No. 1 to Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Heidi Roth effective as of December 31, 2009 ⁽⁴⁰⁾
10.77†	Kilroy Realty Corporation Stock Award Deferral Program ⁽³³⁾
10.78	Ground Lease by and between Frederick Boysen and Ted Boysen and Kilroy Industries dated May 15, 1969 for SeaTac Office Center ⁽⁹⁾
10.79	Amendment No. 1 to Ground Lease and Grant of Easement dated April 27, 1973 among Frederick Boysen and Dorothy Boysen, Ted Boysen and Rose Boysen and Sea/Tac Properties ⁽⁹⁾
10.80	Amendment No. 2 to Ground Lease and Grant of Easement dated May 17, 1977 among Frederick Boysen and Dorothy Boysen, Ted Boysen and Rose Boysen and Sea/Tac Properties ⁽⁹⁾
10.81	Airspace lease dated July 10, 1980 by and among the Washington State Department of Transportation, as lessor, and Sea/Tac Properties, Ltd. and Kilroy Industries, as lessee ⁽⁹⁾
10.82	Memorandum of Lease dated April 1, 1980 by and among Bow Lake, Inc., as lessor, and Kilroy Industries and Sea/Tac Properties, Ltd., as lessees for Sea/Tac Office Center ⁽⁹⁾
10.83	Amendment No. 1 to Ground Lease dated September 17, 1990 between Bow Lake, Inc., as lessor, and Sea/Tac Properties, Ltd., as lessee ⁽⁹⁾
10.84	Amendment No. 2 to Ground Lease dated March 21, 1991 between Bow Lake, Inc., as lessor, and Sea/Tac Properties, Ltd., as lessee ⁽⁹⁾
10.85	Letter confirmation dated November 16, 2009, among Kilroy Realty, L.P., Kilroy Realty Corporation and JPMorgan Chase Bank, National Association, London Branch ⁽³⁹⁾
10.86	Letter confirmation dated November 16, 2009, among Kilroy Realty, L.P., Kilroy Realty Corporation and Bank of America, N.A. ⁽³⁹⁾
10.87	Letter confirmation dated November 20, 2009, among Kilroy Realty, L.P., Kilroy Realty Corporation and JPMorgan Chase Bank, National Association, London Branch ⁽³⁹⁾
10.88	Letter confirmation dated November 20, 2009, among Kilroy Realty, L.P., Kilroy Realty Corporation and Bank of America, N.A. ⁽³⁹⁾
10.89†*	Form of Indemnification Agreement of Kilroy Realty Corporation with certain officers and directors
10.90†*	Separation Agreement and Release dated December 16, 2009 by and between Richard E. Moran Jr., Kilroy Realty, L.P. and Kilroy Realty Corporation
10.91*	Deed of Trust and Security Agreement dated January 26, 2010 between Kilroy Realty, L.P. and The Northwestern Mutual Life Insurance Company; related Promissory Note dated January 26, 2010 for \$71 million payable to The Northwestern Mutual Life Insurance Company; and related Guarantee of Recourse Obligations dated January 26, 2010 by Kilroy Realty Corporation
12.1*	Statement of Computation of Consolidated Ratio of Earnings to Combined Fixed Charges and Preferred Dividends
21.1*	List of Subsidiaries of the Registrant
23.1*	Consent of Deloitte & Touche LLP
24.1*	Power of Attorney (included on the signature page of this Form 10-K)
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1*	Section 1350 Certification of Chief Executive Officer
32.2*	Section 1350 Certification of Chief Financial Officer

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* Filed herewith

† Management contract or compensatory plan or arrangement.

- (1) Previously filed as an exhibit to the Registration Statement on Amendment No. 3 to Form S-11 (No. 333-15553).
- (2) Previously filed as an exhibit on Form 10-K for the year ended December 31, 2003.
- (3) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on February 11, 1998.
- (4) Previously filed as an exhibit on Form 8-K/A as filed with the Securities and Exchange Commission on December 19, 1997.
- (5) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on October 8, 1998.
- (6) Previously filed as an exhibit on Form 10-K for the year ended December 31, 2000.
- (7) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on August 11, 2004.
- (8) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 9, 2004.
- (9) Previously filed as an exhibit to the Registration Statement on Amendment No. 2 to Form S-11 (No. 333-15553).
- (10) Previously filed as an exhibit to the Registration Statement on Form S-11 (No. 333-15553).
- (11) Previously filed as an exhibit to the Registration Statement on Amendment No. 5 to Form S-11 (No. 333-15553).
- (12) Previously filed as an exhibit to the Registration Statement on Amendment No. 4 to Form S-11 (No. 333-15553).
- (13) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on June 6, 1997.
- (14) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on July 15, 1997.
- (15) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on July 3, 1997.
- (16) Previously filed as an exhibit on Form 10-Q for the quarter ended September 30, 1997.
- (17) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on November 21, 1997.
- (18) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 29, 1997.
- (19) Previously filed as an exhibit on Form 10-Q for the quarter ended September 30, 1998.
- (20) Previously filed as an exhibit on Form 10-K for the year ended December 31, 2001.
- (21) Previously filed as an exhibit on Form 10-Q for the quarter ended March 31, 2004.
- (22) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on October 28, 2004.
- (23) Previously filed as an exhibit on Form 10-Q for the quarter ended March 31, 2006.
- (24) Previously filed as an exhibit to the Registration Statement on Form S-8 filed with the Securities and Exchange Commission on June 28, 2006.
- (25) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on February 8, 2007.
- (26) Previously filed as an exhibit on Form 10-K for the year ended December 31, 2006.
- (27) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on March 22, 2007.
- (28) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on April 5, 2007.
- (29) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on April 11, 2007.
- (30) Previously filed as an exhibit on Form 10-Q for the quarter ended March 31, 2007.
- (31) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 12, 2008.
- (32) Previously filed as an exhibit on Form 10-Q for the quarter ended June 30, 2007.
- (33) Previously filed as an exhibit to Form 8-K as filed with the Securities and Exchange Commission on January 2, 2008.
- (34) Previously filed as an exhibit on Form 10-Q for the quarter ended September 30, 2008.
- (35) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on May 27, 2009.
- (36) Previously filed as an exhibit on Form 10-Q for the quarter ended June 30, 2009.
- (37) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on July 23, 2009.
- (38) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on July 5, 2005.
- (39) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on November 25, 2009.
- (40) Previously filed as an exhibit on Form 10-K for the year ended December 31, 2008.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 11, 2010.

KILROY REALTY CORPORATION

By: /S/ HEIDI R. ROTH
Heidi R. Roth
Senior Vice President and Controller

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that we, the undersigned officers and directors of Kilroy Realty Corporation, hereby severally constitute John B. Kilroy, Sr., John B. Kilroy, Jr., Jeffrey C. Hawken, Tyler H. Rose and Heidi R. Roth, and each of them singly, our true and lawful attorneys with full power to them, and each of them singly, to sign for us and in our names in the capacities indicated below, the Form 10-K filed herewith and any and all amendments to said Form 10-K, and generally to do all such things in our names and in our capacities as officers and directors to enable Kilroy Realty Corporation to comply with the provisions of the Securities Exchange Act of 1934, as amended, and all requirements of the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorneys, or any of them, to said Form 10-K and any and all amendments thereto.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<u>Name</u>	<u>Title</u>	<u>Date</u>
<u>/S/ JOHN B. KILROY, SR.</u> John B. Kilroy, Sr.	Chairman of the Board	February 11, 2010
<u>/S/ JOHN B. KILROY, JR.</u> John B. Kilroy, Jr.	President, Chief Executive Officer and Director (Principal Executive Officer)	February 11, 2010
<u>/S/ TYLER H. ROSE</u> Tyler H. Rose	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	February 11, 2010
<u>/S/ HEIDI R. ROTH</u> Heidi R. Roth	Senior Vice President and Controller (Principal Accounting Officer)	February 11, 2010
<u>/S/ EDWARD F. BRENNAN, PH.D.</u> Edward F. Brennan, Ph.D.	Director	February 11, 2010
<u>/S/ WILLIAM P. DICKEY</u> William P. Dickey	Director	February 11, 2010
<u>/S/ SCOTT S. INGRAHAM</u> Scott S. Ingraham	Director	February 11, 2010
<u>/S/ DALE F. KINSELLA</u> Dale F. Kinsella	Director	February 11, 2010

KILROY REALTY CORPORATION
CONSOLIDATED FINANCIAL STATEMENTS AS OF DECEMBER 31, 2009 AND 2008
AND FOR THE THREE YEARS ENDED DECEMBER 31, 2009

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Kilroy Realty Corporation
Los Angeles, California

We have audited the accompanying consolidated balance sheets of Kilroy Realty Corporation (the “Company”) as of December 31, 2009 and 2008, and the related consolidated statements of operations, equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedules are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2009 and 2008, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

As discussed in Note 19 to the consolidated financial statements, on January 1, 2009, the Company adopted new accounting provisions with respect to exchangeable debt instruments and noncontrolling interests and retrospectively adjusted all periods presented in the financial statements.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company’s internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 11, 2010, expressed an unqualified opinion on the Company’s internal controls over financial reporting.

/s/ DELOITTE & TOUCHE LLP
Los Angeles, California
February 11, 2010

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

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
<u>ASSETS</u>		
REAL ESTATE ASSETS (Note 15):		
Land and improvements	\$ 335,932	\$ 336,874
Buildings and improvements	1,920,543	1,889,833
Undeveloped land and construction in progress	<u>263,608</u>	<u>248,889</u>
Total real estate held for investment	2,520,083	2,475,596
Accumulated depreciation and amortization	<u>(605,976)</u>	<u>(532,769)</u>
Total real estate assets, net	1,914,107	1,942,827
CASH AND CASH EQUIVALENTS	9,883	9,553
RESTRICTED CASH	2,059	672
MARKETABLE SECURITIES (Notes 9 and 12)	3,452	1,888
CURRENT RECEIVABLES, NET (Note 2)	3,236	5,753
DEFERRED RENT RECEIVABLES, NET (Note 2)	74,392	67,144
NOTE RECEIVABLE	10,679	10,824
DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLES, NET (Note 3)	51,832	53,539
DEFERRED FINANCING COSTS, NET (Note 2)	8,334	5,883
PREPAID EXPENSES AND OTHER ASSETS, NET	<u>6,307</u>	<u>4,835</u>
TOTAL ASSETS	<u>\$ 2,084,281</u>	<u>\$ 2,102,918</u>
<u>LIABILITIES, NONCONTROLLING INTEREST AND EQUITY</u>		
LIABILITIES:		
Secured debt (Note 4)	\$ 294,574	\$ 316,456
Exchangeable senior notes, net (Note 4)	436,442	429,892
Unsecured senior notes (Note 4)	144,000	144,000
Unsecured line of credit (Note 4)	97,000	252,000
Accounts payable, accrued expenses and other liabilities (Note 9)	52,533	55,066
Accrued distributions (Note 7)	17,136	21,421
Deferred revenue and acquisition-related liabilities (Note 5)	66,890	76,219
Rents received in advance and tenant security deposits	<u>18,230</u>	<u>19,340</u>
Total liabilities	<u>1,126,805</u>	<u>1,314,394</u>
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 (Notes 6 and 7):		
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		
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	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	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	913,657	700,122
Distributions in excess of earnings	<u>(180,722)</u>	<u>(137,052)</u>
Total stockholders' equity	<u>854,948</u>	<u>684,983</u>
Noncontrolling Interest:		
Common units of the Operating Partnership	<u>28,890</u>	<u>29,903</u>
Total equity	<u>883,838</u>	<u>714,886</u>
TOTAL LIABILITIES, NONCONTROLLING INTEREST AND EQUITY	<u>\$ 2,084,281</u>	<u>\$ 2,102,918</u>

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2009	2008	2007
REVENUES:			
Rental income	\$ 247,649	\$ 251,520	\$ 229,126
Tenant reimbursements	28,075	30,986	25,272
Other property income (Note 13)	3,710	6,849	3,478
Total revenues	279,434	289,355	257,876
EXPENSES:			
Property expenses	49,709	48,861	43,276
Real estate taxes	24,330	22,063	19,495
Provision for bad debts	569	4,051	473
Ground leases (Note 11)	1,597	1,617	1,582
General and administrative expenses (Note 13)	39,938	38,260	36,580
Interest expense (Notes 2 and 4)	46,119	45,346	40,762
Depreciation and amortization (Notes 2 and 3)	87,627	83,215	72,754
Total expenses	249,889	243,413	214,922
OTHER INCOME (LOSS):			
Interest income and other investment gains (losses) (Note 12)	1,300	(93)	1,606
Gain on early extinguishment of debt (Notes 2 and 4)	4,909	—	—
Total other income (loss)	6,209	(93)	1,606
INCOME FROM CONTINUING OPERATIONS	35,754	45,849	44,560
DISCONTINUED OPERATIONS (Note 15)			
Revenues from discontinued operations	—	812	10,908
Expenses from discontinued operations	(224)	16	(6,656)
Net gain on dispositions of discontinued operations	2,485	234	74,505
Total income from discontinued operations	2,261	1,062	78,757
NET INCOME	38,015	46,911	123,317
Net income attributable to noncontrolling common units of the Operating Partnership	(1,025)	(1,886)	(6,957)
NET INCOME ATTRIBUTABLE TO KILROY REALTY CORPORATION	36,990	45,025	116,360
PREFERRED DIVIDENDS AND DISTRIBUTIONS:			
Distributions to noncontrolling cumulative redeemable preferred units of the Operating Partnership	(5,588)	(5,588)	(5,588)
Preferred dividends	(9,608)	(9,608)	(9,608)
Total preferred dividends and distributions	(15,196)	(15,196)	(15,196)
NET INCOME AVAILABLE FOR COMMON STOCKHOLDERS	\$ 21,794	\$ 29,829	\$ 101,164
Income from continuing operations available to common stockholders per common share—basic (Notes 16 and 19)	\$ 0.47	\$ 0.88	\$ 0.82
Income from continuing operations available to common stockholders per common share—diluted (Notes 16 and 19)	\$ 0.47	\$ 0.88	\$ 0.82
Net income available to common stockholders per share—basic (Notes 16 and 19)	\$ 0.53	\$ 0.91	\$ 3.09
Net income available to common stockholders per share—diluted (Notes 16 and 19)	\$ 0.53	\$ 0.91	\$ 3.09
Weighted average common shares outstanding—basic (Note 16)	38,705,101	32,466,591	32,379,997
Weighted average common shares outstanding—diluted (Note 16)	38,732,126	32,540,872	32,408,966
Dividends declared per common share (Note 17)	\$ 1.63	\$ 2.32	\$ 2.22

See accompanying notes to consolidated financial statements.

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

	<u>Common Stock</u>					<u>Total Stockholders' Equity</u>	<u>Noncontrolling Interest – Common Units of the Operating Partnership</u>	<u>Total Equity</u>
	<u>Preferred Stock</u>	<u>Number of Shares</u>	<u>Common Stock</u>	<u>Additional Paid-in Capital</u>	<u>Distributions in Excess of Earnings</u>			
BALANCE AT DECEMBER 31, 2006	\$121,582	32,398,881	\$ 324	\$ 671,484	\$ (119,094)	\$ 674,296	39,628	713,924
Net income					116,360	116,360	6,957	123,317
Repurchase of common stock		(32,515)		(2,631)		(2,631)		(2,631)
Issuance of share-based compensation awards		269,323	2	2,968		2,970		2,970
Noncash amortization of share-based compensation				12,567		12,567		12,567
Exercise of stock options		1,000		29		29		29
Equity component of 3.25% Exchangeable Notes (Note 2)				38,692		38,692		38,692
Cost of capped call options on common stock (Note 4)				(29,050)		(29,050)		(29,050)
Exchange of common units of the Operating Partnership (Note 7)		129,204	2	2,052		2,054	(2,054)	—
Adjustment for noncontrolling interest (Note 2)				(959)		(959)	959	—
Preferred dividends and distributions					(15,196)	(15,196)		(15,196)
Dividends declared per common share and common unit (\$2.22 per share/unit)					(72,632)	(72,632)	(4,956)	(77,588)
BALANCE AT DECEMBER 31, 2007	121,582	32,765,893	328	695,152	(90,562)	726,500	40,534	767,034
Net income					45,025	45,025	1,886	46,911
Repurchase of common stock (Note 7)		(300,586)	(3)	(14,795)		(14,798)		(14,798)
Issuance of share-based compensation awards		184,245	2	2,165		2,167		2,167
Noncash amortization of share-based compensation				9,630		9,630		9,630
Exercise of stock options		1,000		21		21		21
Exchange of common units of the Operating Partnership (Note 7)		435,596	4	7,157		7,161	(7,161)	—
Adjustment for noncontrolling interest (Note 2)				792		792	(792)	—
Preferred dividends and distributions					(15,196)	(15,196)		(15,196)
Dividends declared per common share and common unit (\$2.32 per share/unit)					(76,319)	(76,319)	(4,564)	(80,883)
BALANCE AT DECEMBER 31, 2008	121,582	33,086,148	331	700,122	(137,052)	684,983	29,903	714,886
Net income					36,990	36,990	1,025	38,015
Issuance of common stock (Note 7)		10,062,500	100	191,572		191,672		191,672
Repurchase of common stock		(86,482)		(2,725)		(2,725)		(2,725)
Issuance of share-based compensation awards		55,998		7,753		7,753		7,753
Noncash amortization of share-based compensation (Note 8)				12,338		12,338		12,338
Equity component of 4.25% Exchangeable Notes (Notes 2 and 4)				19,835		19,835		19,835
Cost of capped call options on common stock (Note 4)				(12,127)		(12,127)		(12,127)
Repurchase of 3.25% Exchangeable Notes equity component (Note 4)				(2,323)		(2,323)		(2,323)
Exchange of common units of the Operating Partnership (Note 7)		30,598		516		516	(516)	—
Adjustment for noncontrolling interest (Note 2)				(1,304)		(1,304)	1,304	—
Preferred distributions and dividends					(15,196)	(15,196)		(15,196)
Dividends declared per common share and common unit (\$1.63 per share/unit)					(65,464)	(65,464)	(2,826)	(68,290)
BALANCE AS OF DECEMBER 31, 2009	\$121,582	43,148,762	\$ 431	\$ 913,657	\$ (180,722)	\$854,948	\$ 28,890	\$883,838

See accompanying notes to consolidated financial statements.

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

	Year Ended December 31,		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 38,015	\$ 46,911	\$ 123,317
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	86,825	82,491	73,708
Increase in provision for uncollectible tenant receivables	906	675	173
(Decrease) increase in provision for uncollectible deferred rent receivables	(337)	3,376	300
Depreciation of furniture, fixtures and equipment	827	784	840
Noncash amortization of share-based compensation awards	12,253	15,185	15,137
Noncash amortization of deferred financing costs and exchangeable debt discounts	10,171	8,146	6,155
Noncash amortization of above/below market rents	(359)	(633)	(1,831)
Net gain on dispositions of discontinued operations (Note 15)	(2,485)	(234)	(74,505)
Noncash amortization of deferred revenue related to tenant-funded tenant improvements (Note 5)	(9,757)	(11,310)	(4,328)
Gain on early extinguishment of debt (Note 4)	(4,909)		
Other		(634)	(259)
Changes in assets and liabilities:			
Marketable securities (Notes 9 and 12)	(1,564)	(1,181)	(707)
Current receivables	1,611	(1,537)	726
Deferred rent receivables	(6,911)	(3,237)	(7,126)
Deferred leasing costs	(1,013)	(16)	(1,620)
Prepaid expenses and other assets	(897)	(628)	(752)
Accounts payable, accrued expenses and other liabilities	4,374	(836)	9,895
Deferred revenue	(675)	6,252	7,048
Rents received in advance and tenant security deposits	(1,110)	907	1,329
Net cash provided by operating activities	<u>124,965</u>	<u>144,481</u>	<u>147,500</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Expenditures for operating properties	(35,532)	(24,980)	(38,043)
Expenditures for development and redevelopment properties and undeveloped land	(18,633)	(69,774)	(191,862)
Acquisitions of redevelopment properties and undeveloped land			(157,005)
Net proceeds received from dispositions of operating properties (Note 15)	4,933	275	89,992
Proceeds received from completion of Section 1031 Exchange			43,794
Proceeds from termination of profit participation agreement (Note 15)			4,848
Insurance proceeds received for property casualty loss		634	141
Increase in restricted cash	(1,387)	(126)	(52)
Decrease in escrow deposits			3,000
Receipt of principal payments on note receivable	145	146	126
Proceeds from sales of marketable securities			259
Net cash used in investing activities	<u>(50,474)</u>	<u>(93,825)</u>	<u>(244,802)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from issuance of exchangeable senior notes (Note 4)	172,500		455,400
Cost of capped call options on common stock (Note 4)	(12,127)		(29,050)
Repurchase of exchangeable senior notes (Note 4)	(150,390)		
Borrowings on unsecured line of credit	142,000	163,500	246,000
Repayments on unsecured line of credit	(297,000)	(22,500)	(411,000)
Principal payments on secured debt	(21,766)	(82,932)	(63,286)
Financing costs	(9,325)	(857)	(6,591)
Net proceeds from issuance of common stock (Note 7)	191,672		
Repurchase of common stock (Note 7)	(2,725)	(14,798)	(2,631)
Proceeds from exercise of stock options		21	29
Dividends and distributions paid to common stockholders and common unitholders	(71,804)	(80,073)	(76,589)
Dividends and distributions paid to preferred stockholders and preferred unitholders	(15,196)	(15,196)	(15,196)
Net cash (used in) provided by financing activities	<u>(74,161)</u>	<u>(52,835)</u>	<u>97,086</u>
Net increase (decrease) in cash and cash equivalents	330	(2,179)	(216)
Cash and cash equivalents, beginning of year	<u>9,553</u>	<u>11,732</u>	<u>11,948</u>
Cash and cash equivalents, end of year	<u>\$ 9,883</u>	<u>\$ 9,553</u>	<u>\$ 11,732</u>

KILROY REALTY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS—(Continued)
(Amounts in thousands)

	Year Ended December 31,		
	2009	2008	2007
SUPPLEMENTAL CASH FLOWS INFORMATION:			
Cash paid for interest, net of capitalized interest of \$7,381, \$14,804 and \$16,760 as of December 31, 2009, 2008 and 2007, respectively	\$ 36,808	\$ 37,638	\$ 32,504
NONCASH INVESTING TRANSACTIONS:			
Accrual for expenditures for operating properties and development and redevelopment properties	\$ 11,222	\$ 8,055	\$ 11,398
Tenant improvements funded directly by tenants to third-parties (Note 5)	\$ 1,480	\$ 22,749	\$ 33,079
Noncash receipt of marketable securities in connection with a lease termination			\$ 259
NONCASH FINANCING TRANSACTIONS:			
Accrual of dividends and distributions payable to common stockholders and common unitholders (Note 7)	\$ 15,705	\$ 20,211	\$ 19,400
Accrual of dividends and distributions payable to preferred stockholders and preferred unitholders (Notes 6 and 7)	\$ 1,909	\$ 1,909	\$ 1,909
Issuance of share-based compensation awards (Note 8)	\$ 18,001	\$ 10,059	\$ 23,632
Exchange of common units of the Operating Partnership into shares of the Company's common stock (Note 7)	\$ 516	\$ 7,161	\$ 2,054
Accrual of public facility bond obligation (Note 4)		\$ 3,476	

See accompanying notes to consolidated financial statements.

KILROY REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
Three Years Ended December 31, 2009

1. Organization and Ownership

Organization

Kilroy Realty Corporation (the “Company”) owns, operates, develops, and acquires office and industrial real estate located in Southern California. The Company qualifies and operates as a self-administered real estate investment trust (“REIT”) under the Internal Revenue Code of 1986, as amended (the “Code”).

As of December 31, 2009, the Company’s stabilized portfolio of operating properties was comprised of 93 office buildings (the “Office Properties”) and 41 industrial buildings (the “Industrial Properties”), which encompassed an aggregate of approximately 8.7 million and 3.7 million rentable square feet, respectively. As of December 31, 2009, the Office Properties were approximately 80.6% leased to 286 tenants, and the Industrial Properties were approximately 88.2% leased to 58 tenants. All of the Company’s properties are located in Southern California.

The Company’s stabilized portfolio excludes undeveloped land, development and redevelopment properties under construction, “lease-up” properties, and one industrial property that the Company is in the process of reentitling for residential use. The Company defines “lease-up” properties as properties recently developed or redeveloped by the Company that have not yet reached 95% occupancy and are within one year following cessation of major construction activities. During the year ended December 31, 2009, the Company added one development property, which encompasses approximately 51,000 rentable square feet of new medical office space, to the Company’s stabilized portfolio since one year had passed since cessation of major construction activities. During the year ended December 31, 2008, the Company added three development properties and two redevelopment properties, which in aggregate encompass approximately 560,000 rentable square feet of new office space, to the Company’s stabilized portfolio.

The Company owns its interests in all of its Office Properties and Industrial Properties through Kilroy Realty, L.P. (the “Operating Partnership”) and Kilroy Realty Finance Partnership, L.P. (the “Finance Partnership”). The Company conducts substantially all of its operations through the Operating Partnership, in which it owned a 96.2% and 95.0% general partnership interest as of December 31, 2009 and 2008, respectively. The remaining 3.8% and 5.0% common limited partnership interest in the Operating Partnership as of December 31, 2009 and 2008, respectively, was owned by certain of the Company’s executive officers and directors, certain of their affiliates, and other outside investors (see Note 6). Kilroy Realty Finance, Inc., a wholly-owned subsidiary of the Company, is the sole general partner of the Finance Partnership and owns a 1.0% general partnership interest. The Operating Partnership owns the remaining 99.0% limited partnership interest. The Company conducts substantially all of its development activities through Kilroy Services, LLC (“KSLLC”), which is a wholly-owned subsidiary of the Operating Partnership. Unless otherwise indicated, all references to the Company include the Operating Partnership, the Finance Partnership, KSLLC, and all wholly-owned subsidiaries of the Company. With the exception of the Operating Partnership, all of the Company’s subsidiaries are wholly-owned.

2. Basis of Presentation and Significant Accounting Policies

Basis of Presentation:

The consolidated financial statements of the Company include the consolidated financial position and results of operations of the Company, the Operating Partnership, the Finance Partnership, KSLLC, and all wholly-owned subsidiaries. All significant intercompany balances and transactions have been eliminated in the consolidated financial statements.

KILROY REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Effective July 1, 2009, the Financial Accounting Standards Board Accounting Standards Codification (the “FASB Codification”) became the single source of authoritative generally accepted accounting principles (“GAAP”) in the United States of America. The FASB Codification reorganized the previous GAAP pronouncements into accounting topics, which are displayed using a single numerical structure. Certain SEC guidance is also included in the FASB Codification and follows a similar topical structure in separate SEC sections. Any technical references contained in the accompanying interim financial statements have been updated to correspond to the new FASB Codification references.

Significant Accounting Policies:

Operating Properties

Operating properties are generally carried at historical cost less accumulated depreciation. Properties held for sale are reported at the lower of the carrying value or the fair value less estimated cost to sell. The cost of operating properties includes the purchase price or development costs of the properties. Costs incurred for the renovation and betterment of the operating properties are capitalized to the Company’s investment in that property. Maintenance and repairs are charged to expense as incurred.

When evaluating properties to be held and used for potential impairment, the Company first evaluates whether there are any indicators of impairment for any of the Company’s properties. If any impairment indicators are present for a specific property, the Company then performs an undiscounted cash flow analysis and compares the net carrying amount of the property to the property’s estimated undiscounted future cash flow over the anticipated holding period. If the estimated undiscounted future cash flow is less than the net carrying amount of the property, the Company then performs an impairment loss calculation to determine if the fair value of the property is less than the net carrying value of the property. The Company’s impairment loss calculation compares the net carrying amount of the property to the property’s estimated fair value, which may be based on estimated discounted future cash flow calculations or third-party valuations or appraisals. The Company would recognize an impairment loss if the asset’s net carrying amount exceeds the asset’s estimated fair value. If the Company were to recognize an impairment loss, the estimated fair value of the asset would become its new cost basis. For a depreciable long-lived asset, the new cost basis would be depreciated (amortized) over the remaining useful life of that asset. The Company did not record any impairment losses during the years ended December 31, 2009, 2008, and 2007.

Development and Redevelopment Properties

All costs clearly associated with the acquisition, development, and construction of a development or redevelopment property are capitalized as project costs. In addition, the following costs are capitalized as project costs during periods in which activities necessary to get the property ready for its intended use are in progress: pre-construction costs essential to the development of the property, interest, real estate taxes, insurance, and internal compensation and administrative costs that are clearly related to the Company’s development or redevelopment activities.

The Company ceases capitalization on a development or redevelopment property either when the property has reached 95% occupancy, one year after cessation of major construction activities, or if activities necessary to get the property ready for its intended use have been suspended. For development or redevelopment properties with extended lease-up periods, the Company ceases capitalization and begins depreciation on the portion of the development or redevelopment property for which the Company has commenced revenue recognition.

Once major construction activity has ceased and the development or redevelopment property is in the lease-up phase, the costs capitalized to construction in progress are transferred to land and improvements,

KILROY REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

buildings and improvements, and deferred leasing costs on the Company's consolidated balance sheets as the historical cost of the property.

Depreciation and Amortization of Buildings and Improvements

The cost of buildings and improvements and tenant improvements are depreciated using the straight-line method of accounting over the estimated useful lives set forth in the table below. Depreciation expense for buildings and improvements, including discontinued operations, for the three years ended December 31, 2009, 2008, and 2007 was \$74.0 million, \$68.8 million, and \$61.1 million, respectively.

<u>Asset Description</u>	<u>Depreciable Lives</u>
Buildings and improvements	25 – 40 years
Tenant improvements	1 – 20 years ⁽¹⁾

(1) Tenant improvements are amortized over the shorter of the lease term or the estimated useful life.

Acquisitions

The Company records undeveloped land acquisitions at the purchase price paid and capitalizes the associated acquisition costs.

Effective January 1, 2009, the Company adopted new accounting provisions pertaining to operating property acquisitions. These new provisions, which the Company adopted on a prospective basis, did not impact the Company's consolidated financial statements for the periods presented since the Company did not acquire any operating properties during the year ended December 31, 2009. The impact of the new provisions on future periods will ultimately depend on acquisition activity, but could be material in periods of increasing acquisition activity due to the new requirements to expense acquisition costs as incurred.

In accordance with the new provisions, the Company records the acquired assets and assumed liabilities of operating property acquisitions completed after January 1, 2009 at fair value at the acquisition date. The acquired assets and assumed liabilities for an operating property acquisition generally include but are not limited to: land, buildings and improvements, and identified tangible and intangible assets and liabilities associated with in-place leases, including tenant improvements, unamortized leasing commissions, value of above-market and below-market leases, acquired in-place lease values, and tenant relationships, if any.

The fair value of buildings and improvements, tenant improvements, and unamortized leasing commissions are based on current market replacement costs and other relevant market rate information. The fair value of land is derived from comparable sales of land within the same region.

The fair value of acquired in-place leases is derived based on management's assessment of lost revenue and costs incurred for the period required to lease the "assumed vacant" property to the occupancy level when purchased. The amount recorded for acquired in-place leases is included in deferred leasing costs and acquisition-related intangible assets in the balance sheet and amortized as an increase to depreciation and amortization expense over the remaining noncancelable term of the applicable leases.

The fair value of the above-market or below-market component of an acquired in-place lease is based upon the present value (calculated using a market discount rate) of the difference between (i) the contractual rents to be paid pursuant to the lease over its remaining term and (ii) management's estimate of the rents that would be paid using fair market rental rates over the remaining term of the lease. The amounts recorded for above-market or

KILROY REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

below-market leases are included in other assets or acquisition-related liabilities in the balance sheet and are amortized on a straight-line basis as an increase or reduction of rental income over the remaining noncancelable term of the applicable leases.

Discontinued Operations and Properties Held for Sale

The revenues, expenses, and net gain on dispositions of operating properties and the revenues and expenses on properties classified as held for sale are reported in the consolidated statements of operations as discontinued operations for all periods presented through the date of the applicable disposition. The net gain (loss) on disposition is included in the period the property is sold. In determining whether the income (loss) and net gain (loss) on dispositions of operating properties is reported as discontinued operations, the Company evaluates whether it has any significant continuing involvement in the operations, leasing, or management of the sold property. If the Company were to determine that there was any significant continuing involvement, the income (loss) and net gain (loss) on dispositions of the operating property would not be recorded in discontinued operations.

A property is classified as held for sale when certain criteria are met, including but not limited to the availability of the asset for immediate sale, the existence of an active program to locate a buyer, and the probable sale or transfer of the asset within one year. At such time, the Company presents the applicable assets and liabilities related to the property held for sale, if material, separately on the balance sheet and ceases to record depreciation and amortization expense. Properties held for sale are reported at the lower of their carrying value or their estimated fair value less the estimated costs to sell. The Company did not have any properties classified as held for sale as of December 31, 2009 or 2008.

Revenue Recognition

The Company recognizes revenue from rent, tenant reimbursements, parking, and other revenue sources once all of the following criteria are met:

- the agreement has been fully executed and delivered;
- services have been rendered;
- the amount is fixed or determinable; and
- the collectability of the amount is reasonably assured.

Minimum annual rental revenues are recognized in rental revenues on a straight-line basis over the term of the related lease. Rental revenue recognition commences when the tenant takes possession or controls the physical use of the leased space. In order for the tenant to take possession, the leased space must be substantially ready for its intended use. To determine whether the leased space is substantially ready for its intended use, management evaluates whether the Company or the tenant is the owner of tenant improvements for accounting purposes. When management concludes that the Company is the owner of tenant improvements, rental revenue recognition begins when the tenant takes possession of the finished space, which is when such tenant improvements are substantially complete. In certain instances, when management concludes that the Company is not the owner (the tenant is the owner) of tenant improvements, rental revenue recognition begins when the tenant takes possession of or controls the space.

When management concludes that the Company is the owner of tenant improvements for accounting purposes, management records the cost to construct the tenant improvements as a capital asset. In addition,

KILROY REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

management records the cost of certain tenant improvements paid for or reimbursed by tenants as capital assets when management concludes that the Company is the owner of such tenant improvements. For these tenant improvements, management records the amount funded or reimbursed by tenants as deferred revenue, which is amortized as additional rental income over the term of the related lease.

When management concludes that the tenant is the owner of tenant improvements for accounting purposes, management records the Company's contribution towards those improvements as a lease incentive, which is amortized as a reduction to rental revenue on a straight-line basis over the term of the lease.

Tenant Reimbursements

Reimbursements from tenants, consisting of amounts due from tenants for common area maintenance, real estate taxes, and other recoverable costs, are recognized as revenue in the period the expenses are incurred. Tenant reimbursements are recognized and recorded on a gross basis, as the Company is generally the primary obligor with respect to purchasing goods and services from third-party suppliers, has discretion in selecting the supplier, and has credit risk.

Other Property Income

Other property income primarily includes amounts recorded in connection with lease terminations. Lease termination fees are amortized over the remaining lease term, if applicable. If there is no remaining lease term, they are recognized when received and realized. Other property income also includes miscellaneous income from tenants, such as fees related to the restoration of leased premises to their original condition and fees for late rental payments.

Allowances for Uncollectible Tenant and Deferred Rent Receivables

As of December 31, 2009 and 2008, current receivables were carried net of an allowance for uncollectible amounts of \$3.1 million and \$4.0 million, respectively, and deferred rent receivables were carried net of an allowance for uncollectible accounts of \$6.4 million and \$7.3 million, respectively. Management's determination of the adequacy of these allowances is based primarily upon evaluations of individual receivables, current economic conditions, historical loss experience, and other relevant factors. The allowances are increased or decreased through the provision for bad debts.

Cash and Cash Equivalents

The Company considers all highly-liquid investments with original maturities of three months or less to be cash equivalents.

Restricted Cash

Restricted cash consists of cash held as collateral to provide credit enhancement for the Company's mortgage debt, including cash reserves for capital expenditures, tenant improvements, and property taxes.

Marketable Securities

Marketable securities reported in the Company's consolidated balance sheets represent the assets held in connection with the Kilroy Realty Corporation 2007 Deferred Compensation Plan (the "Deferred Compensation

KILROY REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Plan”) (see Note 9). The marketable securities are treated as trading securities for financial reporting purposes and are adjusted to fair value at the end of each accounting period, with the corresponding gains and losses recorded in interest income and other investment gains (losses).

Deferred Leasing Costs

Costs incurred in connection with successful property leasing are capitalized as deferred leasing costs. Deferred leasing costs consist primarily of leasing commissions and also include certain internal payroll costs, which are amortized using the straight-line method of accounting over the lives of the leases which generally range from one to 20 years. Management reevaluates the remaining useful lives of leasing costs as the creditworthiness of the Company’s tenants and economic and market conditions change. If management determines that the estimated remaining life of a lease has changed, the Company adjusts the amortization period.

Deferred Financing Costs

Costs incurred in connection with debt financings are recorded as deferred financing costs. Deferred financing costs are generally amortized using the straight-line method of accounting, which approximates the effective interest method, over the contractual terms of the applicable financings. As of December 31, 2009 and 2008, deferred financing costs were reported net of accumulated amortization of \$9.7 million and \$7.7 million, respectively.

Exchangeable Debt Instruments

Effective January 1, 2009, the Company adopted new accounting provisions with respect to exchangeable debt instruments. This new guidance requires the initial proceeds from exchangeable debt that may be settled in cash, including partial cash settlements, to be bifurcated between a liability component and an equity component associated with the embedded conversion option. The objective of the guidance is to require the liability and equity components of exchangeable debt to be separately accounted for in a manner such that the interest expense on the exchangeable debt is not recorded at the stated rate of interest but rather at an effective rate that reflects the issuer’s conventional debt borrowing rate at the date of issuance. These new provisions were applied retrospectively to the Company’s financial statements to the April 2007 issuance date of the 3.25% Exchangeable Senior Notes (the “3.25% Exchangeable Notes”). The Company recorded the liability component of the 3.25% Exchangeable Notes at an initial fair value of \$416.2 million and the equity component, net of issuance costs, at \$38.7 million. The effect of the new guidance on the Company’s consolidated financial statements for all periods presented is shown in Note 19.

The Company calculates the liability component of exchangeable debt based on the present value of the contractual cash flows discounted at a comparable market conventional debt borrowing rate at the date of issuance. The difference between the principal amount and the fair value of the liability component is reported as a discount on the exchangeable debt that is accreted as additional interest expense from the issuance date through the contractual maturity date using the effective interest method. A portion of this additional interest expense is capitalized to the development and redevelopment balances qualifying for interest capitalization each period. The liability component of the exchangeable debt is reported net of discounts on the Company’s consolidated balance sheets.

The Company calculates the equity component of exchangeable debt based on the difference between the initial proceeds received from the issuance of the exchangeable debt and the fair value of the liability component at the issuance date. The equity component is included in additional paid-in-capital, net of issuance costs, on the Company’s consolidated balance sheets. The Company allocates issuance costs for exchangeable debt between the liability and the equity components based on their relative values.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Effective January 1, 2009, the Company also adopted new accounting provisions, which provide additional guidance when evaluating whether a financial instrument or embedded feature is indexed to an entity's own stock. The Company applied this new guidance to the 3.25% Exchangeable Notes and 4.25% Exchangeable Senior Notes (the "4.25% Exchangeable Notes" and, together with the 3.25% Exchangeable Notes, the "Exchangeable Notes") and the related capped call option transactions and determined there was no impact to the Company's consolidated financial statements.

Noncontrolling Interests

Noncontrolling interests represent the issued and outstanding 1,500,000 Series A Preferred Units of the Operating Partnership ("Series A Preferred Units") and common limited partnership interests in the Operating Partnership not held by the Company ("noncontrolling common units").

Effective January 1, 2009, the Company adopted new accounting provisions with respect to noncontrolling interests. This new guidance requires that amounts formerly reported as minority interests be reported as noncontrolling interests on the Company's consolidated financial statements. In connection with the issuance of this guidance, certain revisions were also made to related SEC guidance that clarified that noncontrolling interests with redemption provisions outside of the control of the issuer and noncontrolling interests with redemption provisions that permit the issuer to settle in either cash or common shares at the option of the issuer are subject to further evaluation to determine appropriate balance sheet classification and measurement. The presentation provisions were applied retrospectively to the Company's consolidated financial statements, and the effect of the new guidance on the presentation and classification within the Company's consolidated financial statements is shown in Note 19.

The Company's Series A Preferred Units are presented in the temporary equity section of the consolidated balance sheets after total liabilities and before equity and reported at redemption value, less issuance costs, given that the Series A Preferred Units contain a right of redemption at the option of the holders in the event of certain corporate events (see Note 6).

Common units are presented in the equity section of the consolidated balance sheets and reported at their proportionate share of the net assets of the Operating Partnership. The new accounting provisions require that noncontrolling interests with redemption provisions that permit the issuer to settle in either cash or common shares at the option of the issuer be further evaluated to determine whether equity or temporary equity classification on the balance sheet is appropriate. Since the common units contain such a provision, the Company evaluated this guidance and determined that the common units qualify for equity presentation.

Net income attributable to noncontrolling common units is allocated based on their relative ownership percentage of the Operating Partnership during the reported period. The noncontrolling interest ownership percentage is determined by dividing the number of noncontrolling common units by the total number of common units outstanding. The issuance or redemption of additional shares of common stock or common units results in changes to the noncontrolling interest percentage as well as the total net assets of the Company. As a result, all equity transactions result in an allocation between equity and the noncontrolling interest in the Company's consolidated balance sheets and statements of equity to account for the changes in the noncontrolling interest ownership percentage as well as the change in total net assets of the Company.

Equity Offering Costs

Underwriting commissions and offering costs incurred in connection with equity offerings are reflected as a reduction of additional paid-in capital.

KILROY REALTY CORPORATION
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Gain on Early Extinguishment of Debt

Gain on early extinguishment of debt represents the gain recorded in connection with the repurchase of a portion of the outstanding 3.25% Exchangeable Notes (see Note 4). The Company calculates the gain on early extinguishment of debt as the difference on the repurchase date between the estimated fair value of the liability component and the net carrying amount of the repurchased exchangeable debt. Deferred financing costs are written off against the gain on early extinguishment of debt in proportion to the exchangeable debt repurchased.

Share-based Incentive Compensation Accounting

For share-based awards in which the performance period precedes the grant date, the Company recognizes compensation cost over the requisite service period, which includes both the performance and service vesting periods, using the accelerated attribution expense method. The requisite service period begins on the date the Executive Compensation Committee authorizes the award and adopts any relevant performance measures. During the performance period for a share-based award program, the Company estimates the total compensation cost of the potential future awards. The Company then records compensation cost equal to the portion of the requisite service period that has elapsed through the end of the reporting period. For programs with performance-based measures, the total estimated compensation cost is based on management's most recent estimate of the probable achievement of the pre-established specific corporate performance measures. These estimates are based on management's latest internal forecasts for each performance measure. For programs with market measures, the total estimated compensation cost is based on the fair value of the award at the applicable reporting date.

For share-based awards for which there is no pre-established performance period, the Company recognizes compensation cost over the service vesting period, which represents the requisite service period, using the straight-line attribution expense method.

The Company records the dividends paid to holders of nonvested awards issued under share-based compensation programs as an increase to distributions in excess of earnings. The Company would expense an estimate of the dividends on nonvested awards that were not expected to vest as additional compensation cost, if material.

In accordance with the provisions of the Company's share-based incentive compensation plans, the Company accepts the return of shares of its common stock, at the current quoted market price, from certain key employee to satisfy minimum statutory tax-withholding requirements related to shares that vested during the period.

Basic and Diluted Net Income Available to Common Stockholders per Share

Basic net income (loss) available to common stockholders per share is computed by dividing net income (loss) available for common stockholders, after the allocation of income to participating securities, by the weighted-average number of vested common shares outstanding for the period. Diluted net income (loss) available to common stockholders per share is computed by dividing net income (loss) available for common stockholders, after the allocation of income to participating securities, by the sum of the weighted-average number of common shares outstanding for the period plus the assumed exercise of all dilutive securities. The impact of the outstanding common units is considered in the calculation of diluted net income (loss) available to common stockholders per share. The common units are not reflected in the diluted net income (loss) available to common stockholders per share calculation because the exchange of common units into common stock is on a one for one basis, and the common units are allocated net income on a per share basis equal to the common stock (see Note 16). Accordingly, any exchange would not have any effect on diluted net income (loss) available to common stockholders per share.

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The dilutive effect of the Company's outstanding nonvested shares of common stock ("nonvested shares") and restricted stock units ("RSUs") that have not yet been granted but are contingently issuable under the Company's share-based compensation programs is reflected in the Company's calculation of weighted average diluted outstanding shares by application of the treasury stock method at the beginning of the quarterly period in which all necessary conditions have been satisfied. The dilutive effect of stock options and Exchangeable Notes are reflected in the Company's calculation of weighted average diluted outstanding shares by application of the treasury stock method.

Effective January 1, 2009, the Company adopted new accounting provisions which require that nonvested share-based payment awards containing nonforfeitable rights to dividends or dividend equivalents, such as nonvested shares and RSUs, be included in the computation of basic and diluted net income available to common stockholders per share pursuant to the two-class method. Prior to the adoption of this guidance, the impact of nonvested shares and RSUs were included only in the computation of diluted net income available to common stockholders per share by reflecting them in the Company's calculation of weighted average shares outstanding by application of the treasury stock method. The new accounting provisions were applied retrospectively to the Company's calculation of net income available to common stockholders per share for all periods presented, and the effect of the new provisions on the Company's consolidated financial statements is shown in Note 19. The Company believes that the adoption of the new provisions will not have a material impact to the Company's computations for net income available to common stockholders per share in the future based upon the share-based compensation programs currently in place.

Fair Value Measurements

The Company adopted the following new accounting provisions with respect to fair value during 2009 and 2008:

- Effective January 1, 2008: new framework for fair value measurements and disclosure for its financial instruments;
- Effective January 1, 2008: new provisions that permit entities to choose to measure many financial instruments and certain other items at fair value;
- Effective January 1, 2009: new framework for fair value measurements and disclosure for all its nonfinancial assets and nonfinancial liabilities, including those reported at fair value on a nonrecurring basis;
- Effective April 1, 2009: new provisions providing additional guidance in determining fair values when there is no active market or where the price inputs being used represent distressed sales; and
- Effective January 1, 2009: new provisions pertaining to the fair value for assets or liabilities arising from contingencies in business combinations and property acquisitions.

The adoption of these provisions, each of which were applied on a prospective basis, did not have a material effect to the Company's financial statements. With respect to the fair value option for financial instruments, the Company elected not to apply the fair value option for any of its eligible financial instruments or other items.

The Company determines the estimated fair value of financial assets and liabilities utilizing a hierarchy of valuation techniques based on whether the inputs to a fair value measurement are considered to be observable or unobservable in a marketplace. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. This hierarchy requires the use of observable market data when available. The following is the fair value hierarchy:

- *Level 1*—quoted prices for identical instruments in active markets;

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

- *Level 2*—quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which significant inputs and significant value drivers are observable in active markets; and
- *Level 3*—fair value measurements derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

The fair value of the Company's financial assets and liabilities are disclosed in Note 12 to the Company's consolidated financial statements. The only financial instruments recorded at fair value on a recurring basis in the Company's consolidated financial statements are the marketable securities. The Company determines the fair value for the marketable securities using quoted prices in active markets for identical assets. The remaining financial instruments, which are only disclosed at fair value, are comprised of secured debt, unsecured senior notes, unsecured line of credit (the "Credit Facility"), Exchangeable Notes, and the note receivable.

The Company determines the fair value of its secured debt, unsecured senior notes, and Credit Facility by performing discounted cash flow analyses using an appropriate market discount rate for similar types of instruments. The Company determines the fair value of the liability component of its Exchangeable Notes by performing discounted cash flow analyses using an appropriate market interest rate for similar non-convertible conventional debt instruments. The Company determines the market rates by obtaining period-end treasury rates for fixed-rate debt, or period-end LIBOR rates for variable-rate debt, for maturities that correspond to the maturities of its debt and then adding an appropriate credit spread derived from information obtained from third-party financial institutions. These market credit spreads take into account factors including, but not limited to, the Company's credit standing, the maturity of the debt, whether the debt is secured or unsecured, and the loan-to-value ratio of the debt. These calculations are significantly affected by the assumptions used, including the discount rate, credit spreads, and estimates of future cash flow.

The Company estimates the fair value of the note receivable by using discounted cash flow analyses based on an appropriate market rate for a similar type of instrument. Carrying amounts of the Company's cash and cash equivalents, restricted cash, and accounts payable approximate fair value due to their short-term maturities.

Income Taxes

The Company has elected to be taxed as a REIT under Sections 856 through 860 of the Code. To qualify as a REIT, the Company must distribute annually at least 90% of its adjusted taxable income, as defined in the Code, to its stockholders and satisfy certain other organizational and operating requirements. For distributions with respect to taxable years ending on or before December 31, 2011, IRS guidance allows REITs to satisfy up to 90% of this requirement through the distribution of shares of common stock, if certain conditions are met. The Company generally will not be subject to federal income taxes if it distributes 100% of its taxable income for each year to its stockholders. If the Company fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes (including any applicable alternative minimum tax) on its taxable income at regular corporate rates and may not be able to qualify as a REIT for four subsequent taxable years. Even if the Company qualifies for taxation as a REIT, it may be subject to certain state and local taxes on its income and property and to federal income taxes and excise taxes on its undistributed taxable income. The Company believes that it has met all of the REIT distribution and technical requirements for the years ended December 31, 2009, 2008, and 2007, and it was not subject to any federal income taxes (see Note 17). Management intends to continue to adhere to these requirements and maintain the Company's REIT status.

In addition, any taxable income from the Company's taxable REIT subsidiary, which was formed in August 2002, is subject to federal, state, and local income taxes. For each of the years ended December 31, 2009, 2008, and 2007, the taxable REIT subsidiary had less than \$30,000 of taxable income.

KILROY REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Uncertain Tax Positions

The Company includes favorable tax positions in the calculation of tax liabilities if it is more likely than not that the Company's adopted tax position will prevail if challenged by tax authorities.

As a result of the Company's REIT status, the Company is able to claim a dividends-paid deduction on its tax return to deduct the full amount of common and preferred dividends paid to stockholders when computing its annual taxable income, which results in the Company's taxable income being passed through to its stockholders. Since this dividends-paid deduction has historically exceeded the Company's taxable income, the Company has historically had significant return of capital to its stockholders. In order for the Company to be required to record any unrecognized tax benefits or additional tax liabilities, any adjustment for potential uncertain tax positions would need to exceed the return of capital.

The Company evaluated the potential impact of identified uncertain tax positions for all tax years still subject to potential audit under state and federal income tax law and concluded that its return of capital would not be materially affected for any of the years still subject to potential audit. As of December 31, 2009, the years still subject to audit are 2005 through 2009. The Company concluded that it did not have any unrecognized tax benefits or any additional tax liabilities as of December 31, 2009 and 2008.

Subsequent Events

In 2009, the Company adopted new accounting provisions, which establish principles and requirements for evaluating and reporting subsequent events and distinguish which subsequent events should be recognized in the financial statements versus which subsequent events should be disclosed in the financial statements. These new provisions also require disclosure of the date through which subsequent events are evaluated by management (see Note 20). These provisions did not have an impact to the Company's financial statements since the Company's existing accounting policies were consistent with the requirements of the new provisions.

Concentration of Credit Risk

All of the Company's operating and development properties are located in Southern California. The ability of the tenants to honor the terms of their leases is dependent upon the economic, regulatory, and social factors affecting the communities in which the tenants operate.

As of December 31, 2009, the Company's 15 largest tenants represented approximately 48.6% of total annualized base rental revenues. As of December 31, 2009, Intuit Inc. ("Intuit") was the Company's largest tenant and accounted for approximately 6.7% of the Company's total annualized base rental revenue.

The Company has cash in financial institutions that is insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$0.25 million per institution. As of December 31, 2009 and 2008, the Company had cash accounts in excess of FDIC insured limits.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

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3. Deferred Leasing Costs and Acquisition-related Intangibles, Net

Deferred leasing costs and acquisition-related intangibles, net are summarized as follows at December 31, 2009 and 2008:

	2009	2008
	(in thousands)	
Deferred leasing costs	\$ 97,330	\$ 98,016
Accumulated amortization	(45,854)	(45,265)
Subtotal	51,476	52,751
Value of in-place leases	5,832	5,832
Accumulated amortization	(5,476)	(5,044)
Subtotal	356	788
Deferred leasing costs and acquisition-related intangibles, net	<u>\$ 51,832</u>	<u>\$ 53,539</u>

For the years ended December 31, 2009, 2008, and 2007, \$0.4 million, \$0.8 million, and \$2.1 million, respectively, was recorded as depreciation and amortization expense related to the value of in-place leases. The weighted average amortization period for the value of in-place leases was approximately three years as of December 31, 2009.

4. Debt

Secured Debt

The following table sets forth the composition of the Company's secured debt as of December 31, 2009 and 2008:

Type of Debt	Fixed / Floating Rate	Annual Interest Rate	Maturity Date	2009	2008
				(in thousands)	
Mortgage note payable	Fixed	5.57%	August 2012	\$ 74,497	\$ 75,867
Mortgage note payable	Fixed	6.70%	December 2011	71,433	72,792
Mortgage note payable ⁽¹⁾	Fixed	7.20%	April 2010	63,170	75,475
Line of credit	LIBOR + 0.75%	1.00% ⁽²⁾	April 2010	33,500	35,500
Mortgage note payable	Fixed	4.95%	August 2012	31,094	31,716
Mortgage note payable	Fixed	7.15%	May 2017	17,043	18,726
Public facility bonds ⁽³⁾	Fixed	Various ⁽³⁾	Various ⁽³⁾	3,321	3,476
Mortgage note payable	Fixed	8.13%	November 2014 ⁽⁴⁾	516	2,904
Total				<u>\$294,574</u>	<u>\$316,456</u>

(1) During January 2010, the Company used a portion of the proceeds of a new \$71.0 million mortgage loan to repay the remaining principal balance of the \$63.2 million mortgage note payable scheduled to mature in April 2010 (see Note 20).

(2) The variable interest rate stated as of December 31, 2009 is based on LIBOR at the last repricing date in 2009. This repricing rate may not be equal to LIBOR as of December 31, 2009.

(3) The public facility bonds (the "Bonds"), the proceeds from which were used to finance infrastructure improvements on one of the Company's undeveloped land parcels, were issued in February 2008 by the City of Carlsbad. The Bonds have annual maturities from September 1, 2010 through September 1, 2038, with interest rates ranging from 4.00% to 6.20%. Principal and interest payments for the Bonds will be charged to the Company through the assessment of special property taxes.

(4) Under the terms of the loan agreement, the Company has made early principal payments on this loan without penalty. Based on the scheduled contractual monthly payments as of December 31, 2009, the Company will repay the entire principal balance in 2010.

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The Company's secured debt was collateralized by 47 operating properties as of December 31, 2009 with a combined net book value of \$397 million and 47 operating properties at December 31, 2008 with a combined net book value of \$403 million.

As of December 31, 2009, seven of the Company's eight secured loans contained restrictions that would require the payment of prepayment penalties for the acceleration of outstanding debt. The mortgage notes payable and the secured line of credit are secured by deeds of trust on certain of the Company's properties and the assignment of certain rents and leases associated with those properties. The Bonds are secured by property tax payments.

Exchangeable Senior Notes

The following table summarizes the balance and significant terms of the Company's Exchangeable Notes outstanding as of December 31, 2009 and 2008:

	3.25% Exchangeable Notes		4.25% Exchangeable Notes
	2009	2008	2009
	(in thousands)		
Principal amount	\$ 298,000	\$ 460,000	\$ 172,500
Unamortized discount	(13,937)	(30,108)	(20,121)
Net carrying amount of liability component	<u>\$ 284,063</u>	<u>\$ 429,892</u>	<u>\$ 152,379</u>
Carrying amount of equity component	\$ 36,369	\$ 38,692	\$ 19,835
Issuance Date	April 2007		November 2009
Maturity date	April 2012		November 2014
Stated coupon rate	3.25% ⁽¹⁾		4.25% ⁽²⁾
Effective interest rate ⁽³⁾	5.45%		7.13%
Exchange rate per \$1,000 principal value of the Exchangeable Notes, as adjusted ⁽⁴⁾	11.3636		27.8307
Exchange price, as adjusted ⁽⁴⁾	\$88.00		\$35.93
Number of shares on which the aggregate consideration to be delivered on conversion is determined ⁽⁴⁾	3,386,353		4,800,796

(1) Interest on the 3.25% Exchangeable Notes is payable semi-annually in arrears on April 15th and October 15th of each year.

(2) Interest on the 4.25% Exchangeable Notes is payable semi-annually in arrears on May 15th and November 15th of each year.

(3) The rate at which the Company records interest expense, which represents the Company's conventional debt borrowing rate at the date of issuance (see Note 2).

(4) The exchange rate, exchange price, and the number of shares to be delivered upon conversion are subject to adjustment under certain circumstances including increases in the Company's common dividends.

The Exchangeable Notes are exchangeable for shares of the Company's common stock prior to maturity only upon the occurrence of certain events as follows: (i) during any calendar quarter, if the closing sale price per share of the common stock of the Company is more than 130% of the exchange price per share of the Company's common stock for at least 20 trading days in a specified period, (ii) during the five consecutive trading-day period following any five consecutive trading days in which the trading price per \$1,000 principal amount of the Exchangeable Notes was less than 98% of the product of the closing sale price per share of the Company's common stock multiplied by the applicable exchange rate, (iii) if the Exchangeable Notes have been called for

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

redemption, (iv) upon the occurrence of specified corporate transactions, (v) if the Company's common stock ceases to be listed or approved for quotation for 30 consecutive trading days, or (vi) on or after November 15, 2011 or on or after August 15, 2014 for the 3.25% Exchangeable Notes and 4.25% Exchangeable Notes, respectively.

Upon exchange, the holders of the Exchangeable Notes will receive (i) cash up to the principal amount of the Exchangeable Notes and (ii) to the extent the exchange value exceeds the principal amount of the Exchangeable Notes, shares of the Company's common stock. At any time prior to November 15, 2011 or August 15, 2014 for the 3.25% Exchangeable Notes and 4.25% Exchangeable Notes, respectively, the Operating Partnership may irrevocably elect, in its sole discretion without the consent of the holders of the Exchangeable Notes, to settle all of the future exchange obligations of the Exchangeable Notes in shares of common stock. Any shares of common stock delivered for settlement will be based on a daily exchange value calculated on a proportionate basis for each day of a 50 trading-day observation period or a 30 trading-day observation period for the 3.25% Exchangeable Notes and 4.25% Exchangeable Notes, respectively. The trading price of the Company's common stock on the New York Stock Exchange ("NYSE") was below the exchange price of the then outstanding Exchangeable Notes as of both December 31, 2009 and 2008 and, thus, the exchange option was out-of-the-money at these dates.

The unamortized discount on the Exchangeable Notes is accreted as additional interest expense from the date of issuance through the maturity date of the notes. The following table summarizes the total interest expense attributable to the Exchangeable Notes based on the effective interest rates noted above, before the effect of capitalized interest, for the years ended December 31, 2009, 2008, and 2007:

	2009	2008 (in thousands)	2007
Contractual interest payments	\$ 14,848	\$ 14,950	\$ 11,122
Amortization of discount	8,485	8,145	5,522
Interest expense attributable to Exchangeable Notes	<u>\$ 23,333</u>	<u>\$ 23,095</u>	<u>\$ 16,644</u>

Exchangeable Note Repurchases

During the year ended December 31, 2009, the Company repurchased 3.25% Exchangeable Notes with an aggregate stated principal amount of \$162.0 million for approximately \$150.4 million in cash using borrowings from the Credit Facility and proceeds from the issuance of the 4.25% Exchangeable Notes. The Company recorded a net gain on early extinguishment of debt of approximately \$4.9 million and charged approximately \$2.3 million, which represented the amount of the cash repurchase proceeds allocated to the equity component, to additional paid-in capital.

Capped Call Transactions

In connection with the offerings of the Exchangeable Notes, the Operating Partnership entered into capped call option transactions to mitigate the dilutive impact on the Company of the potential conversion of the Exchangeable Notes. The capped calls, as amended, are separate transactions entered into by the Company with the relevant financial institutions, are not part of the terms of the Exchangeable Notes, and do not affect the holders' rights under the Exchangeable Notes. The strike prices of the capped calls, which are subject to customary anti-dilution adjustments, correspond to the exchange prices of the applicable Exchangeable Notes.

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As of December 31, 2009, the Company had outstanding capped calls that referenced a total of 2,257,569 of the Company's common stock related to the 3.25% Exchangeable Notes, which mitigate the dilutive impact on the Company of the potential conversion of two-thirds of the 3.25% Exchangeable Notes into shares of the common stock as if the exchange price were increased from \$88.00 to \$102.72. The Company's two-thirds position is due to the bankruptcy of Lehman Brothers OTC Derivatives Inc. ("Lehman") in October 2008. In connection with the bankruptcy filing, Lehman defaulted on its one-third of the capped calls related to the 3.25% Exchangeable Notes. In the fourth quarter of 2008, the Company early terminated its capped calls with Lehman in accordance with the capped call agreement and sent a demand letter requesting payment of the required termination fee. It is unknown what amount of funds, if any, will be available to satisfy claims with respect to the Lehman bankruptcy, including the termination payment owed to the Company. In addition, in connection with the Company's repurchase of \$162.0 million of aggregate stated principal of the 3.25% Exchangeable Notes in 2009, the Company terminated capped calls in proportion to the debt repurchased.

As of December 31, 2009, the Company also had outstanding capped calls that referenced a total of 4,800,796 shares of the Company's common stock related to the 4.25% Exchangeable Notes, which mitigate the dilutive impact on the Company of the potential conversion of all of the 4.25% Exchangeable Notes into shares as if the exchange price were increased from \$35.93 to \$42.81.

The capped calls are expected to terminate upon the earlier of the maturity date of the related Exchangeable Notes or upon the date upon which the Exchangeable Notes are no longer outstanding due to exchange or to repurchase by the Company. The cost of the capped calls for the 3.25% Exchangeable Notes and 4.25% Exchangeable Notes of approximately \$29.1 million and \$12.1 million, respectively, was recorded as a reduction to additional paid-in-capital on the Company's consolidated balance sheet.

Unsecured Senior Notes

As of December 31, 2009 and 2008, the Company had two series of unsecured senior notes with an aggregate principal balance of \$144.0 million. The Series A notes have an aggregate principal balance of \$61.0 million and mature in August 2010. The Series B notes have an aggregate principal balance of \$83.0 million and mature in August 2014. The Series A and Series B notes require semi-annual interest payments each February and August based on a fixed annual interest rate of 5.72% and 6.45%, respectively.

Unsecured Line of Credit

The Company has a \$550 million Credit Facility under which the Company may elect to borrow, subject to bank approval, up to an additional \$100 million under an accordion feature. As of December 31, 2009, the Company had borrowings of \$97 million outstanding under the Credit Facility and borrowing capacity of approximately \$453 million. The Credit Facility matures in April 2010 and includes a feature to extend the maturity for one year, at the Company's option, for a one time extension fee of 0.15% of the total \$550 million Credit Facility. The Company has notified the lenders that it intends to exercise the extension option. The Credit Facility bears interest at an annual rate between LIBOR plus 0.85% and LIBOR plus 1.35% depending upon the Company's leverage ratio at the time of borrowing (1.11% and 2.12% as of December 31, 2009 and 2008, respectively). The fee for unused funds under the Credit Facility ranges from an annual rate of 0.15% to 0.20% depending on the Company's leverage ratio. The Company intends to borrow amounts under the Credit Facility from time to time for general corporate purposes, including to finance development and redevelopment expenditures, to fund potential acquisitions, and to potentially repay long-term debt.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Debt Covenants and Restrictions

The Credit Facility, the unsecured senior notes, and certain other secured debt arrangements contain covenants and restrictions requiring the Company to meet certain financial ratios and reporting requirements. Some of the more restrictive financial covenants include a maximum ratio of total debt to total asset value, a fixed charge coverage ratio, a minimum consolidated tangible net worth, and a minimum unsecured debt ratio. In addition, one of the Company's loan covenants prohibits the Company from paying dividends in excess of 95% of funds from operations ("FFO"). Noncompliance with one or more of the covenants and restrictions could result in the full or partial principal balance of the associated debt becoming immediately due and payable. The Company was in compliance with all of its debt covenants as of December 31, 2009 and 2008.

Debt Maturities

The following table summarizes our stated debt maturities and scheduled amortization payments, excluding debt discounts, as of December 31, 2009:

<u>Year Ending</u>	<u>(in thousands)</u>
2010	\$ 260,587 ⁽¹⁾
2011	74,192
2012	401,410
2013	2,296
2014	257,963
Thereafter	9,626
Total	\$1,006,074⁽²⁾

(1) The maturity date does not reflect the Company's option to extend the maturity of the Credit Facility by one year. The Company has notified the lenders that it intends to exercise the extension option.

(2) Includes the full principal balance of the Exchangeable Notes. On the Company's consolidated balance sheet as of December 31, 2009, the Exchangeable Notes are presented net of unamortized discounts of approximately \$34.1 million.

Capitalized Interest and Loan Fees

The following table sets forth the Company's gross interest expense, including debt discount and loan cost amortization, net of capitalized interest for the years ended December 31, 2009, 2008, and 2007. The capitalized amounts are a cost of development and increase the carrying value of undeveloped land and construction in progress.

	<u>2009</u>	<u>2008</u>	<u>2007</u>
		(in thousands)	
Gross interest expense	\$55,802	\$ 63,478	\$ 60,278
Capitalized interest	(9,683)	(18,132)	(19,516)
Interest expense	\$46,119	\$ 45,346	\$ 40,762

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

5. Deferred Revenue and Acquisition-related Liabilities

Deferred revenue and acquisition-related liabilities consisted of the following at December 31, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
	(in thousands)	
Deferred revenue related to tenant-funded tenant improvements	\$ 64,804	\$ 72,610
Other deferred revenue	1,323	2,468
Acquisition-related liabilities—below-market leases	763	1,141
Total	<u>\$66,890</u>	<u>\$76,219</u>

Deferred Revenue Related to Tenant-funded Tenant Improvements

During the years ended December 31, 2009 and 2008, the Company recorded an additional \$2.0 million and \$28.1 million, respectively, of deferred revenue related to tenant-funded tenant improvements. The \$28.1 million added during the year ended December 31, 2008 primarily represents the cost of tenant improvements paid for or reimbursed by the tenant in connection with four significant leases in development and redevelopment properties. As of December 31, 2009, the deferred revenue related to these tenant-funded tenant improvements was being amortized as additional rental income over the term of the related leases.

During the years ended December 31, 2009, 2008, and 2007, \$9.8 million, \$11.3 million, and \$4.3 million, respectively, of deferred revenue related to tenant-funded tenant improvements was amortized and recognized as rental income. The following is the estimated amortization of deferred revenue related to tenant-funded tenant improvements as of December 31, 2009 for the next five years and thereafter:

<u>Year</u>	<u>(in thousands)</u>
2010	\$ 8,925
2011	8,463
2012	7,802
2013	7,339
2014	6,636
Thereafter	25,639
Total	<u>\$ 64,804</u>

Acquisition-related Intangibles—Below/Above Market Leases

Net amortization related to below/above market leases of \$0.4 million, \$0.6 million, and \$1.8 million was recorded as an increase in rental income for the years ended December 31, 2009, 2008, and 2007, respectively. The weighted average amortization period for the Company's below market leases was approximately three years as of December 31, 2009.

6. Noncontrolling Interests

Preferred Unitholders

As of both December 31, 2009 and 2008, the Company had issued and outstanding 1,500,000 Series A Preferred Units representing preferred limited partnership interests in the Operating Partnership with a

KILROY REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

redemption value of \$50.00 per unit. There were no changes in this noncontrolling interest during the years ended December 31, 2009, 2008, and 2007. The Series A Preferred Units have a right of redemption at the option of the holders in the event of certain change of control events, certain repurchases of the Company's publicly registered equity securities, an involuntary delisting of the Company's common stock from the NYSE, or a loss of the Company's REIT status.

Distributions on the Series A Preferred Units accrue at an annual rate of 7.45%. The Series A Preferred Units, which may be called by the Operating Partnership at a price equal to the liquidation value, have no stated maturity or mandatory redemption and are not convertible into any other securities of the Operating Partnership. The Series A Preferred Units are exchangeable at the option of the majority of the holders for shares of the Company's 7.45% Series A Cumulative Redeemable Preferred stock ("Series A Preferred Stock") under certain circumstances:

- (i) if distributions on the series have not been timely made for any six prior quarters, or the Operating Partnership is likely to become a publicly traded partnership for federal income tax purposes;
- (ii) if the Series A Preferred Units would not be considered "stock and securities" for federal income tax purposes; and
- (iii) at any time following September 30, 2015.

In addition, the Series A Preferred Units may also be exchanged for shares of Series A Preferred Stock if either the Operating Partnership or the initial holder of the Series A Preferred Units believe, based upon the opinion of counsel, that the character of Operating Partnership's assets and income would not allow it to qualify as a REIT if it were a corporation. In lieu of exchanging Series A Preferred Units for Series A Preferred Stock, the Company may elect to redeem all or a portion of the Series A Preferred Units for cash in an amount equal to \$50.00 per unit plus accrued and unpaid distributions. The Series A Preferred Units may only be exchanged in whole, but not in part, and each exchange is subject to the REIT ownership limits contained in the Company's charter.

The Company makes quarterly distributions to the preferred unitholders each February, May, August, and November. As of December 31, 2009 and 2008, the accrued distribution payable to holders of Series A Preferred Units, which is included in Series A Preferred Units noncontrolling interest on the balance sheet, was \$0.7 million.

Common Units of the Operating Partnership

The Company owned a 96.2% and 95.0% common general partnership interest in the Operating Partnership as of December 31, 2009 and 2008, respectively. The remaining 3.8% and 5.0% common limited partnership interest as of December 31, 2009 and 2008, respectively, was owned by certain of the Company's executive officers and directors, certain of their affiliates, and other outside investors in the form of noncontrolling common units. There were 1,723,131 and 1,753,729 noncontrolling common units outstanding as of December 31, 2009 and 2008, respectively.

The noncontrolling common units may be redeemed by unitholders for cash. The Company, at its option, may satisfy the cash redemption obligation with shares of the Company's common stock on a one-for-one basis. Whether satisfied in cash or shares of the Company's common stock, the value for each noncontrolling common unit upon redemption is the amount equal to the average of the closing quoted price per share of the Company's common stock, par value \$.01 per share, as reported on the NYSE for the ten trading days immediately preceding the applicable balance sheet date. The aggregate value upon redemption of the then-outstanding noncontrolling

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

common units was \$53.6 million and \$56.9 million as of December 31, 2009 and 2008, respectively. This redemption value does not necessarily represent the amount that would be distributed with respect to each noncontrolling common unit in the event of a termination or liquidation of the Company and the Operating Partnership. In the event of a termination or liquidation of the Company and the Operating Partnership, it is expected in most cases that each noncontrolling common unit would be entitled to a liquidating distribution equal to the amount payable with respect to each share of the Company's common stock.

7. Stockholders' Equity

Issuance of Common Stock

In June 2009, the Company completed an underwritten public offering of 10,062,500 shares of its common stock. The net offering proceeds, after deducting underwriting discounts, commissions, and offering expenses, were approximately \$191.7 million. The Company used the net proceeds from the offering to repay a portion of the borrowings under the Credit Facility and for other general corporate purposes.

Preferred Stock

As of December 31, 2009 and 2008, the Company had 1,610,000 shares of its 7.80% Series E Cumulative Redeemable Preferred Stock ("Series E Preferred Stock") and 3,450,000 shares of its 7.50% Series F Cumulative Redeemable Preferred Stock ("Series F Preferred Stock") issued and outstanding. The Series E Preferred Stock and the Series F Preferred Stock each have a liquidation preference of \$25.00 per share and may be redeemed at the option of the Company. Dividends on both the Series E Preferred Stock and Series F Preferred Stock are cumulative and are payable quarterly in arrears on the 15th day of each February, May, August, and November. Neither the Series E Preferred Stock nor the Series F Preferred Stock has a stated maturity and neither is subject to mandatory redemption or any sinking fund.

Share Repurchases

An aggregate of 988,025 shares currently remain eligible for repurchase under a share-repurchase program approved by the Company's board of directors in prior periods. The Company did not repurchase shares of common stock under this program during the year ended December 31, 2009. During the year ended December 31, 2008, the Company repurchased 239,475 shares of its common stock in open market transactions for an aggregate price of approximately \$11.5 million or \$48.23 per share.

Exchange of Noncontrolling Common Units

During the years ended December 31, 2009, 2008, and 2007, 30,598, 435,596, and 129,204 noncontrolling common units were redeemed for shares of the Company's common stock on a one-for-one basis, respectively. Neither the Company nor the Operating Partnership received any proceeds from the issuance of the common stock to the noncontrolling common unit holders.

Dividend Reinvestment and Direct Purchase Plan

The Company has a Dividend Reinvestment and Direct Purchase Plan (the "DRIP Plan") designed to provide the Company's stockholders and other investors with a convenient and economical method to purchase shares of the Company's common stock. The DRIP Plan provides existing common stockholders and other investors the opportunity to purchase additional shares of the Company's common stock by reinvesting cash dividends or making optional cash purchases within specified parameters. The DRIP Plan acquires shares of the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Company's common stock from either new issuances directly from the Company, from the open market, or from privately negotiated transactions. As of December 31, 2009, no shares had been acquired under the DRIP Plan from new issuances.

Accrued Dividends and Distributions

Accrued dividends and distributions as of December 31, 2009 and 2008 consisted of the following amounts payable to registered common stockholders of record holding 43,148,762 and 33,086,148 shares of common stock (including nonvested shares), respectively, common unitholders holding 1,723,131 and 1,753,729 noncontrolling common units, respectively, RSU holders holding 631,331 and 7,688 RSUs, respectively, and registered preferred stockholders of 5,060,000 shares of preferred stock for each year:

	December 31,	
	2009	2008
	(in thousands)	
Dividends and Distributions payable to:		
Common stockholders	\$ 15,102	\$ 19,190
Common unitholders of the Operating Partnership	603	1,017
RSU holders ⁽¹⁾	221	4
Total accrued dividends and distribution to common stockholders and unitholders	15,926	20,211
Preferred stockholders	1,210	1,210
Total accrued dividends and distributions	<u>\$ 17,136</u>	<u>\$ 21,421</u>

(1) The amount includes the value of the dividend equivalents that will be paid with additional fully-vested RSUs (see Note 8).

8. Share-Based Compensation

Stockholder Approved Equity Compensation Plans

The Company establishes share-based incentive compensation plans for the purpose of attracting and retaining officers, key employees, and non-employee board members. As of December 31, 2009, the Company had one share-based incentive compensation plan, the Kilroy Realty 2006 Incentive Award Plan (the "2006 Plan"), which was adopted by the Company's board of directors and approved by the Company's stockholders. The Executive Compensation Committee, which is comprised of four independent directors, may grant the following share-based awards as provided under the 2006 Plan: incentive stock options, nonqualified stock options, restricted stock (nonvested shares), stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, RSUs, profits interest units, performance bonus awards, performance-based awards, and other incentive awards to eligible individuals.

In May 2009, the Company's stockholders approved an amendment to the 2006 Plan. The amendment increased the number of shares of common stock authorized under the 2006 Plan by 1,595,000 shares. It also made certain changes regarding how awards are counted against the number of shares available for issuance under the 2006 Plan. As of December 31, 2009, 2,020,020 shares remained available for grant under the 2006 Plan. Under the weighted share counting provisions contained in the 2006 Plan, the maximum number of shares available for grant subject to full value awards (which generally include equity awards other than options and stock appreciation rights) was 602,991.

All of the Company's outstanding share-based awards issued prior to 2007 were issued under the 1997 Stock Option and Incentive Plan (the "1997 Plan"), which was terminated by the Company's board of directors

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

in September 2006. Any awards outstanding upon the termination of the 1997 Plan remain outstanding and in effect in accordance with the terms of such plan and the applicable award agreement.

Stock Award Deferral Program

The Company has a Stock Award Deferral Program (the “RSU Program”) under the 2006 Plan, which has been effective since the fourth quarter of 2007. Under the RSU Program, participants may defer receipt of awards of nonvested shares that may be granted by electing to receive an equivalent number of RSUs in lieu of nonvested shares. Each RSU represents the right to receive one share of the Company’s common stock in the future and is subject to the same vesting conditions that would have applied if the award had been issued in nonvested shares. RSUs carry with them the right to receive dividend equivalents such that participants receive additional, fully-vested RSUs equal to the value of the dividend paid on the shares underlying participant’s RSUs. Shares issued in settlement of vested RSUs will be distributed in a single lump sum distribution upon on the earlier of the date specified by the participant when the election is made, which must be at least two years after the start of the year in which the underlying award was earned, or upon other certain events as defined under the RSU program.

Share-Based Compensation Programs

The Executive Compensation Committee has historically awarded nonvested shares and RSUs under the following share-based compensation programs. These share-based awards were valued based on the quoted closing share price of the Company’s common stock on the NYSE on the grant date. Dividends are paid on all outstanding shares whether vested or nonvested and are not returnable to the Company if the underlying shares ultimately do not vest.

Executive Officer Share-Based Compensation Programs

The Executive Compensation Committee has annually approved compensation programs that include the potential issuance of share-based awards to the Company’s Chief Executive Officer, Chief Operating Officer, and Chief Financial Officer (“the Executive Officers”) as part of their annual and long-term incentive compensation. Historically, the number of nonvested shares or nonvested RSUs issued has been contingent upon certain corporate performance and market conditions. The share-based awards are generally issued in the first quarter after the end of the performance period, which is the same as the Company’s fiscal year end. The share-based awards generally have a service vesting period, which has historically ranged from one to three years, depending on the type of award.

Key Employee Share-Based Compensation Program

The Executive Compensation Committee has historically awarded nonvested shares or nonvested RSUs to other key employees on an annual basis as part of their long-term incentive compensation. The share-based awards are generally issued in the first quarter, and the individual share awards vest in equal annual installments over the applicable service vesting period, which has historically ranged from two to five years.

Non-employee Board Members Share-Based Compensation Program

The Executive Compensation Committee awards nonvested shares or nonvested RSUs to non-employee board members on an annual basis as part of the board members’ annual compensation and to newly elected board members in accordance with the Company’s board of directors compensation program. The share-based awards are generally issued in the second quarter, and the individual share awards vest in equal annual installments over the applicable service vesting period, which has historically ranged from one to two years.

KILROY REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Summary of Nonvested Shares

A summary of the status of the Company's nonvested shares as of January 1, 2009 and changes during the year ended December 31, 2009 is presented below:

<u>Nonvested Shares</u>	<u>Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Nonvested at January 1, 2009	223,166	\$ 66.33
Granted ⁽¹⁾	4,958	20.17
Vested	(139,651)	69.31
Nonvested as of December 31, 2009	<u>88,473</u>	<u>\$ 59.05</u>

(1) This summary does not include the 51,040 shares of common stock awarded under the development completion component of the 2007 development performance program as the shares were fully-vested upon issuance.

During the years ended December 31, 2009, 2008, and 2007, the Company issued 4,958, 184,245, and 269,323 nonvested shares, respectively. The weighted-average grant-date fair value per share for nonvested shares granted during the years ended December 31, 2009, 2008, and 2007 was \$20.17, \$52.38, and \$87.75, respectively.

The total fair value of shares vested during the years ended December 31, 2009, 2008, and 2007 was \$4.1 million, \$7.5 million, and \$12.0 million, respectively, which was calculated based on the quoted closing share price of the Company's common stock on the NYSE on the day of vesting.

Summary of RSUs

A summary of the status of the Company's RSUs as of January 1, 2009 and changes during the year ended December 31, 2009 is presented below:

	<u>Nonvested RSUs</u>		<u>Vested RSUs</u>	<u>Total RSUs</u>
	<u>Amount</u>	<u>Weighted-Average Grant Date Fair Value</u>		
Outstanding at January 1, 2009	7,468	\$ 53.58	220	7,688
Granted	589,805	26.71	—	589,805
Vested	(327,979)	27.24	327,979	—
Issuance of dividend equivalents ⁽¹⁾	—	—	33,838	33,838
Outstanding as of December 31, 2009	<u>269,294</u>	<u>\$ 26.81</u>	<u>362,037</u>	<u>631,331</u>

(1) RSUs issued as dividend equivalents are vested upon issuance.

During the years ended December 31, 2009 and 2008, the Company issued 589,805 and 7,468 nonvested RSUs, respectively. The weighted-average grant-date fair value per share for nonvested RSUs granted during the years ended December 31, 2009 and 2008 was \$26.71 and \$53.58, respectively. There were no RSUs issued during the year ended December 31, 2007.

The total fair value of the RSUs that vested during the year ended December 31, 2009, excluding the vested RSUs issued as dividend equivalents, was \$10.0 million, which was calculated based on the quoted closing share price of the Company's common stock on the NYSE on the day of vesting. There were no RSUs that vested during the years ended December 31, 2008 and 2007.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Compensation Cost Recorded During the Period

The total compensation cost for all share-based compensation programs was \$13.3 million, \$16.3 million, and \$16.1 million for the years ended December 31, 2009, 2008, and 2007, respectively. Of the total share-based compensation cost, \$1.1 million, \$1.1 million, and \$0.9 million was capitalized as part of real estate assets for the years ended December 31, 2009, 2008, and 2007, respectively. As of December 31, 2009, there was approximately \$7.7 million of total unrecognized compensation cost related to nonvested incentive awards granted under share-based compensation arrangements that is expected to be recognized over a weighted-average period of 1.5 years. The remaining compensation cost related to these nonvested incentive awards had been recognized in periods prior to December 31, 2009.

9. Employee Benefit Plans

401(k) Plan

The Company has a retirement savings plan designed to qualify under Section 401(k) of the Code (the “401(k) Plan”). Employees of the Company are eligible to participate in the 401(k) Plan on the first day of the month after three months of service. The 401(k) Plan allows eligible employees (“401(k) Participants”) to defer up to 60% of their eligible compensation on a pre-tax basis, subject to certain maximum amounts allowed by the Code. The 401(k) Plan provides for a matching contribution by the Company in an amount equal to fifty cents for each one dollar of participant contributions up to a maximum of 10% of the 401(k) Participant’s annual salary. 401(k) Participants vest immediately in the amounts contributed by the Company. For each of the years ended December 31, 2009, 2008, and 2007, the Company contributed \$0.5 million to the 401(k) Plan.

Deferred Compensation Plan

In 2007, the Company adopted the Deferred Compensation Plan, under which directors and certain management employees may defer receipt of their compensation, including up to 70% of their salaries and up to 100% of their director fees and bonuses, as applicable. Eligible management employees (“Participants”) will receive mandatory Company contributions to their Deferred Compensation Plan accounts equal to 10% of their gross monthly salaries, without regard to whether such employees elect to defer salary or bonus compensation under the Deferred Compensation Plan. The Company’s board of directors may, but has no obligation to, approve additional discretionary contributions by the Company to Participant accounts.

At the time Participants defer compensation or earn mandatory Company contributions, or at the time the Company obligates itself to make a discretionary contribution to the Deferred Compensation Plan, the Company records compensation cost and a corresponding liability, which is included in accounts payable, accrued expenses, and other liabilities on the Company’s consolidated balance sheets. This liability is adjusted to fair value at the end of each accounting period based on the performance of the benchmark funds selected by each Participant, and the impact of adjusting the liability to fair value is recorded as an increase or decrease to compensation cost. For each of the years ended December 31, 2009 and 2007, the Company recorded approximately \$0.4 million of total compensation cost in connection with the Deferred Compensation Plan due to the increase in fair value of the benchmark funds. For the year ended December 31, 2008, the Company recorded a net reduction in total compensation cost of approximately \$1.0 million in connection with the Deferred Compensation Plan due to the decline in fair value of the benchmark funds.

As of December 31, 2009 and 2008, the Company’s liability under the Deferred Compensation Plan of \$3.4 million and \$1.8 million, respectively, was fully funded. The Company holds the Deferred Compensation Plan assets in a limited rabbi trust, which is subject to the claims of the Company’s creditors in the event of the Company’s bankruptcy or insolvency. Assets held by the rabbi trust are reported on the Company’s consolidated

KILROY REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

balance sheets in marketable securities and were reported as of December 31, 2009 and 2008 at their fair value of \$3.5 million and \$1.9 million, respectively (see Note 12).

10. Future Minimum Rent

The Company has operating leases with tenants that expire at various dates through 2027 and are either subject to scheduled fixed increases or adjustments based on the Consumer Price Index. Generally, the leases grant tenants renewal options. Leases also provide for additional rents based on certain operating expenses. Future contractual minimum rent under operating leases as of December 31, 2009 for five years and thereafter are summarized as follows:

<u>Year Ending</u>	<u>(in thousands)</u>
2010	\$ 211,938
2011	202,518
2012	186,727
2013	171,057
2014	150,449
Thereafter	445,492
Total	<u>\$ 1,368,181</u>

11. Commitments and Contingencies

General

As of December 31, 2009, the Company had commitments of approximately \$55.0 million for contracts and executed leases directly related to the Company's operating properties.

In the normal course of business, the Company is required to post construction bonds to guarantee its performance of government-mandated infrastructure improvements. As of December 31, 2009, the Company had outstanding construction bonds of \$3.4 million.

Ground Leases

The Company has noncancellable ground lease obligations on Kilroy Airport Center Phases I, II, and III in Long Beach, California with a lease period expiring in July 2084. Rental rates are subject to adjustments every five years based on fair market value. During the third quarter of 2009, the Company exercised its option to terminate a ground lease at Kilroy Airport Center Phase IV in Long Beach. The Company had previously leased this land, which is adjacent to the Company's Office Properties at Kilroy Airport Center, Long Beach, for potential future development opportunities.

The minimum commitment under the Company's ground leases as of December 31, 2009 for five years and thereafter was as follows:

<u>Year Ending</u>	<u>(in thousands)</u>
2010	\$ 1,115
2011	1,042
2012	819
2013	819
2014	763
Thereafter	50,260
Total	<u>\$ 54,818</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Litigation

To the Company's knowledge, neither the Company nor any of the Company's properties are presently subject to any litigation or threat of litigation which, if determined unfavorably to the Company, would have a material adverse effect on the Company's cash flow, financial condition, or results of operations. The Company is party to litigation arising in the ordinary course of business, none of which if determined unfavorably to the Company, individually or in the aggregate, is expected to have a material adverse effect on the Company's cash flow, financial condition, or results of operations.

In March 2008, Newgen Results Corporation ("Newgen") attempted to surrender the leased premises at one of the Company's Office Properties and ceased paying rent prior to the end of the lease term. Newgen signed the original lease for the property in 2000 and was subsequently acquired by Teletech Holdings, Inc. ("Teletech"). The Company refused to accept a surrender of the premises and has initiated legal action against Teletech and Newgen for past due rent and future rent as it becomes due and owing. In the event there is ultimately an unfavorable result to the Company, the Company believes that there could potentially be a negative noncash impact to the Company's results of operations ranging between \$0 and approximately \$3.5 million, primarily related to the deferred rent receivable balance for this tenant as of December 31, 2009. The Company stopped recognizing revenue associated with this lease as of April 2008.

Insurance

The Company carries comprehensive liability, fire, extended coverage, earthquake, environmental, rental loss, and terrorism insurance covering all of the Company's properties. Management believes the policy specifications and insured limits are appropriate given the relative risk of loss, the cost of the coverage, and industry practice. The Company does not carry insurance for generally uninsurable losses such as loss from riots or acts of God. Some of the Company's policies are subject to limitations of coverage, qualifications, terms, conditions, and involve large deductibles or co-payments. In addition, the Company's earthquake insurance policies include substantial self-insurance portions.

Environmental Matters

The Company follows the policy of monitoring its properties for the presence of hazardous or toxic substances. While there can be no assurance that a material environmental liability does not exist, the Company is not currently aware of any environmental liability with respect to the properties that would have a material effect on the Company's financial condition, results of operations, and cash flow. Further, the Company is not aware of any environmental liability or any unasserted claim or assessment with respect to an environmental liability that the Company believes would require additional disclosure or the recording of a loss contingency.

KILROY REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

12. Fair Value of Financial Instruments

Financial Instruments Reported at Fair Value

The only financial instruments recorded at fair value in the Company's consolidated financial statements are the marketable securities related to the Deferred Compensation Plan. The Company recorded net gains of approximately \$0.4 million and net losses of approximately \$1.0 million and \$40,000 for the years ended December 31, 2009, 2008, and 2007, respectively, related to the change in fair value of the marketable securities, which was reported in interest income and other investment gains (losses) in the Company's consolidated statements of operations. The following table sets forth the fair value of the Company's marketable securities as of December 31, 2009 and 2008:

<u>Description</u>	<u>Fair Value (Level 1)⁽¹⁾</u>	
	<u>2009</u>	<u>2008</u>
	(in thousands)	
Marketable Securities	\$3,452	\$1,888

(1) Based on quoted prices in active markets for identical securities.

Financial Instruments Disclosed at Fair Value

The following table sets forth the carrying value and the fair value of Company's remaining financial assets and liabilities as of December 31, 2009 and 2008:

<u>Description</u>	<u>2009</u>		<u>2008</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Carrying Value</u>	<u>Fair Value</u>
	(in thousands)			
Assets				
Note receivable	\$ 10,679	\$ 10,849	\$ 10,824	\$ 10,343
Liabilities				
Secured debt	294,574	297,189	316,456	296,438
Exchangeable Notes	436,442	435,351	429,892	305,767
Unsecured senior notes	144,000	142,828	144,000	111,065
Credit Facility	97,000	96,250	252,000	237,898

With respect to the fair value calculations as of December 31, 2008, the Company incorporated an additional 250 basis points to the market credit spreads used to calculate fair value to adjust for the uncertainty and liquidity risk inherent in the market at that time due to the lack of available credit and tightening of the credit markets. The Company did not include such an adjustment for the fair value calculations as of December 31, 2009 since credit was more available and such liquidity risk adjustments were not warranted.

13. Other Significant Transactions or Events

General and administrative expenses for the year ended December 31, 2009 include a \$7.0 million charge related to separation payments due to the resignation of the Company's Chief Financial Officer in December 2009.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

2008 Lease Terminations

In the second quarter of 2008, Faville, Inc. (“Faville”), the Company’s seventh largest tenant at June 30, 2008 based on annualized base rental revenues, notified the Company of its intent to cease its business operations and to not pay any future rental payments under its lease beyond June 2008. The Company held a \$3.6 million letter of credit and a \$0.3 million security deposit as credit support under the terms of the lease. At June 30, 2008, the Company increased its provision for bad debts by approximately \$3.1 million to reserve for the portion of the deferred rent receivable balance related to the Faville lease that it estimated would not be recoverable after the application of the letter of credit proceeds and security deposit. In July 2008, the Company and Faville entered into an agreement to terminate the lease as of August 31, 2008. During the third quarter of 2008, the Company drew down the letter of credit and applied the \$3.9 million letter of credit proceeds and security deposit to July and August rent and the outstanding deferred rent receivable and accounts receivable balances.

During the year ended December 31, 2008, the Company also recognized approximately \$2.7 million of noncash rental revenue, which was primarily due to the acceleration of the amortization of the deferred revenue balance related to tenant-funded tenant improvements associated with the Faville lease. As of December 31, 2009, there was a \$14.4 million unamortized balance included in buildings and improvements on the Company’s consolidated balance sheet related to the tenant improvements that remain in the two buildings previously leased to Faville. The Company believes that these tenant improvements will have value to future tenants.

In July 2008, the Company entered into an agreement with Intuit, the Company’s largest tenant as of December 31, 2009 based on annual base rental revenues, to early terminate one of its leases in 2008. The lease that was terminated encompassed approximately 90,000 rentable square feet of office space and was scheduled to expire in July 2014. Intuit had the option to early terminate this lease in 2010. Intuit vacated approximately 95% of the premises in the third quarter of 2008 and the remaining premises during the first quarter of 2009. The Company recognized a net lease termination fee, which is included in other property income, of approximately \$0.1 million and \$5.0 million during the years ended December 31, 2009 and 2008, respectively.

14. Segment Disclosure

The Company’s reportable segments consist of the two types of commercial real estate properties for which the Company’s chief operating decision-makers internally evaluate operating performance and financial results: Office Properties and Industrial Properties. The Company also has certain corporate level activities including legal administration, accounting, finance, and management information systems, which are not considered separate operating segments.

The Company evaluates the performance of its segments based upon net operating income. “Net Operating Income” is defined as operating revenues (rental income, tenant reimbursements, and other property income) less property and related expenses (property expenses, real estate taxes, ground leases, and provisions for bad debts) and excludes other nonproperty income and expenses, interest expense, depreciation and amortization, and corporate general and administrative expenses. There is no intersegment activity.

KILROY REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following tables reconcile the Company's segment activity to its consolidated results of operations for the years ended December 31, 2009, 2008, and 2007, and its consolidated financial position as of December 31, 2009 and 2008:

	Year Ended December 31,		
	2009	2008	2007
	(in thousands)		
Office Properties:			
Operating revenues ⁽¹⁾	\$ 247,071	\$ 256,066	\$ 227,811
Property and related expenses	68,824	70,099	59,236
Net Operating Income	178,247	185,967	168,575
Industrial Properties:			
Operating revenues ⁽¹⁾	32,363	33,289	30,065
Property and related expenses	7,381	6,493	5,590
Net Operating Income	24,982	26,796	24,475
Total Reportable Segments:			
Operating revenues ⁽¹⁾	279,434	289,355	257,876
Property and related expenses	76,205	76,592	64,826
Net Operating Income	203,229	212,763	193,050
Reconciliation to Consolidated Net Income Available to Common Stockholders:			
Total net operating income, as defined, for reportable segments	203,229	212,763	193,050
Unallocated other income (loss):			
Interest income and other net investment gains (losses)	1,300	(93)	1,606
Gain on early extinguishment of debt	4,909	—	—
Other unallocated expenses:			
General and administrative expenses	39,938	38,260	36,580
Interest expense	46,119	45,346	40,762
Depreciation and amortization	87,627	83,215	72,754
Income from continuing operations	35,754	45,849	44,560
Income from discontinued operations	2,261	1,062	78,757
Net income	38,015	46,911	123,317
Net income attributable to noncontrolling common units of the Operating Partnership	(1,025)	(1,886)	(6,957)
Net income attributable to Kilroy Realty Corporation	36,990	45,025	116,360
Preferred dividends and distributions	(15,196)	(15,196)	(15,196)
Net income available to common stockholders	\$ 21,794	\$ 29,829	\$ 101,164

(1) All operating revenues are comprised of amounts received from third-party tenants.

KILROY REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
	(in thousands)	
Assets:		
Office Properties:		
Land, buildings, and improvements, net	\$ 1,498,427	\$ 1,537,466
Undeveloped land and construction in progress	263,608	248,889
Total assets ⁽¹⁾	1,878,004	1,903,997
Industrial Properties:		
Land, buildings, and improvements, net	152,072	156,472
Total assets ⁽¹⁾	165,563	165,266
Total Reportable Segments:		
Land, buildings, and improvements, net	1,650,499	1,693,938
Undeveloped land and construction in progress	263,608	248,889
Total assets ⁽¹⁾	2,043,567	2,069,263
Reconciliation to Consolidated Assets:		
Total assets for reportable segments	2,043,567	2,069,263
Other unallocated assets:		
Cash and cash equivalents	9,883	9,553
Restricted cash	2,059	672
Marketable securities	3,452	1,888
Note receivable	10,679	10,824
Deferred financing costs, net	8,334	5,883
Prepaid expenses and other assets, net	6,307	4,835
Total consolidated assets	<u>\$ 2,084,281</u>	<u>\$ 2,102,918</u>

(1) Includes land, buildings, and improvements, undeveloped land and construction in progress, current receivables, deferred rent receivable and deferred leasing costs, and acquisition-related intangible assets, all shown on a net basis.

	<u>December 31,</u>	
	<u>2009</u>	<u>2008</u>
	(in thousands)	
Capital Expenditures: ⁽¹⁾		
Office Properties:		
Expenditures for development and redevelopment properties and undeveloped land	\$ 18,067	\$ 74,574
Capital expenditures and tenant improvements	24,980	25,160
Industrial Properties:		
Capital expenditures and tenant improvements	4,641	3,723
Total Reportable Segments:		
Expenditures for development and redevelopment properties and undeveloped land	18,067	74,574
Capital expenditures and tenant improvements	29,621	28,883

(1) Total consolidated capital expenditures are equal to the same amounts disclosed for total reportable segments.

KILROY REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

15. Property Dispositions Reported as Discontinued Operations

The following table summarizes properties sold during the years ended December 31, 2009 and 2007. The Company did not sell any properties during the year ended December 31, 2008.

<u>Location</u>	<u>Property Type</u>	<u>Year of Disposition</u>	<u>Month of Disposition</u>	<u>Number of Buildings</u>	<u>Rentable Square Feet</u>	<u>Sales Price (in millions)</u>
<u>2009 Dispositions</u>						
12400 Industry Street Garden Grove, CA ⁽¹⁾	Industrial	2009	June	1	64,200	\$ 5.1
<u>2007 Dispositions</u>						
181/185 S. Douglas Street El Segundo, CA ⁽²⁾	Office	2007	January	1	61,545	
2270 E. El Segundo Boulevard El Segundo, CA ⁽²⁾	Industrial	2007	January	1	6,362	
Portfolio transaction subtotal				2	67,907	14.8
Kilroy Airport Center Sea-Tac Seattle, WA	Office	2007	December	3	532,430	79.3 ⁽³⁾
Total 2007 Dispositions				<u>5</u>	<u>600,337</u>	<u>\$ 94.1</u>

(1) The property was vacant beginning January 2009 through the date of disposition.

(2) The Company sold these properties in a portfolio transaction in January 2007. The sales price shown represents the sales price for the entire transaction.

(3) Represents the gross sales price for this transaction before the effect of approximately \$2.5 million funded into escrow by the Company for certain tenant improvements, for which work was completed by the buyer in 2008. Upon completion of these tenant improvements, approximately \$0.2 million of unused proceeds was returned to the Company, which was recorded as additional gain on disposition of discontinued operations during the year ended December 31, 2008.

KILROY REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes the components that comprise income from discontinued operations for the years ended December 31, 2009, 2008, and 2007:

	Year Ended December 31,		
	2009	2008	2007
	(in thousands)		
REVENUES:			
Rental income	\$ —	\$ 564	\$ 8,266
Tenant reimbursements	—	49	2,339
Other property income	—	199	303
Total revenues	—	812	10,908
EXPENSES:			
Property expenses	94	—	3,424
Real estate taxes ⁽¹⁾	105	(76)	986
Ground leases	—	—	452
Depreciation and amortization	25	60	1,794
Total expenses	224	(16)	6,656
(Loss) income from discontinued operations before net gain on dispositions of discontinued operations	(224)	828	4,252
Net gain on dispositions of discontinued operations ⁽²⁾	2,485	234	74,505
Total income from discontinued operations	\$2,261	\$1,062	\$78,757

(1) Real estate taxes for the year ended December 31, 2008 includes the reversal of an accrual for property taxes for a property that was sold in 2005.

(2) Net gain on dispositions of discontinued operations for the year ended December 31, 2007 includes a \$4.8 million payment received to terminate a profit participation agreement that was entered into in connection with a 2005 property disposition.

The following table summarizes total income from discontinued operations by the Company's reportable segments for the years ended December 31, 2009, 2008, and 2007:

	Year Ended December 31,		
	2009	2008	2007
	(in thousands)		
Reportable Segments:			
Office Properties	\$ —	\$ 433	\$ 72,497
Industrial Properties	2,261	629	6,260
Total income from discontinued operations	\$2,261	\$1,062	\$78,757

KILROY REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

16. Net Income Available to Common Stockholders Per Share

The following table reconciles the numerator and denominator of the basic and diluted per-share computations for net income available to common stockholders for the years ended December 31, 2009, 2008, and 2007:

	Year Ended December 31,		
	2009	2008	2007
	(in thousands, except share and per share amounts)		
Numerator:			
Income from continuing operations	\$ 35,754	\$ 45,849	\$ 44,560
Income from continuing operations attributable to noncontrolling common units of the Operating Partnership	(924)	(1,823)	(1,886)
Preferred distributions and dividends	(15,196)	(15,196)	(15,196)
Allocation to participating securities (nonvested shares and RSUs)	(1,293)	(338)	(967)
Numerator for basic and diluted income from continuing operations available to common stockholders	18,341	28,492	26,511
Discontinued operations	2,261	1,062	78,757
Discontinued operations attributable to noncontrolling common units of the Operating Partnership	(101)	(63)	(5,071)
Numerator for basic and diluted net income available to common stockholders	<u>\$ 20,501</u>	<u>\$ 29,491</u>	<u>\$ 100,197</u>
Denominator:			
Basic weighted average vested common shares outstanding	38,705,101	32,466,591	32,379,997
Effect of dilutive securities—stock options and contingently issuable shares	27,025	74,281	28,969
Diluted weighted average vested common shares and common share equivalents outstanding	<u>38,732,126</u>	<u>32,540,872</u>	<u>32,408,966</u>
Basic earnings per share:			
Income from continuing operations available to common stockholders per share	\$ 0.47	\$ 0.88	\$ 0.82
Discontinued operations per common share	0.06	0.03	2.27
Net income available to common stockholders per share	<u>\$ 0.53</u>	<u>\$ 0.91</u>	<u>\$ 3.09</u>
Diluted earnings per share:			
Income from continuing operations available to common stockholders per share	\$ 0.47	\$ 0.88	\$ 0.82
Discontinued operations per common share	0.06	0.03	2.27
Net income available to common stockholders per share	<u>\$ 0.53</u>	<u>\$ 0.91</u>	<u>\$ 3.09</u>

As of December 31, 2009, 2008, and 2007, the effect of the assumed conversion of the Exchangeable Notes was not included in the net income available to common stockholders per share calculation as its effect was antidilutive to income from continuing operations available to common stockholders.

KILROY REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

17. Tax Treatment of Distributions

The following table reconciles the dividends declared per common share to the dividends paid per common share during the years ended December 31, 2009, 2008, and 2007 as follows:

<u>Dividends</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Dividends declared per common share	\$ 1.630	\$ 2.320	\$ 2.220
Less: Dividends declared in the current year and paid in the following year	(0.350)	(0.580)	(0.555)
Add: Dividends declared in the prior year and paid in the current year	0.580	0.555	0.530
Dividends paid per common share	<u>\$ 1.860</u>	<u>\$ 2.295</u>	<u>\$ 2.195</u>

The income tax treatment for the dividends to common stockholders reportable for the years ended December 31, 2009, 2008, and 2007 as identified in the table above was as follows:

<u>Common Shares</u>	<u>2009</u>		<u>2008</u>		<u>2007</u>	
Ordinary income	\$ 0.421	22.64%	\$ 1.645	71.70%	\$ 1.044	47.56%
Return of capital	1.418	76.25	0.650	28.30	1.054	48.02
Capital gains ⁽¹⁾	0.013	0.69	—	—	0.097	4.42
Unrecaptured section 1250 gains	0.008	0.42	—	—	—	—
	<u>\$ 1.860</u>	<u>100.00%</u>	<u>\$ 2.295</u>	<u>100.00%</u>	<u>\$ 2.195</u>	<u>100.00%</u>

(1) Capital gains are comprised entirely of 15% rate gains.

The income tax treatment for the dividends to Series E preferred stockholders reportable for the years ended December 31, 2009, 2008, and 2007 was as follows:

<u>Preferred Shares</u>	<u>2009</u>		<u>2008</u>		<u>2007</u>	
Ordinary income	\$ 1.837	94.22%	\$ 1.950	100.00%	\$ 1.786	91.57%
Capital gains ⁽¹⁾	0.070	3.58	—	—	0.164	8.43
Unrecaptured section 1250 gains	0.043	2.20	—	—	—	—
	<u>\$ 1.950</u>	<u>100.00%</u>	<u>\$ 1.950</u>	<u>100.00%</u>	<u>\$ 1.950</u>	<u>100.00%</u>

(1) Capital gains are comprised entirely of 15% rate gains.

The income tax treatment for the dividends to Series F preferred stockholders reportable for the years ended December 31, 2009, 2008, and 2007 was as follows:

<u>Preferred Shares</u>	<u>2009</u>		<u>2008</u>		<u>2007</u>	
Ordinary income	\$ 1.767	94.22%	\$ 1.875	100.00%	\$ 1.717	91.57%
Capital gains ⁽¹⁾	0.067	3.58	—	—	0.158	8.43
Unrecaptured section 1250 gains	0.041	2.20	—	—	—	—
	<u>\$ 1.875</u>	<u>100.00%</u>	<u>\$ 1.875</u>	<u>100.00%</u>	<u>\$ 1.875</u>	<u>100.00%</u>

(1) Capital gains are comprised entirely of 15% rate gains.

KILROY REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

18. Quarterly Financial Information (Unaudited)

Summarized quarterly financial data for the years ended December 31, 2009 and 2008 was as follows:

	2009 Quarter Ended ⁽¹⁾			
	March 31,	June 30,	September 30,	December 31,
		(in thousands, except per share amounts)		
Revenues from continuing operations	\$ 72,512	\$ 71,050	\$ 68,494	\$ 67,379
Net Operating Income from continuing operations ⁽²⁾	52,233	53,165	49,166	48,667
Income from continuing operations	11,862	10,993	12,230	671
Discontinued operations	(89)	2,350	—	—
Net income	11,773	13,343	12,230	671
Net income attributable to Kilroy Realty Corporation	11,376	12,916	11,910	790
Preferred dividends and distributions	(3,799)	(3,799)	(3,799)	(3,799)
Net income (loss) available to common stockholders	7,577	9,117	8,111	(3,009)
Net income (loss) available to common stockholders per share				
—basic ⁽³⁾	0.23	0.25	0.17	(0.08)
Net income (loss) available to common stockholders per share				
—diluted ⁽³⁾	0.23	0.25	0.17	(0.08)

	2008 Quarter Ended ⁽¹⁾			
	March 31,	June 30,	September 30,	December 31,
		(in thousands, except per share amounts)		
Revenues from continuing operations	\$ 70,649	\$ 69,476	\$ 76,946	\$ 72,284
Net Operating Income from continuing operations ⁽²⁾	52,845	49,169	57,868	52,881
Income from continuing operations	13,050	8,029	16,505	8,265
Discontinued operations	125	558	126	254
Net income	13,175	8,587	16,631	8,519
Net income attributable to Kilroy Realty Corporation	12,584	8,285	15,836	8,321
Preferred dividends and distributions	(3,799)	(3,799)	(3,799)	(3,799)
Net income available to common stockholders	8,785	4,486	12,037	4,522
Net income available to common stockholders per share—basic	0.27	0.14	0.37	0.14
Net income available to common stockholders per share—diluted	0.27	0.14	0.37	0.14

(1) The summation of the quarterly financial data may not equal the annual number reported on the consolidated statement of operations due to rounding differences.

(2) See Note 14 for definition of Net Operating Income.

(3) The summation of the quarterly net income available to common stockholders per share (basic and diluted) may not equal the annual number reported on the consolidated statement of operations primarily due to the impact of the June 2009 equity offering.

The quarterly financial information may not equal the amounts reported on the Company's quarterly reports on Form 10-Q due to reclassification of revenues and expenses to discontinued operations in connection with property dispositions (see Note 15).

KILROY REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

19. Impact of New Accounting Provisions Adopted January 1, 2009

Effective January 1, 2009, the Company adopted new accounting provisions with respect to exchangeable debt instruments, noncontrolling interests, and the treatment of nonvested share-based payment awards containing nonforfeitable rights to dividends or dividend equivalents in the computation of basic and diluted net income available to common stockholders per share. See additional information regarding these new accounting provisions in Note 2. The following tables summarize the impact of new accounting standards adopted January 1, 2009 on the Company's consolidated balance sheets and statements of operations for all periods presented. The new accounting standards adopted January 1, 2009 did not have any impact on the Company's consolidated statements of cash flows.

		As of December 31, 2009		
		As Computed	Adjustments	
		Before New	Exchangeable	Noncontrolling
		Accounting	Debt	Interest
		Standards	Standard	Standard
		(in thousands)		
Balance Sheet:				
Assets:				
Total real estate assets, net	\$ 1,909,051	\$ 5,056		\$ 1,914,107
Deferred financing costs, net	9,147	(813)		8,334
Total assets	2,080,038	4,243		2,084,281
Liabilities:				
Exchangeable senior notes, net	469,226	(32,784)		436,442
Total liabilities	1,159,589	(32,784)		1,126,805
Noncontrolling Interest:				
Noncontrolling interest	101,124		(27,486)	73,638
Equity:				
Additional paid-in capital	859,877	53,780		913,657
Distributions in excess of earnings	(162,565)	(18,157)		(180,722)
Total stockholders' equity	819,325	35,623		854,948
Noncontrolling interest	—	1,404	27,486	28,890
Total equity	819,325	37,027	27,486	883,838
Total liabilities, noncontrolling interests and equity	\$ 2,080,038	\$ 4,243	—	\$ 2,084,281

KILROY REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

		As of December 31, 2008			
		As Previously Reported	Adjustments		As Adjusted
			Exchangeable Debt Standard	Noncontrolling Interest Standard	
(in thousands)					
Balance Sheet:					
Assets:					
Total real estate assets, net	\$ 1,939,244	\$ 3,583			\$ 1,942,827
Deferred financing costs, net	6,131	(248)			5,883
Total assets	2,099,583	3,335			2,102,918
Liabilities:					
Exchangeable senior notes, net	457,010	(27,118)			429,892
Total liabilities	1,341,512	(27,118)			1,314,394
Noncontrolling Interest:					
Noncontrolling interest	102,006			(28,368)	73,638
Equity:					
Additional paid-in capital	663,471	36,651			700,122
Distributions in excess of earnings	(129,319)	(7,733)			(137,052)
Total stockholders' equity	656,065	28,918			684,983
Noncontrolling interest	—	1,535		28,368	29,903
Total equity	656,065	30,453		28,368	714,886
Total liabilities, noncontrolling interests and equity	\$ 2,099,583	\$ 3,335		—	\$ 2,102,918

	As Computed Before New Accounting Standards	For the Year Ended December 31, 2009		
		Adjustments		As Adjusted
		Exchangeable Debt	Earnings Per Share	
		Standard	Standard	
(in thousands, except per share amounts)				
Statement of Operations:				
Interest expense	\$ 40,059	\$ 6,060		\$ 46,119
Total expenses	243,829	6,060		249,889
Gain on early extinguishment of debt	9,744	(4,835)		4,909
Net income ⁽¹⁾	48,910	(10,895)		38,015
Net income attributable to the Kilroy Realty Corporation ⁽²⁾	47,396	(10,406)		36,990
Net income available to common stockholders	32,200	(10,406)		21,794
Income from continuing operations available to common stockholders				
per share—basic	0.77	(0.27)	(0.03)	0.47
Income from continuing operations available to common stockholders				
per share—diluted	0.77	(0.27)	(0.03)	0.47
Net income available to common stockholders per share—basic	0.83	(0.27)	(0.03)	0.53
Net income available to common stockholders per share—diluted	\$ 0.83	\$ (0.27)	\$ (0.03)	\$ 0.53

(1) Represents net income attributable to both Kilroy Realty Corporation and the noncontrolling interests. For the year ended December 31, 2009, prior to the adoption of the new accounting standard affecting noncontrolling interests, reported net income would have been calculated after the impact of \$1.5 million of net income attributable to noncontrolling common units of the Operating Partnership and \$5.6 million of distributions to noncontrolling Series A Preferred Units.

(2) Represents net income after the allocation of net income to noncontrolling common units but before distributions to noncontrolling Series A Preferred Units.

KILROY REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	For the Year Ended December 31, 2008				As Adjusted
	As Previously Reported	Adjustments	Earnings Per Share Standard	Reclass Discontinued Operations ⁽³⁾	
		Exchangeable Debt Standard			
(in thousands, except per share amounts)					
<i>Statement of Operations:</i>					
Interest expense	\$ 40,366	\$ 4,980			\$ 45,346
Total expenses	238,552	4,980		(119)	243,413
Net income ⁽¹⁾	51,891	(4,980)			46,911
Net income attributable to the Kilroy Realty Corporation ⁽²⁾	49,709	(4,684)			45,025
Net income available to common stockholders	34,513	(4,684)			29,829
Income from continuing operations available to common stockholders per share—basic	1.05	(0.15)	(0.01)	(0.01)	0.88
Income from continuing operations available to common stockholders per share—diluted	1.04	(0.14)	(0.01)	(0.01)	0.88
Net income available to common stockholders per share—basic	1.06	(0.14)	(0.01)		0.91
Net income available to common stockholders per share—diluted	\$ 1.06	\$ (0.15)			\$ 0.91

(1) Represents net income attributable to both Kilroy Realty Corporation and the noncontrolling interests. For the year ended December 31, 2008, prior to the adoption of the new accounting standard affecting noncontrolling interests, reported net income was calculated after the impact of \$2.2 million of net income attributable to noncontrolling common units of the Operating Partnership and \$5.6 million of distributions to noncontrolling Series A Preferred Units.

(2) Represents net income after the allocation of net income to noncontrolling common units but before distributions to noncontrolling Series A Preferred Units.

(3) Represents the amounts associated with the property sold in June 2009 that have been reclassified to discontinued operations.

KILROY REALTY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	For the Year Ended December 31, 2007				
		Adjustments	Earnings Per Share	Reclass	
	As Previously Reported	Exchangeable Debt Standard	Standard	Discontinued Operations ⁽³⁾	As Adjusted
	(in thousands, except per share amounts)				
<i>Statement of Operations:</i>					
Interest expense	\$ 37,502	\$ 3,260			\$ 40,762
Total expenses	211,797	3,260		(135)	214,922
Net income ⁽¹⁾	126,577	(3,260)			123,317
Net income attributable to the Kilroy Realty Corporation ⁽²⁾	119,410	(3,050)			116,360
Net income available to common stockholders	104,214	(3,050)			101,164
Income from continuing operations available to common stockholders per share—basic	0.96	(0.10)	(0.02)	(0.02)	0.82
Income from continuing operations available to common stockholders per share—diluted	0.95	(0.09)	(0.02)	(0.02)	0.82
Net income available to common stockholders per share—basic	3.22	(0.10)	(0.03)		3.09
Net income available to common stockholders per share—diluted	\$ 3.20	\$ (0.09)	\$ (0.02)		\$ 3.09

(1) Represents net income attributable to both Kilroy Realty Corporation and the noncontrolling interests. For the year ended December 31, 2007, prior to the adoption of the new accounting standard affecting noncontrolling interests, reported net income was calculated after the impact of \$7.2 million of net income attributable to noncontrolling common units of the Operating Partnership and \$5.6 million of distributions to noncontrolling Series A Preferred Units.

(2) Represents net income after the allocation of net income to noncontrolling common units but before distributions to noncontrolling Series A Preferred Units.

(3) Represents the amounts associated with the property sold in June 2009 that have been reclassified to discontinued operations.

20. Subsequent Events

The Company has evaluated subsequent events through February 11, 2010, the date the financial statements were issued.

On January 15, 2010, aggregate dividends, distributions, and dividend equivalents of \$15.9 million were paid to common stockholders, common unitholders, and RSU holders of record on December 31, 2009.

On January 25, 2010, the Executive Compensation Committee granted an aggregate of 146,650 nonvested RSUs to the Executive Officers and certain key employees under the 2006 Plan.

In January 2010, the Company borrowed \$71.0 million under a new mortgage loan that is scheduled to mature February 1, 2017. The new mortgage loan is secured by five properties, bears interest at an annual rate of 6.51%, and requires monthly payments based on a 30-year amortization period. The Company used a portion of the proceeds to repay an outstanding mortgage loan with a principal balance of \$63.2 million that was scheduled to mature in April 2010.

KILROY REALTY CORPORATION
SCHEDULE II—VALUATION AND QUALIFYING ACCOUNTS
Year ended December 31, 2009, 2008, and 2007
(in thousands)

	<u>Balance at Beginning of Period</u>	<u>Charged to Costs and Expenses</u>	<u>Deductions</u>	<u>Balance at End of Period</u>
<i>Allowance for Uncollectible Tenant Receivables</i>				
Year ended December 31, 2009—Allowance for uncollectible tenant receivables	\$ 3,980	\$ 906	\$(1,823)	\$ 3,063
Year ended December 31, 2008—Allowance for uncollectible tenant receivables	\$ 3,437	\$ 675	\$ (132)	\$ 3,980
Year ended December 31, 2007—Allowance for uncollectible tenant receivables	\$ 3,281	\$ 173	\$ (17)	\$ 3,437
<i>Allowance for Unbilled Deferred Rent</i>				
Year ended December 31, 2009—Allowance for deferred rent	\$ 7,339	\$ (337)	\$ (614)	\$6,388
Year ended December 31, 2008—Allowance for deferred rent	\$ 8,034	\$ 3,376	\$(4,071)	\$ 7,339
Year ended December 31, 2007—Allowance for deferred rent	\$7,950	\$ 300	\$ (216)	\$ 8,034

KILROY REALTY CORPORATION
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Property Location	Initial Cost			Costs Capitalized Subsequent to Acquisition/ Improvement (in thousands)	Gross Amounts at Which Carried at Close of Period			Accumulated Depreciation	Deprecia- tion Life ⁽¹⁾	Date of Acquisition (A)/ Construction (C) ⁽²⁾	Rentable Square Feet ⁽³⁾
	Encumb- rances	Land	Buildings and Improve- ments		Land	Building	Total				
Office Properties:											
23925 Park Sorrento Calabasas, California	\$ 17,043 ⁽⁵⁾	\$ 50	\$ 2,346	\$ 271	\$ 50	\$ 2,617	\$ 2,667	\$ 1,034	35	2001(C)	11,789
23975 Park Sorrento Calabasas, California	(5)	765	17,720	3,979	765	21,699	22,464	8,315	35	2002(C)	100,592
24025 Park Sorrento Calabasas, California	(5)	845	15,896	2,595	845	18,491	19,336	7,788	35	2000(C)	102,264
26541 Agoura Road Calabasas, California		1,979	9,630	5,479	1,979	15,109	17,088	7,054	35	1997(A)	91,327
2240 E. Imperial Highway El Segundo, California		1,044	11,763	22,877	1,044	34,640	35,684	13,613	35	1983(C)	122,870
2250 E. Imperial Highway El Segundo, California		2,579	29,062	19,806	2,579	48,868	51,447	35,243	35	1983(C)	293,261
2260 E. Imperial Highway El Segundo, California		2,518	28,370	(5,244)	2,518	23,126	25,644	15,890	35	1983(C)	286,151
909 Sepulveda Boulevard El Segundo, California	(6)	3,577	34,042	37,227	3,577	71,269	74,846	12,228	35	2005(C)	241,607
999 Sepulveda Boulevard El Segundo, California	(6)	1,407	34,326	9,524	1,407	43,850	45,257	9,102	35	2003(C)	127,901
3750 Kilroy Airport Way Long Beach, California			1,941	10,180		12,121	12,121	7,367	35	1989(C)	10,457
3760 Kilroy Airport Way Long Beach, California			17,467	7,435		24,902	24,902	16,236	35	1989(C)	165,278
3780 Kilroy Airport Way Long Beach, California			22,319	12,366		34,685	34,685	25,287	35	1989(C)	219,745
3800 Kilroy Airport Way Long Beach, California			19,408	15,147		34,555	34,555	13,959	35	2000(C)	192,476
3840 Kilroy Airport Way Long Beach, California			13,586	9,754		23,340	23,340	10,731	35	1999(C)	136,026
3880 Kilroy Airport Way Long Beach, California			9,704	1,092		10,796	10,796	3,980	35	1997(A)	98,243
3900 Kilroy Airport Way Long Beach, California			12,615	5,483		18,098	18,098	8,238	35	1997(A)	126,840
Kilroy Airport Center, Phase IV Long Beach, California ⁽⁴⁾				2,088		2,088	2,088	2,088	35		
12100 W. Olympic Boulevard Los Angeles, California		352	45,611	12,267	9,633	48,597	58,230	10,656	35	2003(C)	150,167
12200 W. Olympic Boulevard Los Angeles, California		4,329	35,488	10,366	3,977	46,206	50,183	20,955	35	2000(C)	150,302
12312 W. Olympic Boulevard Los Angeles, California		3,325	12,202	582	3,399	12,710	16,109	4,678	35	1997(A)	78,000
1633 26th Street Santa Monica, California		2,080	6,672	1,696	2,040	8,408	10,448	4,093	35	1997(A)	44,915
2100 Colorado Avenue Santa Monica, California	63,170 ⁽⁷⁾	5,474	26,087	4,634	5,476	30,719	36,195	9,790	35	1997(A)	94,844
3130 Wilshire Boulevard Santa Monica, California		8,921	6,579	8,256	9,188	14,568	23,756	7,289	35	1997(A)	88,339
501 Santa Monica Boulevard Santa Monica, California	(7)	4,547	12,044	5,307	4,551	17,347	21,898	6,934	35	1998(A)	73,115
12225 El Camino Real Del Mar, California		1,700	9,633	727	1,703	10,357	12,060	2,826	35	1998(A)	60,148
12235 El Camino Real Del Mar, California		1,507	8,543	4,269	1,510	12,809	14,319	4,526	35	1998(A)	54,673
12340 El Camino Real Del Mar, California	(6)	4,201	13,896	7,078	4,201	20,974	25,175	4,763	35	2002(C)	87,405
12390 El Camino Real Del Mar, California	(6)	3,453	11,981	1,222	3,453	13,203	16,656	5,727	35	2000(C)	72,332
12348 High Bluff Drive Del Mar, California		1,629	3,096	3,336	1,629	6,432	8,061	3,604	35	1999(C)	38,710
12400 High Bluff Drive Del Mar, California		15,167	40,497	7,327	15,167	47,824	62,991	10,765	35	2004(C)	208,464

KILROY REALTY CORPORATION
SCHEDULE III—REAL ESTATE AND ACCUMULATED DEPRECIATION—(Continued)
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Property Location	Initial Cost			Costs Capitalized Subsequent to Acquisition/ Improvement (in thousands)	Gross Amounts at Which Carried at Close of Period			Accumulated Depreciation	Deprecia- tion Life ⁽¹⁾	Date of Acquisition (A)/ Construction (C) ⁽²⁾	Rentable Square Feet ⁽³⁾
	Encumb- rances	Land	Buildings and Improve- ments		Land	Building	Total				
3579 Valley Centre Drive Del Mar, California	74,497 ⁽⁸⁾	2,167	6,897	3,730	2,858	9,936	12,794	3,875	35	1999(C)	52,375
3611 Valley Centre Drive Del Mar, California	(8)	4,184	19,352	10,839	5,259	29,116	34,375	10,975	35	2000(C)	130,178
3661 Valley Centre Drive Del Mar, California	(8)	4,038	21,144	5,929	4,725	26,386	31,111	9,896	35	2001(C)	129,752
3721 Valley Centre Drive Del Mar, California	(8)	4,297	18,967	5,662	4,254	24,672	28,926	5,294	35	2003(C)	114,780
3811 Valley Centre Drive Del Mar, California	31,094 ⁽⁹⁾	3,452	16,152	20,053	4,457	35,200	39,657	9,315	35	2000(C)	112,067
6200 Greenwich Drive Governor Park, California	516 ⁽¹⁰⁾	1,583	5,235	2,730	1,699	7,849	9,548	4,386	35	1999(C)	71,000
6220 Greenwich Drive Governor Park, California	(10)	3,213	10,628	7,955	3,449	18,347	21,796	5,597	35	1997(A)	141,214
15051 Avenue of Science I-15 Corridor, California		2,888	5,780	5,543	2,888	11,323	14,211	3,834	35	2002(C)	70,617
15073 Avenue of Science I-15 Corridor, California		2,070	5,728	1,493	2,070	7,221	9,291	3,077	35	2002(C)	46,759
15231 Avenue of Science I-15 Corridor, California		2,233	8,830	1,823	2,233	10,653	12,886	1,470	35	2005(C)	65,638
15253 Avenue of Science I-15 Corridor, California		1,548	6,423	1,147	1,548	7,570	9,118	1,011	35	2005(C)	37,437
15333 Avenue of Science I-15 Corridor, California		2,371	16,500	1,106	2,371	17,606	19,977	1,975	35	2006(C)	78,880
15378 Avenue of Science I-15 Corridor, California		3,565	3,796	1,871	3,565	5,667	9,232	2,501	35	1998(A)	68,910
15004 Innovation Drive I-15 Corridor, California		1,858		62,529	1,858	62,529	64,387	2,956	35	2008(C)	150,801
15435 Innovation Drive I-15 Corridor, California		2,143	6,311	(8)	2,046	6,400	8,446	3,593	35	2000(C)	51,500
15445 Innovation Drive I-15 Corridor, California		2,143	6,311	240	2,046	6,648	8,694	3,607	35	2000(C)	51,500
13280 Evening Creek Drive South I-15 Corridor, California		3,701	8,398	1,143	3,701	9,541	13,242	605	35	2008(C)	42,971
13290 Evening Creek Drive South I-15 Corridor, California		5,229	11,871	1,458	5,229	13,329	18,558	451	35	2008(C)	61,176
13480 Evening Creek Drive North I-15 Corridor, California		7,997		48,048	7,997	48,048	56,045	1,957	35	2008(C)	149,817
13500 Evening Creek Drive North I-15 Corridor, California		7,581	35,903	5,760	7,580	41,664	49,244	7,248	35	2004(A)	142,742
13520 Evening Creek Drive North I-15 Corridor, California		7,581	35,903	9,322	7,580	45,226	52,806	7,249	35	2004(A)	141,368
7525 Torrey Santa Fe 56 Corridor, California		2,348	28,035	3,831	2,348	31,866	34,214	2,929	35	2007(C)	103,979
7535 Torrey Santa Fe 56 Corridor, California		2,950	33,808	5,778	2,950	39,586	42,536	3,695	35	2007(C)	130,243
7545 Torrey Santa Fe 56 Corridor, California		2,950	33,708	7,898	2,950	41,606	44,556	4,063	35	2007(C)	130,354
7555 Torrey Santa Fe 56 Corridor, California		2,287	24,916	3,573	2,287	28,489	30,776	2,562	35	2007(C)	101,236
10020 Pacific Mesa Boulevard Sorrento Mesa, California		8,007	52,189	15,336	8,007	67,525	75,532	6,639	35	2007(C)	318,000
4910 Directors Place Sorrento Mesa, California		2,240	13,039	1,989	2,240	15,028	17,268	36	35	2009(C)	50,925
4921 Directors Place Sorrento Mesa, California		3,792	11,091	1,732	3,792	12,823	16,615	395	35	2008(C)	55,500
4939 Directors Place Sorrento Mesa, California		2,225	12,698	4,469	2,198	17,194	19,392	5,069	35	2002(C)	60,662
4955 Directors Place Sorrento Mesa, California		2,521	14,122	3,697	3,179	17,161	20,340	7,694	35	2000(C)	76,246
5005 Wateridge Vista Drive Sorrento Mesa, California		2,558	5,694	(8,252)					35	1999(C)	61,460

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Property Location	Initial Cost		Costs Capitalized Subsequent to Acquisition/ Improvement	Gross Amounts at Which Carried at Close of Period			Accumulated Depreciation	Deprecia- tion Life ⁽¹⁾	Date of Acquisition (A)/ Construction (C) ⁽²⁾	Rentable Square Feet ⁽³⁾
	Encumb- rances	Land	Buildings and Improve- ments	Land	Building	Total				
				(in thousands)						
5010 Wateridge Vista Drive Sorrento Mesa, California		4,548	10,122	13,226	9,334	18,562	7,758	35	1999(C)	111,318
10243 Genetic Center Drive Sorrento Mesa, California		4,632	19,549	(28)	4,632	19,521	5,963	35	2001(C)	102,875
6055 Lusk Avenue										
Sorrento Mesa, California		3,935	8,008	5,778	3,942	13,779	3,913	35	1997(A)	93,000
6260 Sequence Drive										
Sorrento Mesa, California		3,206	9,803	1,017	3,212	10,814	3,940	35	1997(A)	130,536
6290 Sequence Drive										
Sorrento Mesa, California		2,403	7,349	4,663	2,407	12,008	3,646	35	1997(A)	90,000
6310 Sequence Drive										
Sorrento Mesa, California	(7)	2,940	4,946	(6)	2,941	4,939	2,295	35	2000(C)	62,415
6340 Sequence Drive										
Sorrento Mesa, California	(7)	2,434	7,302	9,937	2,437	17,236	5,806	35	1998(A)	66,400
6350 Sequence Drive										
Sorrento Mesa, California	(7)	4,941	14,824	(5,299)	4,949	9,517	4,560	35	1998(A)	132,600
10390 Pacific Center Court Sorrento Mesa, California		3,267	5,779	7,500	3,267	13,279	3,177	35	2002(C)	68,400
10394 Pacific Center Court Sorrento Mesa, California	(7)	2,696	7,134	(878)	1,671	7,281	8,952	35	1998(A)	59,630
10398 Pacific Center Court Sorrento Mesa, California	(7)	1,947	5,152	(521)	1,222	5,356	6,578	35	1998(A)	43,645
10421 Pacific Center Court Sorrento Mesa, California	(7)	2,926	7,979	18,973	2,926	26,952	7,230	35	1998(A)	79,871
10445 Pacific Center Court Sorrento Mesa, California	(7)	2,247	5,945	247	1,809	6,630	1,932	35	1998(A)	48,709
10455 Pacific Center Court Sorrento Mesa, California	(7)	4,044	10,701	(2,440)	3,780	8,525	2,869	35	1998(A)	90,000
10350 Barnes Canyon										
Sorrento Mesa, California	(7)	1,648	4,360	1,575	1,459	6,124	3,318	35	1998(A)	38,018
10120 Pacific Heights										
Sorrento Mesa, California	(7)	2,397	6,341	(76)	2,111	6,551	8,662	35	1998(A)	52,540
5717 Pacific Center Boulevard Sorrento Mesa, California		2,693	6,280	4,220	2,693	10,500	1,818	35	2001(C)	67,995
4690 Executive Drive										
UTC, California	(6)	1,623	7,926	2,382	1,623	10,308	3,814	35	1999(A)	47,212
9455 Towne Center Drive										
UTC, California			3,936	3,396	3,118	4,214	1,660	35	1998(A)	45,195
9785 Towne Center Drive										
UTC, California		2,722	9,932	(1,078)	2,329	9,247	2,841	35	1999(A)	75,534
9791 Towne Center Drive										
UTC, California		1,814	6,622	1,122	2,217	7,341	2,255	35	1999(A)	50,466
4175 E. La Palma Avenue Anaheim, California		1,518	2,612	2,454	1,518	5,066	2,631	35	1997(A)	43,263
8101 Kaiser Boulevard Anaheim, California		2,369	6,180	1,665	2,377	7,837	3,252	35	1997(A)	59,790
601 Valencia Avenue										
Brea, California		3,518	2,900	1,085	3,519	3,984	1,368	35	1997(A)	60,891
603 Valencia Avenue										
Brea, California		2,706	3,904	337	2,706	4,241	804	35	2005(A)	45,900
111 Pacifica										
Irvine, California	(7)	5,165	4,653	2,829	5,166	7,481	3,695	35	1997(A)	67,496
5151 Camino Ruiz										
Camarillo, California		3,151	13,798	3,352	3,151	17,150	6,721	35	1997(A)	187,861
5153 Camino Ruiz										
Camarillo, California		675	2,957	1,136	676	4,092	1,911	35	1997(A)	38,655
5155 Camino Ruiz										
Camarillo, California		675	2,957	1,382	675	4,339	2,107	35	1997(A)	38,856
2829 Townsgate Road										
Thousand Oaks, California		5,248	8,001	4,302	5,248	12,303	5,272	35	1997(A)	81,067
TOTAL OFFICE PROPERTIES		\$186,320	\$263,257	\$1,209,905	\$ 547,802	\$279,170	\$1,741,794	\$2,020,964	\$ 522,537	8,708,466

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Property Location	Initial Cost		Buildings and Improve- ments	Costs Capitalized Subsequent to Acquisition/ Improvement (in thousands)	Gross Amounts at Which Carried at Close of Period			Accumulated Depreciation	Deprecia- tion Life ⁽¹⁾	Date of Acquisition (A)/ Construction (C) ⁽²⁾	Rentable Square Feet ⁽³⁾
	Encumb- rances	Land			Land	Building	Total				
Industrial Properties:											
2031 E. Mariposa Avenue El Segundo, California		\$ 132	\$ 867	\$ 3,807	\$ 132	\$ 4,674	\$ 4,806	\$ 3,763	35	1954(C)	192,053
1000 E. Ball Road Anaheim, California		838	1,984	1,264	838	3,248	4,086	3,061	35	1956(C)/1974(A)	100,000
1230 S. Lewis Street Anaheim, California		395	1,489	2,487	395	3,976	4,371	3,353	35	1982(C)	57,730
1250 N. Tustin Avenue Anaheim, California	33,500 ⁽¹¹⁾	2,098	4,158	504	2,098	4,662	6,760	1,854	35	1998(A)	84,185
3125 E. Coronado Street Anaheim, California	71,433 ⁽¹²⁾	3,669	4,341	1,464	3,669	5,805	9,474	1,857	35	1997(A)	144,000
3130/3150 Miraloma Anaheim, California	(12)	3,335	3,727	232	3,336	3,958	7,294	1,474	35	1997(A)	144,000
3250 E. Carpenter Avenue Anaheim, California	(11)			2,556		2,556	2,556	1,025	35	1998(C)	41,225
3340 E. La Palma Avenue Anaheim, California	(11)	67	1,521	5,226	67	6,747	6,814	5,606	35	1966(C)	153,320
3355 E. La Palma Avenue Anaheim, California	(12)	1,704	3,235	2,670	1,982	5,627	7,609	3,003	35	1999(C)	98,200
4123 E. La Palma Avenue Anaheim, California		1,690	2,604	3,015	1,690	5,619	7,309	2,732	35	1997(A)	70,863
4155 E. La Palma Avenue Anaheim, California		1,148	2,681	1,221	1,148	3,902	5,050	1,674	35	1997(A)	74,618
5115 E. La Palma Avenue Anaheim, California	(12)	2,462	6,675	4,764	2,464	11,437	13,901	4,439	35	1997(A)	286,139
5325 E. Hunter Avenue Anaheim, California	(12)	1,728	3,555	939	1,728	4,494	6,222	1,900	35	1997(A)	110,487
1145 N. Ocean Boulevard Anaheim, California	(12)	1,171	2,224	639	1,303	2,731	4,034	1,226	35	1999(C)	65,447
1201 N. Miller Street Anaheim, California	(12)	3,620	6,875	(2,581)	2,145	5,769	7,914	3,170	35	1999(C)	119,612
1211 N. Miller Street Anaheim, California	(12)	2,129	4,044	4,011	3,234	6,950	10,184	2,571	35	1999(C)	200,646
1231 N. Miller Street Anaheim, California	(12)	2,023	3,842	2,224	1,984	6,105	8,089	1,828	35	1999(C)	113,242
660 N. Puente Street Brea, California	(11)	227	2,507	378	247	2,865	3,112	1,037	35	1997(A)	51,567
950 W. Central Avenue Brea, California	(11)	101	1,114	616	110	1,721	1,831	634	35	1997(A)	24,000
1050 W. Central Avenue Brea, California	(11)	139	1,532	358	117	1,912	2,029	704	35	1997(A)	30,000
1150 W. Central Avenue Brea, California	(11)	139	1,532	170	132	1,709	1,841	669	35	1997(A)	30,000
895 Beacon Street Brea, California	(11)	253	2,785	107	224	2,921	3,145	1,122	35	1997(A)	54,795
955 Beacon Street Brea, California	(11)	177	1,950	90	172	2,045	2,217	763	35	1997(A)	37,916
1125 Beacon Street Brea, California	(11)	227	2,507	415	261	2,888	3,149	1,077	35	1997(A)	49,178
925 Lambert Road Brea, California	(12)	1,829	3,861	1,215	1,831	5,074	6,905	2,223	35	1999(C)	80,000
1075 Lambert Road Brea, California	(12)	1,497	3,159	938	1,495	4,099	5,594	1,865	35	1999(C)	98,811
1675 MacArthur Boulevard Costa Mesa, California	(12)	2,076	2,114	347	2,076	2,461	4,537	912	35	1997(A)	50,842
25902 Towne Center Drive Foothill Ranch, California	(12)	3,334	8,243	5,985	4,949	12,613	17,562	6,204	35	1998(C)	309,685
12681/12691 Pala Drive Garden Grove, California		471	2,115	3,056	471	5,171	5,642	4,891	35	1980(A)	84,700
7421 Orangewood Avenue Garden Grove, California		612	3,967	1,728	612	5,695	6,307	2,225	35	1997(A)	82,602

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Property Location	Initial Cost			Costs Capitalized Subsequent to Acquisition/Improvement	Gross Amounts at Which Carried at Close of Period			Accumulated Depreciation	Depreciation Life ⁽¹⁾	Date of Acquisition (A)/ Construction (C) ⁽²⁾	Rentable Square Feet ⁽³⁾
	Encumbrances	Land	Buildings and Improvements		Land	Building	Total				
(in thousands)											
7091 Belgrave Avenue Garden Grove, California		486	3,092	335	505	3,408	3,913	1,354	35	1997(A)	70,000
12271 Industry Street Garden Grove, California		131	833	(236)	125	603	728	218	35	1997(A)	20,000
12311 Industry Street Garden Grove, California		168	1,070	(334)	135	769	904	298	35	1997(A)	25,000
7261 Lampson Avenue Garden Grove, California		318	2,022	(146)	429	1,765	2,194	556	35	1997(A)	47,092
12472 Edison Way Garden Grove, California		374	2,379	675	318	3,110	3,428	1,102	35	1997(A)	55,576
12442 Knott Street Garden Grove, California		392	2,499	2,207	356	4,742	5,098	1,803	35	1997(A)	58,303
2055 S.E. Main Street Irvine, California		772	2,343	529	772	2,872	3,644	1,032	35	1997(A)	47,583
1951 E. Carnegie Avenue Santa Ana, California	(11)	1,830	3,630	1,488	1,844	5,104	6,948	2,182	35	1997(A)	100,000
2525 Pullman Street Santa Ana, California		4,283	3,276	2,079	4,283	5,355	9,638	1,523	35	2002(A)	103,380
14831 Franklin Avenue Tustin, California		1,112	1,065	329	1,113	1,393	2,506	685	35	1997(A)	36,256
2911 Dow Avenue Tustin, California		1,124	2,408	668	1,124	3,076	4,200	1,056	35	1998(A)	51,410
17150 Von Karman Irvine, California		4,848	7,342	(224)	4,848	7,118	11,966	2,768	35	1997(A)	(13)
TOTAL INDUSTRIAL PROPERTIES	\$ 104,933	\$ 55,129	\$ 123,167	\$ 57,215	\$ 56,762	\$ 178,749	\$ 235,511	\$ 83,439			3,654,463
Undeveloped land and construction in progress	3,321 ⁽¹⁴⁾	196,275		67,333	263,608		263,608				
TOTAL ALL PROPERTIES	\$294,574	\$514,661	\$1,333,072	\$ 672,350	\$599,540	\$1,920,543	\$2,520,083	\$ 605,976			12,362,929

- (1) The initial costs of buildings are depreciated over 35 years using a straight-line method of accounting; improvements capitalized subsequent to acquisition are depreciated over the shorter of the lease term or useful life, generally ranging from one to 20 years.
- (2) Represents date of construction or acquisition by the Company, or the Company's predecessor, the Kilroy Group.
- (3) Includes square footage from the Company's stabilized portfolio.
- (4) These costs represent infrastructure costs incurred in 1989. During the third quarter of 2009, the Company exercised its option to terminate the ground lease at Kilroy Airport Center, Phase IV in Long Beach, California. The Company had previously leased this land, which is adjacent to the Company's Office Properties at Kilroy Airport Center, Long Beach, for potential future development opportunities.
- (5) These properties secure a \$17.0 million mortgage note.
- (6) These properties were unencumbered as of December 31, 2009. As of January 2010, these properties secure a \$71.0 million mortgage note.
- (7) These properties secured a \$63.2 million mortgage note as of December 31, 2009. The note was paid off in January 2010.
- (8) These properties secure a \$74.5 million mortgage note.
- (9) This property secures a \$31.1 million mortgage note.
- (10) These properties secured a \$0.5 million mortgage note as of December 31, 2009. The note was paid off in January 2010.
- (11) These properties secure a \$33.5 million line of credit.
- (12) These properties secure a \$71.4 million mortgage note.
- (13) The Company is in the process of reentitling this property for residential use; therefore the property is excluded from the stabilized portfolio. The property encompasses approximately 157,000 square feet.
- (14) Represents the principal balance of the public facility bonds (the "Bonds"), the proceeds from which were used to finance infrastructure improvements on one of the Company's undeveloped land parcels (see Note 4). The Bonds are secured by property tax payments.

The aggregate gross cost of property included above for federal income tax purposes approximated \$2.1 billion as of December 31, 2009.

KILROY REALTY CORPORATION
SCHEDULE III—REAL ESTATE AND ACCUMULATED DEPRECIATION—(Continued)
December 31, 2009

The following table reconciles the historical cost of total real estate held for investment from January 1, 2007 to December 31, 2009:

	Year Ended December 31,		
	2009	2008 (in thousands)	2007
Total real estate held for investment, beginning of year	\$2,475,596	\$ 2,370,004	\$2,040,761
Additions during period:			
Other acquisitions	—	—	157,005
Improvements, etc.	47,688	105,592	225,326
Total additions during period	47,688	105,592	382,331
Deductions during period:			
Cost of real estate sold	(3,201)	—	(53,088)
Total deductions during period	(3,201)	—	(53,088)
Total real estate held for investment, end of year	<u>\$ 2,520,083</u>	<u>\$2,475,596</u>	<u>\$ 2,370,004</u>

The following table reconciles the accumulated depreciation from January 1, 2007 to December 31, 2009:

	Year Ended December 31,		
	2009	2008 (in thousands)	2007
Accumulated depreciation, beginning of year	\$ 532,769	\$ 463,932	\$ 443,807
Additions during period:			
Depreciation of real estate	73,961	68,837	61,143
Total additions during period	73,961	68,837	61,143
Deductions during period:			
Write-offs due to sale	(754)	—	(41,018)
Total deductions during period	(754)	—	(41,018)
Accumulated depreciation, end of year	<u>\$605,976</u>	<u>\$532,769</u>	<u>\$463,932</u>

EXHIBIT INDEX

<u>Exhibit Number</u>	<u>Description</u>
3(i).1*	Kilroy Realty Corporation Articles of Restatement
3(ii).1	Second Amended and Restated Bylaws of the Registrant ⁽³¹⁾
3(ii).2	Amendment No. 1 to Second Amended and Restated Bylaws ⁽³⁵⁾
4.1	Form of Certificate for Common Stock of the Registrant ⁽¹⁾
4.2	Registration Rights Agreement dated January 31, 1997 ⁽¹⁾
4.3	Registration Rights Agreement dated February 6, 1998 ⁽³⁾
4.4	Second Amended and Restated Registration Rights Agreement dated as of March 5, 2004 ⁽²⁾
4.5	Registration Rights Agreement dated as of October 31, 1997 ⁽⁴⁾
4.6	Rights Agreement dated as of October 2, 1998 between Kilroy Realty Corporation and ChaseMellon Shareholder Services, L.L.C., as Rights Agent, which includes the form of Articles Supplementary of the Series B Junior Participating Preferred Stock of Kilroy Realty Corporation as Exhibit A, the form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Shares as Exhibit C ⁽⁵⁾
4.7	Registration Rights Agreement dated as of October 6, 2000 ⁽⁶⁾
4.8	The Company is party to agreements in connection with long-term debt obligations, none of which individually exceeds ten percent of the total assets of the Company on a consolidated basis. Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the Company agrees to furnish copies of these agreements to the Commission upon request
4.9	Note and Guarantee Agreement dated August 4, 2004 by and between Kilroy Realty, L.P. and Kilroy Realty Corporation and the purchasers whose names appear in the acceptance form at the end of the Note and Guarantee Agreement ⁽⁷⁾
4.10	Form of 5.72% Series A Guaranteed Senior Note due 2010 ⁽⁷⁾
4.11	Form of 6.45% Series B Guaranteed Senior Note due 2014 ⁽⁷⁾
4.12†	Kilroy Realty 2006 Incentive Award Plan ⁽²⁴⁾
4.13†	Amendment to Kilroy Realty 2006 Incentive Award Plan ⁽²⁶⁾
4.14†	Second Amendment to Kilroy Realty 2006 Incentive Award Plan ⁽³⁰⁾
4.15†	Third Amendment to Kilroy Realty 2006 Incentive Award Plan ⁽³⁵⁾
4.16†	Form of Restricted Stock Award Agreement ⁽²⁵⁾
4.17	Indenture, dated as of April 2, 2007, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, including the form of 3.250% Exchangeable Senior Notes due 2012 ⁽²⁸⁾
4.18	Registration Rights Agreement, dated April 2, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation, and J.P. Morgan Securities Inc., Banc of America Securities LLC and Lehman Brothers Inc. ⁽²⁸⁾
4.19	Indenture, dated as of November 20, 2009, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, including the form of 4.25% Exchangeable Senior Notes due 2014 and the form of related guarantee ⁽³⁹⁾
4.20	Registration Rights Agreement, dated November 20, 2009, among Kilroy Realty, L.P., Kilroy Realty Corporation, J.P. Morgan Securities Inc., and Merrill Lynch, Pierce, Fenner & Smith Incorporated ⁽³⁹⁾

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<u>Exhibit Number</u>	<u>Description</u>
10.1	Fifth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P. dated as of March 5, 2004 ⁽²⁾
10.2	First Amendment to Fifth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P., dated as of December 7, 2004 ⁽⁸³⁾
10.3	Second Amendment to Fifth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P., dated as of October 2, 2008 ⁽³⁴⁾
10.4	Third Amendment to Fifth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P. ⁽³⁶⁾
10.5	Omnibus Agreement dated as of October 30, 1996 by and among Kilroy Realty, L.P. and the parties named therein ⁽¹⁾
10.6	Supplemental Representations, Warranties and Indemnity Agreement by and among Kilroy Realty, L.P. and the parties named therein ⁽¹⁾
10.7	Pledge Agreement by and among Kilroy Realty, L.P., John B. Kilroy, Sr., John B. Kilroy, Jr. and Kilroy Industries ⁽¹⁾
10.8†	1997 Stock Option and Incentive Plan of the Registrant and Kilroy Realty, L.P. ⁽¹⁾
10.9	Lease Agreement dated January 24, 1989 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase I ⁽⁹⁾
10.10	First Amendment to Lease Agreement dated December 28, 1990 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase I ⁽⁹⁾
10.11	Lease Agreement dated July 17, 1985 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III ⁽¹⁰⁾
10.12	Lease Agreement dated April 21, 1988 by and between Kilroy Long Beach Associates and the Board of Water Commissioners of the City of Long Beach, acting for and on behalf of the City of Long Beach, for Long Beach Phase IV ⁽¹⁰⁾
10.13	Lease Agreement dated December 30, 1988 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase II ⁽¹⁰⁾
10.14	First Amendment to Lease dated January 24, 1989 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III ⁽¹⁰⁾
10.15	Second Amendment to Lease Agreement dated December 28, 1990 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III ⁽¹⁰⁾
10.16	First Amendment to Lease Agreement dated December 28, 1990 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase II ⁽¹⁰⁾
10.17	Third Amendment to Lease Agreement dated October 10, 1994 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III ⁽¹⁰⁾
10.18	Development Agreement by and between Kilroy Long Beach Associates and the City of Long Beach ⁽¹⁰⁾
10.19	Amendment No. 1 to Development Agreement by and between Kilroy Long Beach Associates and the City of Long Beach ⁽¹⁰⁾
10.20	Property Management Agreement between Kilroy Realty Finance Partnership, L.P. and Kilroy Realty, L.P. ⁽¹¹⁾
10.21	Form of Environmental Indemnity Agreement ⁽¹¹⁾
10.22	Option Agreement by and between Kilroy Realty, L.P. and Kilroy Airport Imperial Co. ⁽¹²⁾

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<u>Exhibit Number</u>	<u>Description</u>
10.23	Option Agreement by and between Kilroy Realty, L.P. and Kilroy Calabasas Associates ⁽¹²⁾
10.24†	Noncompetition Agreement by and between the Registrant and John B. Kilroy, Sr. ⁽¹⁾
10.25†	Noncompetition Agreement by and between the Registrant and John B. Kilroy, Jr. ⁽¹⁾
10.26	License Agreement by and among the Registrant and the other persons named therein ⁽¹²⁾
10.27	Purchase and Sale Agreement and Joint Escrow Instructions dated April 30, 1997 by and between Mission Land Company, Mission-Vacaville, L.P. and Kilroy Realty, L.P. ⁽¹³⁾
10.28	Agreement of Purchase and Sale and Joint Escrow Instructions dated April 30, 1997 by and between Camarillo Partners and Kilroy Realty, L.P. ⁽¹³⁾
10.29	Purchase and Sale Agreement and Escrow Instructions dated May 5, 1997 by and between Kilroy Realty L.P. and Pullman Carnegie Associates ⁽¹⁴⁾
10.30	Amendment to Purchase and Sale Agreement and Escrow Instructions dated June 27, 1997 by and between Pullman Carnegie Associates and Kilroy Realty, L.P. ⁽¹⁴⁾
10.31	Purchase and Sale Agreement, Contribution Agreement and Joint Escrow Instructions dated May 12, 1997 by and between Shidler West Acquisition Company, LLC and Kilroy Realty, L.P. ⁽¹⁵⁾
10.32	First Amendment to Purchase and Sale Agreement, Contribution Agreement and Joint Escrow Instructions dated June 6, 1997 by and between Shidler West Acquisition Company, L.L.C. and Kilroy Realty, L.P. ⁽¹⁵⁾
10.33	Second Amendment to Purchase and Sale Agreement, Contribution Agreement and Joint Escrow Instructions dated June 12, 1997 by and between Shidler West Acquisition Company, LLC and Kilroy Realty, L.P. ⁽¹⁵⁾
10.34	Agreement of Purchase and Sale and Joint Escrow Instructions dated June 12, 1997 by and between Mazda Motor of America, Inc. and Kilroy Realty, L.P. ⁽¹⁴⁾
10.35	First Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions dated June 30, 1997 by and between Mazda Motor of America, Inc. and Kilroy Realty, L.P. ⁽¹⁴⁾
10.36	Agreement for Purchase and Sale of 2100 Colorado Avenue, Santa Monica, California dated June 16, 1997 by and between Santa Monica Number Seven Associates L.P. and Kilroy Realty, L.P. ⁽¹⁴⁾
10.37	Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners ⁽¹⁶⁾
10.38	First Amendment to Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated August 22, 1997 ⁽¹⁶⁾
10.39	Second Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 5, 1997 ⁽¹⁶⁾
10.40	Third Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 19, 1997 ⁽¹⁶⁾
10.41	Fourth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 22, 1997 ⁽¹⁶⁾
10.42	Fifth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 23, 1997 ⁽¹⁶⁾
10.43	Sixth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1998 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 25, 1997 ⁽¹⁶⁾

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<u>Exhibit Number</u>	<u>Description</u>
10.44	Seventh Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 29, 1997 ⁽¹⁶⁾
10.45	Eighth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated October 2, 1997 ⁽¹⁶⁾
10.46	Ninth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated October 24, 1997 ⁽¹⁶⁾
10.47	Contribution Agreement dated October 21, 1997 by and between Kilroy Realty, L.P. and Kilroy Realty Corporation and The Allen Group and the Allens ⁽¹⁷⁾
10.48	Purchase and Sale Agreement and Escrow Instructions dated December 11, 1997 by and between Kilroy Realty, L.P. and Swede-Cal Properties, Inc., Viking Investors of Southern California, L.P. and Viking Investors of Southern California II, L.P. ⁽¹⁸⁾
10.49	Amendment to the Contribution Agreement dated October 14, 1998 by and between Kilroy Realty, L.P. and Kilroy Realty Corporation and The Allen Group and the Allens dated October 21, 1997 ⁽¹⁹⁾
10.50	Secured Promissory Notes and Deeds of Trusts Aggregating \$80.0 Million payable to Metropolitan Life Insurance Company dated January 10, 2002 ⁽²⁰⁾
10.51	Secured Promissory Notes and Deeds of Trust Aggregating \$115 million payable to Teachers Insurance and Annuity Association of America ⁽²¹⁾
10.52	Fourth Amended and Restated Revolving Credit Agreement dated October 22, 2004 ⁽²²⁾
10.53	Fourth Amended and Restated Guaranty of Payment dated October 22, 2004 ⁽²²⁾
10.54	Amendment No. 1 to Fourth Amended and Restated Credit Agreement dated June 30, 2005 ⁽³⁸⁾
10.55	Amendment No. 2 to Fourth Amended and Restated Credit Agreement dated April 26, 2006 ⁽²³⁾
10.56	Amendment No. 3 to Fourth Amended and Restated Credit Agreement ⁽³⁷⁾
10.57†	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and John B. Kilroy, Jr. effective as of January 1, 2007 ⁽²⁷⁾
10.58†	Addendum No. 1 to Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and John B. Kilroy, Jr. effective as of February 12, 2008 ⁽⁴⁰⁾
10.59†	Amendment No. 2 to Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and John B. Kilroy, Jr. effective as of December 31, 2009 ⁽⁴⁰⁾
10.60†	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Jeffrey C. Hawken effective as of January 1, 2007 ⁽²⁷⁾
10.61†	Amendment No. 1 to Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Jeffrey C. Hawken effective as of December 31, 2009 ⁽⁴⁰⁾
10.62†	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Richard E. Moran Jr. effective as of January 1, 2007 ⁽²⁷⁾
10.63†	Amendment No. 1 to Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Richard E. Moran Jr. effective as of December 31, 2009 ⁽⁴⁰⁾
10.64	Letter confirmation dated March 27, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and JPMorgan Chase Bank, National Association, London Branch ⁽²⁸⁾
10.65	Letter confirmation dated March 27, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and Bank of America, N.A. ⁽²⁸⁾

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<u>Exhibit Number</u>	<u>Description</u>
10.66	Letter confirmation dated March 27, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and Lehman Brothers OTC Derivatives Inc. ⁽²⁸⁾
10.67	Amendment to letter confirmation dated April 4, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and JPMorgan Chase Bank, National Association, London Branch ⁽²⁹⁾
10.68	Amendment to letter confirmation dated April 4, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and Bank of America, N.A. ⁽²⁹⁾
10.69	Amendment to letter confirmation dated April 4, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and Lehman Brothers OTC Derivatives Inc. ⁽²⁹⁾
10.70†	Kilroy Realty Corporation 2007 Deferred Compensation Plan ⁽³²⁾
10.71†	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Steven R. Scott effective as of January 1, 2007 ⁽³²⁾
10.72†	Amendment No. 1 to Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Steven R. Scott effective as of December 31, 2009 ⁽⁴⁰⁾
10.73†	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Tyler H. Rose effective as of January 1, 2007 ⁽³²⁾
10.74†	Amendment No. 1 to Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Tyler H. Rose effective as of December 31, 2009 ⁽⁴⁰⁾
10.75†	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Heidi Roth effective as of January 1, 2007 ⁽³²⁾
10.76†	Amendment No. 1 to Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Heidi Roth effective as of December 31, 2009 ⁽⁴⁰⁾
10.77†	Kilroy Realty Corporation Stock Award Deferral Program ⁽³³⁾
10.78	Ground Lease by and between Frederick Boysen and Ted Boysen and Kilroy Industries dated May 15, 1969 for SeaTac Office Center ⁽⁹⁾
10.79	Amendment No. 1 to Ground Lease and Grant of Easement dated April 27, 1973 among Frederick Boysen and Dorothy Boysen, Ted Boysen and Rose Boysen and Sea/Tac Properties ⁽⁹⁾
10.80	Amendment No. 2 to Ground Lease and Grant of Easement dated May 17, 1977 among Frederick Boysen and Dorothy Boysen, Ted Boysen and Rose Boysen and Sea/Tac Properties ⁽⁹⁾
10.81	Airspace lease dated July 10, 1980 by and among the Washington State Department of Transportation, as lessor, and Sea/Tac Properties, Ltd. and Kilroy Industries, as lessee ⁽⁹⁾
10.82	Memorandum of Lease dated April 1, 1980 by and among Bow Lake, Inc., as lessor, and Kilroy Industries and Sea/Tac Properties, Ltd., as lessees for Sea/Tac Office Center ⁽⁹⁾
10.83	Amendment No. 1 to Ground Lease dated September 17, 1990 between Bow Lake, Inc., as lessor, and Sea/Tac Properties, Ltd., as lessee ⁽⁹⁾
10.84	Amendment No. 2 to Ground Lease dated March 21, 1991 between Bow Lake, Inc., as lessor, and Sea/Tac Properties, Ltd., as lessee ⁽⁹⁾
10.85	Letter confirmation dated November 16, 2009, among Kilroy Realty, L.P., Kilroy Realty Corporation and JPMorgan Chase Bank, National Association, London Branch ⁽³⁹⁾
10.86	Letter confirmation dated November 16, 2009, among Kilroy Realty, L.P., Kilroy Realty Corporation and Bank of America, N.A. ⁽³⁹⁾
10.87	Letter confirmation dated November 20, 2009, among Kilroy Realty, L.P., Kilroy Realty Corporation and JPMorgan Chase Bank, National Association, London Branch ⁽³⁹⁾

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<u>Exhibit Number</u>	<u>Description</u>
10.88	Letter confirmation dated November 20, 2009, among Kilroy Realty, L.P., Kilroy Realty Corporation and Bank of America, N.A. ⁽³⁹⁾
10.89†*	Form of Indemnification Agreement of Kilroy Realty Corporation with certain officers and directors
10.90†*	Separation Agreement and Release dated December 16, 2009 by and between Richard E. Moran Jr., Kilroy Realty, L.P. and Kilroy Realty Corporation
10.91*	Deed of Trust and Security Agreement dated January 26, 2010 between Kilroy Realty, L.P. and The Northwestern Mutual Life Insurance Company; related Promissory Note date January 26, 2010 for \$71 million payable to The Northwestern Mutual Life Insurance Company; and related Guarantee of Recourse Obligations dated January 26, 2010 by Kilroy Realty Corporation
12.1*	Statement of Computation of Consolidated Ratio of Earnings to Combined Fixed Charges and Preferred Dividends
21.1*	List of Subsidiaries of the Registrant
23.1*	Consent of Deloitte & Touche LLP
24.1*	Power of Attorney (included on the signature page of this Form 10-K)
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1*	Section 1350 Certification of Chief Executive Officer
32.2*	Section 1350 Certification of Chief Financial Officer

* Filed herewith

† Management contract or compensatory plan or arrangement.

- (1) Previously filed as an exhibit to the Registration Statement on Amendment No. 3 to Form S-11 (No. 333-15553).
- (2) Previously filed as an exhibit on Form 10-K for the year ended December 31, 2003.
- (3) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on February 11, 1998.
- (4) Previously filed as an exhibit on Form 8-K/A as filed with the Securities and Exchange Commission on December 19, 1997.
- (5) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on October 8, 1998.
- (6) Previously filed as an exhibit on Form 10-K for the year ended December 31, 2000.
- (7) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on August 11, 2004.
- (8) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 9, 2004.
- (9) Previously filed as an exhibit to the Registration Statement on Amendment No. 2 to Form S-11 (No. 333-15553).
- (10) Previously filed as an exhibit to the Registration Statement on Form S-11 (No. 333-15553).
- (11) Previously filed as an exhibit to the Registration Statement on Amendment No. 5 to Form S-11 (No. 333-15553).
- (12) Previously filed as an exhibit to the Registration Statement on Amendment No. 4 to Form S-11 (No. 333-15553).
- (13) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on June 6, 1997.
- (14) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on July 15, 1997.
- (15) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on July 3, 1997.
- (16) Previously filed as an exhibit on Form 10-Q for the quarter ended September 30, 1997.
- (17) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on November 21, 1997.
- (18) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 29, 1997.
- (19) Previously filed as an exhibit on Form 10-Q for the quarter ended September 30, 1998.
- (20) Previously filed as an exhibit on Form 10-K for the year ended December 31, 2001.
- (21) Previously filed as an exhibit on Form 10-Q for the quarter ended March 31, 2004.
- (22) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on October 28, 2004.
- (23) Previously filed as an exhibit on Form 10-Q for the quarter ended March 31, 2006.

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- (24) Previously filed as an exhibit to the Registration Statement on Form S-8 filed with the Securities and Exchange Commission on June 28, 2006.
- (25) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on February 8, 2007.
- (26) Previously filed as an exhibit on Form 10-K for the year ended December 31, 2006.
- (27) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on March 22, 2007.
- (28) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on April 5, 2007.
- (29) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on April 11, 2007.
- (30) Previously filed as an exhibit on Form 10-Q for the quarter ended March 31, 2007.
- (31) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on December 12, 2008.
- (32) Previously filed as an exhibit on Form 10-Q for the quarter ended June 30, 2007.
- (33) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on January 2, 2008.
- (34) Previously filed as an exhibit on Form 10-Q for the quarter ended September 30, 2008.
- (35) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on May 27, 2009.
- (36) Previously filed as an exhibit on Form 10-Q for the quarter ended June 30, 2009.
- (37) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on July 23, 2009.
- (38) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on July 5, 2005.
- (40) Previously filed as an exhibit on Form 10-K for the year ended December 31, 2008.

KILROY REALTY CORPORATION

ARTICLES OF RESTATEMENT

KILROY REALTY CORPORATION, a Maryland corporation (the “Corporation”), hereby certifies to the State Department of Assessments and Taxation of Maryland (the “Department”) that:

FIRST: The Corporation desires to and does hereby restate in its entirety the charter of the Corporation (the “Charter”) as currently in effect pursuant to Section 2-608 of the MARYLAND GENERAL CORPORATION LAW (the “MGCL”).

SECOND: The following provisions, together with the provisions of the Articles Supplementary relating to the 7.45% Series A Cumulative Redeemable Preferred Stock of the Corporation attached hereto as Exhibit I, the Articles Supplementary relating to the 7.80% Series E Cumulative Redeemable Preferred Stock of the Corporation attached hereto as Exhibit II and the Articles Supplementary relating to the 7.50% Series F Cumulative Redeemable Preferred Stock of the Corporation attached hereto as Exhibit III, all of which are incorporated herein by reference, are all the provisions of the Charter currently in effect, as restated herein:

ARTICLE I

NAME OF THE CORPORATION

The name of the corporation (hereinafter the “Corporation”) is:

Kilroy Realty Corporation

ARTICLE II

RESIDENT AGENT; PRINCIPAL OFFICE IN STATE

The address of the Corporation’s principal office in the State of Maryland is c/o Ballard Spahr LLP, 300 E. Lombard Street, 18th Floor, Baltimore, Maryland 21202. The name of the Corporation’s resident agent is Charles R. Moran, Esq., whose address is c/o Ballard Spahr LLP, 300 E. Lombard Street, 18th Floor, Baltimore, Maryland 21202, said resident agent being a citizen of the state of Maryland residing therein.

ARTICLE III
PURPOSE OF THE CORPORATION

The purpose for which the Corporation is formed is to engage in any lawful act or activity (including, without limitation or obligation, engaging in business as a real estate investment trust (a "REIT") under Sections 856 to 860 of the Internal Revenue Code of 1986, as amended, or any successor statute of similar import (the "Code")) for which corporations may be organized under the MARYLAND GENERAL CORPORATION LAW, as amended from time to time, and any successor statute hereafter enacted (the "MGCL").

ARTICLE IV
AUTHORIZED CAPITAL STOCK

The total number of shares of all classes of capital stock which the Corporation shall have authority to issue is 180,000,000, consisting of 150,000,000 shares of common stock, par value \$.01 per share (the "Common Stock"), and 30,000,000 shares of preferred stock, par value \$.01 per share (the "Preferred Stock") which may be issued in one or more classes as described in Paragraph C of this Article IV. The aggregate par value of all of the Corporation's authorized shares having par value is \$1,800,000. The Common Stock and each class of the Preferred Stock shall each constitute a separate class of capital stock of the Corporation.

The following is a description of each of the classes of stock of the Corporation and a statement of the powers, preferences and rights of such stock, and the qualifications, limitations and restrictions thereof:

A. Voting Rights.

1. **Common Stock.** Except as may otherwise be required by law, and subject to the provisions of such resolution or resolutions as may be adopted by the Board of Directors pursuant to Paragraph C of this Article IV granting the holders of one or more classes of Preferred Stock exclusive voting powers with respect to any matter, each holder of Common Stock shall have one vote in respect of each share of Common Stock held on all matters voted upon by the stockholders.

2. **Preferred Stock.** Except as may otherwise be required by law, and subject to the provisions of such resolution or resolutions as may be adopted by the Board of Directors pursuant to Paragraph C of this Article IV granting the holders of one or more classes of Preferred Stock voting powers with respect to any matter, the Preferred Stock shall have no voting rights and shall have no rights to receive notice of any meetings except as expressly provided in the resolution establishing any class thereof.

B. Terms of Common Stock. The Common Stock shall be subject to the express terms of the Preferred Stock or any classes thereof.

1. **Dividend Rights.** After the provisions with respect to preferential dividends on any class of Preferred Stock (fixed in accordance with the provisions of Paragraph C of this Article IV), if any, shall have been satisfied and after the Corporation shall have complied with all the requirements, if any, with respect to redemption of, or the setting aside of

sums as sinking funds or redemption or purchase accounts with respect to, any class of Preferred Stock (fixed in accordance with the provisions of Paragraph C of this Article IV), and subject further to any other conditions that may be fixed in accordance with the provisions of Paragraph C of this Article IV, then, and not otherwise, the holders of Common Stock shall be entitled to receive such dividends as may be authorized and declared from time to time by the Board of Directors out of funds legally available therefor. All distributions paid with respect to the Common Stock shall be paid pro rata, with no preference to any share of Common Stock as compared with other shares of Common Stock.

2. Rights Upon Liquidation. In the event of the voluntary or involuntary liquidation, dissolution or winding-up of the Corporation, after distribution in full of the preferential amounts, if any (fixed in accordance with the provisions of Paragraph C of this Article IV), to be distributed to the holders of Preferred Stock by reason thereof, the holders of Common Stock shall, subject to the additional rights, if any (fixed in accordance with the provisions of Paragraph C of this Article IV), of the holders of any outstanding shares of Preferred Stock, be entitled to receive all of the remaining assets of the Corporation, tangible and intangible, of whatever kind available for distribution to stockholders ratably in proportion to the number of shares of Common Stock held by them.

C. Issuance and Terms of Preferred Stock. The Preferred Stock may be issued, from time to time, in one or more classes, and each class shall be known and designated by such designations, as may be stated and expressed in a resolution or resolutions adopted by the Board of Directors of the Corporation and as shall have been set forth in articles supplementary made, executed, acknowledged, filed and recorded in the manner required by the MGCL in order to make the same effective. Each class shall consist of such number of shares as shall be stated and expressed in such resolution or resolutions providing for the issue of Preferred Stock of such class together with such additional number of shares as the Board of Directors by resolution or resolutions may from time to time determine to issue as a part of such class. All shares of any one class of such Preferred Stock shall be alike in every particular except that shares issued at different times may accumulate dividends from different dates. The Board of Directors shall have power and authority to state and determine in the resolution or resolutions providing for the issue of each class of Preferred Stock the number of shares of each such class authorized to be issued, the voting powers (if any) and the designations, preferences and relative, participating, optional, conversion or other rights appertaining to each such class, and the qualifications, limitations or restrictions thereof (including, but not by way of limitation, full power and authority to determine as to the Preferred Stock of each such class, the rate or rates of dividends payable thereon, the times of payment of such dividends, the prices and manner upon which the Preferred Stock may be redeemed, the amount or amounts payable thereon in the event of liquidation, dissolution or winding up of the Corporation or in the event of any merger or consolidation of or sale of assets by the Corporation, the rights (if any) to convert the Preferred Stock into, and/or to purchase, stock of any other class or series, the terms of any sinking fund or redemption or purchase account (if any) to be provided for shares of such class of Preferred Stock, restrictions on ownership and transfer to preserve tax benefits, and the voting powers (if any) of the holders of any class of Preferred Stock generally or with respect to any particular matter, which may be less than, equal to or greater than one vote per share, and which may, without limiting the generality of the foregoing, include the right, voting as a class by itself or together with the holders of any other class of Preferred Stock or all classes of Preferred Stock as

a single class, to elect one or more directors of the Corporation generally or under such specific circumstances and on such conditions, as shall be provided in the resolution or resolutions of the Board of Directors adopted pursuant hereto, including, without limitation, in the event there shall have been a default in the payment of dividends on or redemption of any one or more classes of Preferred Stock). The Board of Directors may from time to time decrease the number of shares of any class of Preferred Stock (but not below the number thereof then outstanding) by providing that any unissued shares previously assigned to such class shall no longer constitute part thereof and may assign such unissued shares to an existing or newly created class. The foregoing provisions of this Paragraph C with respect to the creation or issuance of classes of Preferred Stock shall be subject to any additional conditions with respect thereto which may be contained in any resolutions then in effect which shall have theretofore been adopted in accordance with the foregoing provisions of this Paragraph C with respect to any then outstanding class of Preferred Stock.

D. Authorization of Capital Stock; Issuance and Reclassification of Shares. The Board of Directors may authorize the issuance from time to time of shares of its capital stock of any class or series whether now or hereafter authorized, or securities convertible into shares of its capital stock of any class or series, whether now or hereafter authorized, for such consideration as the Board of Directors may deem advisable, subject to such restrictions or limitations, if any, as may be set forth in the Charter of the Corporation or the Bylaws of the Corporation, or in the MGCL. In addition, the Board of Directors shall have the power, in its sole discretion without limitation, to classify or reclassify any unissued shares of capital stock of the Corporation, whether now or hereafter authorized, by setting, altering or eliminating, in any one or more respects, from time to time, before the issuance of such shares of capital stock of the Corporation, any feature of such shares including, but not limited to, the designation, par value, preferences or conversion or other rights, voting powers, qualifications and terms and conditions of redemption, limitations as to dividends and other distributions, restrictions on ownership and transfer to preserve tax benefits and any other restrictions on such shares.

E. Restrictions on Ownership and Transfer to Preserve Tax Benefits.

1. Definitions. For the purposes of Paragraph E of this Article IV, the following terms shall have the following meanings:

“Beneficial Ownership” shall mean ownership of Common Stock by a Person who is or would be treated as an owner of such Common Stock either actually or constructively through the application of Section 544 of the Code, as modified by Section 856(h)(1)(B) of the Code. The terms “Beneficial Owner,” “Beneficially Own,” “Beneficially Owns” and “Beneficially Owned” shall have the correlative meanings.

“Charitable Beneficiary” shall mean one or more beneficiaries of a Trust, as determined pursuant to Subparagraph E(3)(f) of this Article IV.

“Code” shall have the meaning set forth in Article III hereof. All section references to the Code shall include any successor provisions thereof as may be adopted from time to time.

“Common Stock” shall have the meaning set forth in the preamble to Article IV hereof.

“Corporation” shall have the meaning set forth in the preamble to these Articles of Restatement.

“Constructive Ownership” shall mean ownership of Common Stock by a Person who is or would be treated as an owner of such Common Stock either actually or constructively through the application of Section 318 of the Code, as modified by Section 856(d)(5) of the Code. The terms “Constructive Owner,” “Constructively Own,” “Constructively Owns” and “Constructively Owned” shall have the correlative meanings.

“Initial Public Offering” shall mean the sale of Common Stock pursuant to the Corporation’s first effective registration statement for such Common Stock filed under the Securities Act of 1933, as amended.

“IRS” means the United States Internal Revenue Service.

“Market Price” shall mean the last reported sales price reported on the New York Stock Exchange of the Common Stock on the trading day immediately preceding the relevant date, or if the Common Stock is not then traded on the New York Stock Exchange, the last reported sales price of the Common Stock on the trading day immediately preceding the relevant date as reported on any exchange or quotation system over which the Common Stock may be traded, or if the Common Stock is not then traded over any exchange or quotation system, then the market price of the Common Stock on the relevant date as determined in good faith by the Board of Directors of the Corporation.

“Operating Partnership” shall mean Kilroy Realty, L.P., a Delaware limited partnership.

“OP Units” shall have the meaning set forth in Paragraph H of Article IV hereof.

“Ownership Limit” shall mean 7.0% (by value or by number of shares, whichever is more restrictive) of the outstanding Common Stock of the Corporation.

“Partnership Agreement” shall mean the Agreement of Limited Partnership of Kilroy Realty, L.P., as such agreement may be amended from time to time.

“Person” shall mean an individual, corporation, partnership, limited liability company, estate, trust (including a trust qualified under Section 401(a) or 501(c)(17) of the Code), a portion of a trust permanently set aside for or to be used exclusively for the purposes described in Section 642(c) of the Code, association, private foundation within the meaning of Section 509(a) of the Code,

joint stock company or other entity; but does not include an underwriter acting in a capacity as such in a public offering of shares of Common Stock provided that the ownership of such shares of Common Stock by such underwriter would not result in the Corporation being “closely held” within the meaning of Section 856(h) of the Code, or otherwise result in the Corporation failing to qualify as a REIT.

“Purported Beneficial Transferee” shall mean, with respect to any purported Transfer (or other event) which results in a transfer to a Trust, as provided in Subparagraph E(2)(b) of this Article IV, the purported beneficial transferee or owner for whom the Purported Record Transferee would have acquired or owned shares of Common Stock, if such Transfer had been valid under Subparagraph E(2)(a) of this Article IV.

“Purported Record Transferee” shall mean, with respect to any purported Transfer (or other event) which results in a transfer to a Trust, as provided in Subparagraph E(2)(b) of this Article IV, the record holder of the shares of Common Stock if such Transfer had been valid under Subparagraph E(2)(a) of this Article IV.

“REIT” shall mean a real estate investment trust under Sections 856 through 860 of the Code.

“Restriction Termination Date” shall mean the first day after the date of the Initial Public Offering on which (1) the Board of Directors of the Corporation determines that it is no longer in the best interests of the Corporation to attempt to, or continue to, qualify as a REIT and (2) such determination is approved by the affirmative vote of the holders of not less than two-thirds of the shares of the Corporation’s capital stock outstanding and entitled to vote thereon.

“Transfer” shall mean any sale, transfer, gift, assignment, devise or other disposition of Common Stock, including (i) the granting of any option or entering into any agreement for the sale, transfer or other disposition of Common Stock or (ii) the sale, transfer, assignment or other disposition of any securities (or rights convertible into or exchangeable for Common Stock), whether voluntary or involuntary, whether such transfer has occurred of record or beneficially or Beneficially or Constructively (including but not limited to transfers of interests in other entities which results in changes in Beneficial or Constructive Ownership of Common Stock), and whether such transfer has occurred by operation of law or otherwise.

“Trust” shall mean each of the trusts provided for in Subparagraph E(3) of this Article IV.

“Trustee” shall mean any Person unaffiliated with the Corporation, or a Purported Beneficial Transferee, or a Purported Record Transferee, that is appointed by the Corporation to serve as trustee of a Trust.

2. Restriction on Ownership and Transfers.

(a) From the date of the Initial Public Offering and prior to the Restriction Termination Date:

(i) except as provided in Subparagraph E(9) of this Article IV, no Person shall Beneficially Own Common Stock in excess of the Ownership Limit;

(ii) except as provided in Subparagraph E(9) of this Article IV, no Person shall Constructively Own in excess of 9.8% by value or number of shares, whichever is more restrictive, of the outstanding shares of Common Stock of the Corporation; and

(iii) no Person shall Beneficially or Constructively Own Common Stock to the extent that such Beneficial or Constructive Ownership would result in the Corporation being “closely held” within the meaning of Section 856(h) of the Code, or otherwise failing to qualify as a REIT (including but not limited to ownership that would result in the Corporation owning (actually or Constructively) an interest in a tenant that is described in Section 856(d)(2)(B) of the Code if the income derived by the Corporation (either directly or indirectly through one or more partnerships) from such tenant would cause the Corporation to fail to satisfy any of the gross income requirements of Section 856(c) of the Code).

(b) If, during the period commencing on the date of the Initial Public Offering and prior to the Restriction Termination Date, any Transfer (whether or not such Transfer is the result of a transaction entered into through the facilities of the New York Stock Exchange (“NYSE”)) or other event occurs that, if effective, would result in any Person Beneficially or Constructively Owning Common Stock in violation of Subparagraph E(2)(a) of this Article IV, (i) then that number of shares of Common Stock that otherwise would cause such Person to violate Subparagraph E(2)(a) of this Article IV (rounded up to the nearest whole share) shall be automatically transferred to a Trust for the benefit of a Charitable Beneficiary, as described in Subparagraph E(3), effective as of the close of business on the business day prior to the date of such Transfer or other event, and such Purported Beneficial Transferee shall thereafter have no rights in such shares or (ii) if, for any reason, the transfer to the Trust described in clause (i) of this sentence is not automatically effective as provided therein to prevent any Person from Beneficially or Constructively Owning Common Stock in violation of Subparagraph E(2)(a) of this Article IV, then the Transfer of that number of shares of Common Stock that otherwise would cause any Person to violate Subparagraph E(2)(a) shall be void *ab initio*, and the Purported Beneficial Transferee shall have no rights in such shares.

(c) Subject to Paragraph K of this Article IV and notwithstanding any other provisions contained herein, during the period commencing on the date of the Initial Public Offering and prior to the Restriction Termination Date, any Transfer of Common Stock (whether or not such Transfer is the result of a transaction entered into through the facilities of the NYSE) that, if effective, would result in the capital stock of the Corporation being beneficially owned by less than 100 Persons (determined without reference to any rules of attribution) shall be void *ab initio*, and the intended transferee shall acquire no rights in such Common Stock.

(d) It is expressly intended that the restrictions on ownership and Transfer described in this Subparagraph E(2) of Article IV shall apply to the redemption/exchange rights provided in Section 8.6 of the Partnership Agreement. Notwithstanding any of the provisions of the Partnership Agreement to the contrary, a partner of the Operating Partnership shall not be entitled to effect an exchange of an interest in the Operating Partnership for Common Stock if the actual or beneficial or Beneficial or Constructive ownership of Common Stock would be prohibited under the provisions of this Article IV.

3. Transfers of Common Stock in Trust.

(a) Upon any purported Transfer or other event described in Subparagraph E(2)(b) of this Article IV, such Common Stock shall be deemed to have been transferred to the Trustee in his capacity as trustee of a Trust for the exclusive benefit of one or more Charitable Beneficiaries. Such transfer to the Trustee shall be deemed to be effective as of the close of business on the business day prior to the purported Transfer or other event that results in a transfer to the Trust pursuant to Subparagraph E(2)(b). The Trustee shall be appointed by the Corporation and shall be a Person unaffiliated with the Corporation, any Purported Beneficial Transferee, and any Purported Record Transferee. Each Charitable Beneficiary shall be designated by the Corporation as provided in Subparagraph E(3)(f) of this Article IV.

(b) Common Stock held by the Trustee shall be issued and outstanding Common Stock of the Corporation. The Purported Beneficial Transferee or Purported Record Transferee shall have no rights in the shares of Common Stock held by the Trustee. The Purported Beneficial Transferee or Purported Record Transferee shall not benefit economically from ownership of any shares held in trust by the Trustee, shall have no rights to dividends and shall not possess any rights to vote or other rights attributable to the shares of Common Stock held in the Trust.

(c) The Trustee shall have all voting rights and rights to dividends with respect to Common Stock held in the Trust, which rights shall be exercised for the exclusive benefit of the Charitable Beneficiary. Any dividend or distribution paid prior to the discovery by the Corporation that shares of Common Stock have been transferred to the Trustee shall be paid to the Trustee upon demand, and any dividend or distribution declared but unpaid shall be paid when due to the Trustee with respect to such Common Stock. Any dividends or distributions so paid over to the Trustee shall be held in trust for the Charitable Beneficiary. The Purported Record Transferee and Purported Beneficial Transferee shall have no voting rights with respect to the Common Stock held in the Trust and, subject to Maryland law, effective as of the date the Common Stock has been transferred to the Trustee, the Trustee shall have the authority (at the Trustee's sole discretion) (i) to rescind as void any vote cast by a Purported Record Transferee with respect to such Common Stock prior to the discovery by the Corporation that the Common Stock has been transferred to the Trustee and (ii) to recast such vote in accordance with the desires of the Trustee acting for the benefit of the Charitable Beneficiary; *provided, however*, that if the Corporation has already taken irreversible corporate action, then the Trustee shall not have the authority to rescind and recast such vote. Notwithstanding the provisions of this Article IV, until the Corporation has received notification that the Common Stock has been transferred into a Trust, the Corporation shall be entitled to rely on its share transfer and other stockholder records for purposes of preparing lists of stockholders entitled to vote at meetings, determining the validity and authority of proxies and otherwise conducting votes of stockholders.

(d) Within 20 days of receiving notice from the Corporation that shares of Common Stock have been transferred to the Trust, the Trustee of the Trust shall sell the shares of Common Stock held in the Trust to a person, designated by the Trustee, whose ownership of the shares of Common Stock will not violate the ownership limitations set forth in Subparagraph E(2)(a). Upon such sale, the interest of the Charitable Beneficiary in the shares of Common Stock sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Purported Record Transferee and to the Charitable Beneficiary as provided in this Subparagraph E(3)(d). The Purported Record Transferee shall receive the lesser of (i) the price paid by the Purported Record Transferee for the shares of Common Stock in the transaction that resulted in such transfer to the Trust (or, if the event which resulted in the transfer to the Trust did not involve a purchase of such shares of Common Stock at Market Price, the Market Price of such shares of Common Stock on the day of the event which resulted in the transfer of such shares of Common Stock to the Trust) and (ii) the price per share received by the Trustee (net of any commissions and other expenses of sale) from the sale or other disposition of the shares of Common Stock held in the Trust. Any net sales proceeds in excess of the amount payable to the Purported Record Transferee shall be immediately paid to the Charitable Beneficiary together with any dividends or other distributions thereon. If, prior to the discovery by the Corporation that shares of such Common Stock have been transferred to the Trustee, such shares of Common Stock are sold by a Purported Record Transferee then (x) such shares of Common Stock shall be deemed to have been sold on behalf of the Trust and (y) to the extent that the Purported Record Transferee received an amount for such shares of Common Stock that exceeds the amount that such Purported Record Transferee was entitled to receive pursuant to this Subparagraph E(3)(d), such excess shall be paid to the Trustee upon demand.

(e) Common Stock transferred to the Trustee shall be deemed to have been offered for sale to the Corporation, or its designee, at a price per share equal to the lesser of (i) the price paid by the Purported Record Transferee for the shares of Common Stock in the transaction that resulted in such transfer to the Trust (or, if the event which resulted in the transfer to the Trust did not involve a purchase of such shares of Common Stock at Market Price, the Market Price of such shares of Common Stock on the day of the event which resulted in the transfer of such shares of Common Stock to the Trust) and (ii) the Market Price on the date the Corporation, or its designee, accepts such offer. The Corporation shall have the right to accept such offer until the Trustee has sold the shares of Common Stock held in the Trust pursuant to Subparagraph E(3)(d). Upon such a sale to the Corporation, the interest of the Charitable Beneficiary in the shares of Common Stock sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Purported Record Transferee and any dividends or other distributions held by the Trustee with respect to such Common Stock shall thereupon be paid to the Charitable Beneficiary.

(f) By written notice to the Trustee, the Corporation shall designate one or more nonprofit organizations to be the Charitable Beneficiary of the interest in the Trust such that (i) the shares of Common Stock held in the Trust would not violate the restrictions set forth in Subparagraph E(2)(a) in the hands of such Charitable Beneficiary and (ii) each Charitable Beneficiary is an organization described in Sections 170(b)(1)(A), 170(c)(2) or 501(c)(3) of the Code.

4. Remedies For Breach. If the Board of Directors or a committee thereof or other designees if permitted by the MGCL shall at any time determine in good faith that a Transfer or other event has taken place in violation of Subparagraph E(2) of this Article IV or that a Person intends to acquire, has attempted to acquire or may acquire beneficial ownership (determined without reference to any rules of attribution), Beneficial Ownership or Constructive Ownership of any shares of the Corporation in violation of Subparagraph E(2) of this Article IV, the Board of Directors or a committee thereof or other designees if permitted by the MGCL shall take such action as it deems advisable to refuse to give effect or to prevent such Transfer, including, but not limited to, causing the Corporation to redeem shares of Common Stock, refusing to give effect to such Transfer on the books of the Corporation or instituting proceedings to enjoin such Transfer; *provided, however*, that any Transfers (or, in the case of events other than a Transfer, ownership or Constructive Ownership or Beneficial Ownership) in violation of Subparagraph E(2)(a) of this Article IV, shall automatically result in the transfer to a Trust as described in Subparagraph E(2)(b) and any Transfer in violation of Subparagraph E(2)(c) shall automatically be void *ab initio* irrespective of any action (or non-action) by the Board of Directors.

5. Notice of Restricted Transfer. Any Person who acquires or attempts to acquire shares in violation of Subparagraph E(2) of this Article IV, or any Person who is a Purported Beneficial Transferee such that an automatic transfer to a Trust results under Subparagraph E(2)(b) of this Article IV, shall immediately give written notice to the Corporation of such event and shall provide to the Corporation such other information as the Corporation may request in order to determine the effect, if any, of such Transfer or attempted Transfer on the Corporation's status as a REIT.

6. Owners Required to Provide Information. From the date of the Initial Public Offering and prior to the Restriction Termination Date each Person who is a beneficial owner or Beneficial Owner or Constructive Owner of shares of Common Stock and each Person (including the stockholder of record) who is holding shares of Common Stock for a beneficial owner or Beneficial Owner or Constructive Owner shall, on demand, provide to the Corporation a completed questionnaire containing the information regarding their ownership of such shares, as set forth in the regulations (as in effect from time to time) of the U.S. Department of Treasury under the Code. In addition, each Person who is a beneficial owner or Beneficial Owner or Constructive Owner of shares of Common Stock and each Person (including the stockholder of record) who is holding shares of Common Stock for a beneficial owner or Beneficial Owner or Constructive Owner shall, on demand, be required to disclose to the Corporation in writing such information as the Corporation may request in order to determine the effect, if any, of such stockholder's actual and constructive ownership of shares of Common Stock on the Corporation's status as a REIT and to ensure compliance with the Ownership Limit, or such other limit as provided from time to time in these Articles of Restatement or as otherwise permitted by the Board of Directors.

7. Remedies Not Limited. Nothing contained in this Article IV (but subject to Paragraph K of this Article IV) shall limit the authority of the Board of Directors to take such other action as it deems necessary or advisable to protect the Corporation and the interests of its stockholders by preservation of the Corporation's status as a REIT.

8. Ambiguity. In the case of an ambiguity in the application of any of the provisions of this Paragraph E of this Article IV, including any definition contained in Subparagraph E(1), the Board of Directors shall have the power to determine the application of the provisions of this Paragraph E with respect to any situation based on the facts known to it (subject, however, to the provisions of Paragraph K of this Article IV). In the event Paragraph E requires an action by the Board of Directors and these Articles of Restatement fail to provide specific guidance with respect to such action, the Board of Directors shall have the power to determine the action to be taken so long as such action is not contrary to the provisions of Paragraph E. Absent a decision to the contrary by the Board of Directors (which the Board may make in its sole and absolute discretion), if a Person would have (but for the remedies set forth in Subparagraph E(2)(b)) acquired Beneficial or Constructive Ownership of Common Stock in violation of Subparagraph E(2)(a), such remedies (as applicable) shall apply first to the shares of Common Stock which, but for such remedies, would have been actually owned by such Person, and second to shares of Common Stock which, but for such remedies, would have been Beneficially Owned or Constructively Owned (but not actually owned) by such Person, pro rata among the Persons who actually own such shares of Common Stock based upon the relative number of the shares of Common Stock held by each such Person.

9. Exceptions.

(a) Subject to Subparagraph E(2)(a)(iii), the Board of Directors, in its sole discretion, may exempt a Person from the limitation on a Person Beneficially Owning shares of Common Stock in excess of the Ownership Limit if the Board of Directors obtains such representations and undertakings from such Person as are reasonably necessary to ascertain that no individual's Beneficial Ownership of such shares of Common Stock will violate the Ownership Limit or that any such violation will not cause the Corporation to fail to qualify as a REIT under the Code, and agrees that any violation of such representations or undertaking (or other action which is contrary to the restrictions contained in Subparagraph E(2) of this Article IV) or attempted violation will result in such Common Stock being transferred to a Trust in accordance with Subparagraph E(2)(b) of this Article IV.

(b) Subject to Subparagraph E(2)(a)(iii), the Board of Directors, in its sole discretion, may exempt a Person from the limitation on a Person Constructively Owning Common Stock in excess of 9.8% (by value or by number of shares of Common Stock, whichever is more restrictive) of the outstanding shares of Common Stock of the Corporation, if such Person does not and represents that it will not own, actually or Constructively, an interest in a tenant of the Corporation (or a tenant of any entity owned in whole or in part by the Corporation) that would cause the Corporation to own, actually or Constructively more than a 9.8% interest (as set forth in Section 856(d)(2)(B) of the Code) in such tenant and the Corporation obtains such representations and undertakings from such Person as are reasonably necessary to ascertain this fact and agrees that any violation or attempted violation will result in such Common Stock being transferred to a Trust in accordance with Subparagraph E(2)(b) of this Article IV. Notwithstanding the foregoing, the inability of a Person to make the certification described in this Subparagraph E(9)(b) shall not prevent the Board of Directors, in its sole

discretion, from exempting such Person from the limitation on a Person Constructively Owning Common Stock in excess of 9.8% of the outstanding shares of Common Stock if the Board of Directors determines that the resulting application of Section 856(d)(2)(B) of the Code would affect the characterization of less than 0.5% of the gross income (as such term is used in Section 856(c)(2) of the Code) of the Corporation in any taxable year, after taking into account the effect of this sentence with respect to all other Common Stock to which this sentence applies.

(c) Prior to granting any exception pursuant to Subparagraph E(9)(a) or (b) of this Article IV, the Board of Directors may require a ruling from the Internal Revenue Service, or an opinion of counsel, in either case in form and substance satisfactory to the Board of Directors in its sole discretion, as it may deem necessary or advisable in order to determine or ensure the Corporation's status as a REIT.

F. Preemptive Rights. No holder of shares of stock of any class shall have any preemptive or preferential right to subscribe or to purchase any additional shares of any class, or any bonds or convertible securities of any nature; *provided, however*, that the Board of Directors may, in authorizing the issuance of shares of stock of any class or series, confer any preemptive or preferential right that the Board of Directors may deem advisable in connection with such issuance.

G. Legends. Each certificate for Common Stock and Preferred Stock shall bear the following legends:

Class of Stock

THE CORPORATION IS AUTHORIZED TO ISSUE CAPITAL STOCK OF MORE THAN ONE CLASS, CONSISTING OF COMMON STOCK AND ONE OR MORE CLASSES OF PREFERRED STOCK. THE BOARD OF DIRECTORS IS AUTHORIZED TO DETERMINE THE PREFERENCES, LIMITATIONS AND RELATIVE RIGHTS OF ANY CLASS OF THE PREFERRED STOCK BEFORE THE ISSUANCE OF SHARES OF SUCH CLASS OF PREFERRED STOCK. THE CORPORATION WILL FURNISH, WITHOUT CHARGE, TO ANY STOCKHOLDER MAKING A WRITTEN REQUEST THEREFOR, A COPY OF THE CORPORATION'S CHARTER AND A WRITTEN STATEMENT OF THE DESIGNATIONS, RELATIVE RIGHTS, PREFERENCES, CONVERSION OR OTHER RIGHTS, VOTING POWERS, RESTRICTIONS, LIMITATIONS AS TO DIVIDENDS AND OTHER DISTRIBUTIONS, QUALIFICATIONS AND TERMS AND CONDITIONS OF REDEMPTION OF THE STOCK OF EACH CLASS WHICH THE CORPORATION HAS THE AUTHORITY TO ISSUE AND, IF THE CORPORATION IS AUTHORIZED TO ISSUE ANY PREFERRED OR SPECIAL CLASS AND SERIES, (i) THE DIFFERENCES IN THE RELATIVE RIGHTS AND PREFERENCES BETWEEN THE SHARES OF EACH SERIES TO THE EXTENT SET, AND (ii) THE AUTHORITY OF THE BOARD OF DIRECTORS TO SET SUCH RIGHTS AND PREFERENCES OF SUBSEQUENT SERIES. REQUESTS FOR SUCH WRITTEN STATEMENT MAY BE DIRECTED TO THE SECRETARY OF THE CORPORATION AT ITS PRINCIPAL OFFICE.

Restriction on Ownership and Transfer

THE SHARES OF COMMON STOCK REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON BENEFICIAL AND CONSTRUCTIVE OWNERSHIP AND TRANSFER FOR THE PURPOSE OF THE CORPORATION'S MAINTENANCE OF ITS STATUS AS A REAL ESTATE INVESTMENT TRUST UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"). SUBJECT TO CERTAIN FURTHER RESTRICTIONS AND EXCEPT AS EXPRESSLY PROVIDED IN THE CORPORATION'S CHARTER, (i) NO PERSON MAY BENEFICIALLY OWN SHARES OF THE CORPORATION'S COMMON STOCK IN EXCESS OF 7.0% (BY VALUE OR BY NUMBER OF SHARES, WHICHEVER IS MORE RESTRICTIVE) OF THE OUTSTANDING COMMON STOCK OF THE CORPORATION; (ii) NO PERSON MAY CONSTRUCTIVELY OWN SHARES OF THE CORPORATION'S COMMON STOCK IN EXCESS OF 9.8% (BY VALUE OR BY NUMBER OF SHARES, WHICHEVER IS MORE RESTRICTIVE) OF THE OUTSTANDING COMMON STOCK OF THE CORPORATION; (iii) NO PERSON MAY BENEFICIALLY OR CONSTRUCTIVELY OWN SHARES OF COMMON STOCK THAT WOULD RESULT IN THE CORPORATION BEING "CLOSELY HELD" UNDER SECTION 856(h) OF THE CODE OR OTHERWISE CAUSE THE CORPORATION TO FAIL TO QUALIFY AS A REIT; AND (iv) NO PERSON MAY TRANSFER SHARES OF COMMON STOCK IF SUCH TRANSFER WOULD RESULT IN THE CAPITAL STOCK OF THE CORPORATION BEING OWNED BY FEWER THAN 100 PERSONS. ANY PERSON WHO BENEFICIALLY OR CONSTRUCTIVELY OWNS OR ATTEMPTS TO BENEFICIALLY OR CONSTRUCTIVELY OWN SHARES OF COMMON STOCK WHICH CAUSES OR WILL CAUSE A PERSON TO BENEFICIALLY OR CONSTRUCTIVELY OWN SHARES OF COMMON STOCK IN EXCESS OF THE ABOVE LIMITATIONS MUST IMMEDIATELY NOTIFY THE CORPORATION. IF ANY OF THE RESTRICTIONS ON TRANSFER OR OWNERSHIP ARE VIOLATED, THE SHARES OF COMMON STOCK REPRESENTED HEREBY WILL BE AUTOMATICALLY TRANSFERRED TO THE TRUSTEE OF A TRUST FOR THE BENEFIT OF ONE OR MORE CHARITABLE BENEFICIARIES. IN ADDITION, THE CORPORATION MAY REDEEM SHARES UPON THE TERMS AND CONDITIONS SPECIFIED BY THE BOARD OF DIRECTORS IN ITS SOLE DISCRETION IF THE BOARD OF DIRECTORS DETERMINES THAT OWNERSHIP OR A TRANSFER OR OTHER EVENT MAY VIOLATE THE RESTRICTIONS DESCRIBED ABOVE. FURTHERMORE, UPON THE OCCURRENCE OF CERTAIN EVENTS, ATTEMPTED TRANSFERS IN VIOLATION OF THE RESTRICTIONS DESCRIBED ABOVE MAY BE VOID *AB INITIO*. ALL TERMS IN THIS LEGEND THAT ARE DEFINED IN THE CHARTER OF THE CORPORATION SHALL HAVE THE MEANINGS ASCRIBED TO

THEM IN THE CHARTER OF THE CORPORATION, AS THE SAME MAY BE AMENDED FROM TIME TO TIME, A COPY OF WHICH, INCLUDING THE RESTRICTIONS ON TRANSFER AND OWNERSHIP, WILL BE FURNISHED TO EACH HOLDER OF SHARES OF COMMON STOCK ON REQUEST AND WITHOUT CHARGE. REQUESTS FOR SUCH A COPY MAY BE DIRECTED TO THE SECRETARY OF THE CORPORATION AT ITS PRINCIPAL OFFICE.

H. Exchange of OP Units. So long as the Corporation remains the general partner of the Operating Partnership, the Board of Directors of the Corporation is hereby expressly vested with authority (subject to the restrictions on ownership, transfer and redemption of Common Stock set forth in this Article IV) to issue, and shall issue to the extent provided in the Partnership Agreement, Common Stock in exchange for the units into which partnership interests of the Operating Partnership are divided (the “OP Units”), and as the same may be adjusted, as provided in the Partnership Agreement.

I. Reservation of Shares. Pursuant to the obligations of the Corporation under the Partnership Agreement to issue Common Stock in exchange for OP Units, the Board of Directors is hereby required to reserve and authorize for issuance a sufficient number of authorized but unissued shares of Common Stock to permit the Corporation to issue Common Stock in exchange for OP Units that may be exchanged for or converted into Common Stock as provided in the Partnership Agreement.

J. Severability. If any provision of this Article IV or any application of any such provision is determined to be invalid by any federal or state court having jurisdiction over the issues, the validity of the remaining provisions shall not be affected and other applications of such provision shall be affected only to the extent necessary to comply with the determination of such court.

K. NYSE. Nothing in this Article IV shall preclude the settlement of any transaction entered into through the facilities of the New York Stock Exchange. The shares of Common Stock that are the subject of such transaction shall continue to be subject to the provisions of this Article IV after such settlement.

ARTICLE V CORPORATE EXISTENCE

The Corporation is to have perpetual existence.

ARTICLE VI BOARD OF DIRECTORS

A. The business and affairs of the Corporation shall be managed by and under the direction of the Board of Directors. The Corporation shall have a board of six (6) directors until that number is increased or decreased in accordance with the Bylaws of the Corporation, or as contemplated by the provisions of Paragraph D of this Article VI. However, the number of directors shall never be less than the minimum number required by the MGCL. At least a majority of the directors shall be Independent Directors (as defined in the next sentence). An

Independent Director is a director who is not an employee, officer or affiliate of the Corporation or Kilroy Industries or a subsidiary or division thereof, or a relative of a principal executive officer, or who is not an individual member of an organization acting as an advisor, consultant or legal counsel receiving compensation on a continuing basis from the Corporation in addition to director's fees. The following persons shall be the directors of the Corporation until their successors are elected and qualified, or until their earlier death, retirement, resignation or removal:

John B. Kilroy, Sr.
John B. Kilroy, Jr.
Dale F. Kinsella
William P. Dickey
Edward F. Brennan, Ph.D.
Scott S. Ingraham

B. Each director (other than any director who may be elected by holders of Preferred Stock as provided for pursuant to Article IV hereof), shall serve until the next annual meeting of stockholders following his election and until his successor is elected and qualified, or until his earlier death, retirement, resignation or removal.

C. Except as may otherwise be provided pursuant to Article IV hereof with respect to any rights of holders of Preferred Stock to elect additional directors or any agreement relating to the right to designate nominees for election to the Board of Directors, should a vacancy in the Board of Directors occur or be created (whether arising through death, retirement or resignation), such vacancy may be filled by the affirmative vote of a majority of the remaining directors, even though less than a quorum of the Board of Directors or, in the case of a vacancy resulting from an increase in the number of directors, by a majority of the Board of Directors. In the case of a vacancy created by the removal of a director, the vacancy shall be filled by the stockholders at the next annual meeting of the stockholders or at a special meeting of the stockholders called for such purpose, provided, however, that such vacancy may be filled by the affirmative vote of a majority of the remaining directors (subject to approval by the stockholders at the next annual meeting of the stockholders or at a special meeting of the stockholders called for such purpose). A director so elected to fill a vacancy shall serve until the next annual meeting of stockholders and until his successor is elected and qualified or until his earlier death, retirement, resignation or removal. If the stockholders of any class or series of Preferred Stock are entitled separately to elect one or more directors, the stockholders of that class or series shall fill a vacancy on the Board of Directors which results from the removal of a director elected by that class or series.

D. During any period when the holders of any class of Preferred Stock have the right to elect additional directors as provided for or fixed pursuant to the provisions of Article IV hereof, then upon commencement and for the duration of the period during which such right continues (i) the then otherwise total and authorized number of directors of the Corporation shall automatically be increased by that number of such additional directors, and the holders of such Preferred Stock shall be entitled to elect the additional directors so provided for or fixed pursuant to said provisions, and (ii) each such additional director shall serve until such director's successor shall have been duly elected and qualified, or until such director's right to hold such

office terminates pursuant to said provisions, whichever occurs earlier, subject to his earlier death, disqualification, resignation or removal. Except as otherwise provided by the Board of Directors in the resolution or resolutions establishing such class, whenever the holders of any class of Preferred Stock having such right to elect additional directors are divested of such right pursuant to the provisions of such stock, the term of office of all such additional directors elected by the holders of such stock, or elected to fill any vacancies resulting from the death, resignation, disqualification or removal of such additional directors, shall forthwith terminate and the total and authorized number of directors of the Corporation shall be reduced accordingly.

ARTICLE VII RELATED PARTY TRANSACTIONS

Without limiting any other procedures available by law or otherwise to the Corporation, the Board of Directors may authorize any agreement or other transaction with any person, corporation, association, company, trust, limited liability company, partnership (limited or general) or other organization, although one or more of the directors or officers of the Corporation may be a party to any such agreement or an officer, director, stockholder, member or partner (general or limited) of such other party (an "Interested Officer/Director"), and no such agreement or transaction shall be invalidated or rendered void or voidable solely by reason of the existence of any such relationship if: (i) the existence is disclosed or known to the Board of Directors, and the contract or transaction is authorized, approved or ratified by the affirmative vote of not less than a majority of the disinterested directors, even if they constitute less than a quorum of the Board of Directors; (ii) the existence is disclosed to the stockholders entitled to vote, and the contract or transaction is authorized, approved or ratified by a majority of the votes cast by the stockholders entitled to vote, other than the votes of the shares held of record by the Interested Officers/Directors or by any corporation, association, company, trust, limited liability company, partnership (limited or general) or other organization in which any Interested Officer/Director is a director or has a material financial interest; or (iii) the contract or transaction is fair and reasonable to the Corporation. Any Interested Officer/Director, or the stock owned by them or by a corporation, association, company, trust, limited liability company, partnership (limited or general) or other organization in which an Interested Officer/Director may have an interest, may be counted in determining the presence of a quorum at a meeting of the Board of Directors or a committee of the Board of Directors or at a meeting of the stockholders, as the case may be, at which the contract or transaction is authorized, approved or ratified.

ARTICLE VIII DIRECTOR AND OFFICER LIABILITY; INDEMNIFICATION

A. To the maximum extent that Maryland law in effect from time to time permits limitation of the liability of directors and officers, no director or officer of the Corporation shall be liable to the Corporation or its stockholders for money damages. Neither the amendment nor repeal of this Article, nor the adoption or amendment of any other provision of the Charter of the Corporation or the Bylaws of the Corporation inconsistent with this Article, shall apply to or affect in any respect the applicability of the preceding sentence with respect to any act or failure to act which occurred prior to such amendment, repeal or adoption.

B. The Corporation shall indemnify, in the manner and to the maximum extent permitted by law, any person (or the estate of any person) who is or was a party to, or is threatened to be made a party to, any threatened, pending or completed action, suit or proceeding, whether or not by or in the right of the Corporation, and whether civil, criminal, administrative, investigative, or otherwise, by reason of the fact that such person is or was a director or officer of the Corporation or that such person while a director or officer of the Corporation, is or was serving at the request of the Corporation as a director, officer, trustee, partner, member, agent or employee of another corporation, partnership, limited liability company, association, joint venture, trust or other enterprise. To the maximum extent permitted by law, the indemnification provided herein shall include expenses (including attorneys' fees), judgments, fines and amounts paid in settlement, and any such expenses may be paid by the Corporation in advance of the final disposition of such action, suit or proceeding. Neither the amendment nor repeal of this Article, nor the adoption or amendment of any other provision of the Charter of the Corporation or the Bylaws of the Corporation inconsistent with this Article, shall apply to or affect in any respect the applicability of this Paragraph B of Article VIII with respect to any act or failure to act which occurred prior to such amendment, repeal or adoption.

The indemnification and reimbursement of expenses provided herein shall not be deemed to limit the right of the Corporation to indemnify any other person against any liability and expenses to the fullest extent permitted by law, nor shall it be deemed exclusive of any other rights to which any person seeking indemnification from the Corporation may be entitled under any agreement, the Charter of the Corporation or the Bylaws of the Corporation, a vote of stockholders or disinterested directors, or otherwise, both as to action in such person's official capacity as an officer or director and as to action in another capacity, at the request of the Corporation, while acting as an officer or director of the Corporation.

ARTICLE IX ELECTION OF DIRECTORS

Elections of directors need not be by written ballot unless the Bylaws of the Corporation shall so provide.

ARTICLE X CERTAIN POWERS OF THE DIRECTORS

A. Determinations by Board. The determination as to any of the following matters, made in good faith by or pursuant to the direction of the Board of Directors consistent with the Charter of the Corporation and in the absence of actual receipt of an improper benefit in money, property or services or active and deliberate dishonesty established by a court, shall be final and conclusive and shall be binding upon the Corporation and every holder of shares of its stock: the amount of the net income of the Corporation for any period and the amount of assets at any time legally available for the payment of dividends, redemption of its stock or the payment of other distributions on its stock; the amount of paid-in surplus, net assets, other surplus, annual or other net profit, net assets in excess of capital, undivided profits or excess of profits over losses on sales of assets; the amount, purpose, time of creation, increase or decrease, alteration or cancellation of any reserves or charges and the propriety thereof (whether or not any obligation or liability for which such reserves or charges shall have been created shall have been

paid or discharged); the fair value, or any sale, bid or asked price to be applied in determining the fair value, of any asset owned or held by the Corporation; and any matters relating to the acquisition, holding and disposition of any assets by the Corporation.

B. REIT Qualification. Subject to Paragraph K of Article IV hereof, the Board of Directors shall use its reasonable best efforts to take such actions as are necessary or appropriate to preserve the status of the Corporation as a REIT; *however*, if the Board of Directors determines that it is no longer in the best interests of the Corporation to qualify or continue to be qualified as a REIT and such determination is approved by the affirmative vote of holders of at least two-thirds of the shares of the Corporation's capital stock outstanding and entitled to vote thereon, the Board of Directors may revoke or otherwise terminate the Corporation's REIT election pursuant to Section 856(g) of the Code. The Board of Directors also may determine that compliance with any restriction or limitation on stock ownership and transfers set forth in Article IV is no longer required for REIT qualification.

C. Advisor Agreements. Subject to such approval of stockholders and other conditions, if any, as may be required by any applicable statute, rule or regulation, the Board of Directors may authorize the execution and performance by the Corporation of one or more agreements with any person, corporation, association, company, trust, partnership (limited or general) or other organization whereby, subject to the supervision and control of the Board of Directors, any such other person, corporation, association, company, trust, partnership (limited or general) or other organization shall render or make available to the Corporation managerial, investment, advisory and/or related services, office space and other services and facilities (including, if deemed advisable by the Board of Directors, the management or supervision of the investments of the Corporation) upon such terms and conditions as may be provided in such agreement or agreements (including, if deemed fair and equitable by the Board of Directors, the compensation payable thereunder by the Corporation).

D. Irrevocable Resolutions. The Board of Directors may designate any of its resolutions to be "irrevocable." Resolutions so designated may not be revoked subsequently by the Board of Directors without the approval of the issued and outstanding shares of Common Stock of the Corporation by the affirmative vote of a majority of all votes entitled to be cast in respect of such shares of Common Stock.

ARTICLE XI REMOVAL OF DIRECTORS

Subject to the rights of one or more classes or series of Preferred Stock to elect one or more directors, any director, or the entire Board of Directors, may be removed from office at any time, but only for cause and then only by the affirmative vote of the holders of at least two thirds of the votes entitled to be cast in the election of directors.

ARTICLE XII AMENDMENTS

Subject to the provisions hereof, the Corporation reserves the right at any time, and from time to time, to amend, alter, repeal, or rescind any provision of its Charter, in the manner now or hereafter prescribed by law, including without limitation any amendment altering the terms or contract rights, as expressly set forth in the Charter of the Corporation, of any outstanding shares of stock; and other provisions authorized or permitted by the laws of the State of Maryland at the time in force may be added or inserted, in the manner now or hereafter prescribed by law; and all rights, preferences and privileges of whatsoever nature conferred upon stockholders, directors, or any other persons whomsoever by and pursuant to the Charter of the Corporation in its present form or as hereafter amended are granted subject to this reservation.

THIRD: These Articles of Restatement do not amend the Charter.

FOURTH: Under Section 2-608(c) of the MGCL, upon any restatement of the Charter, the Corporation may omit from such restatement all provisions thereof that relate solely to a class of stock if, at the time, there are no shares of the class outstanding and the Corporation has no authority to issue any shares of such class. There are no shares of the Corporation's 8.075% Series A Cumulative Redeemable Preferred Stock (the "Original Series A Preferred Stock") outstanding and the Corporation has no authority to issue any shares of Original Series A Preferred Stock. Pursuant to Articles Supplementary dated March 5, 2004 and filed with the Department on March 11, 2004, a conformed copy of which is attached hereto as Exhibit I, the Board of Directors reclassified 1,500,000 authorized but unissued shares of Preferred Stock previously classified and designated as Original Series A Preferred Stock as a separate class of Preferred Stock designated as "7.45% Series A Cumulative Redeemable Preferred Stock"; and pursuant to Articles Supplementary dated March 10, 2004 and filed with the Department on March 11, 2004, the Board of Directors reclassified 200,000 authorized but unissued shares of Preferred Stock previously classified and designated as Original Series A Preferred Stock as Preferred Stock of the Corporation without further designation, nor any preferences, conversion or other rights, voting powers, restrictions, limitations as to dividends, qualifications, or terms or conditions of redemption, other than those, if any, applicable to shares of Preferred Stock of the Corporation generally. In addition, there are no shares of the Corporation's Series B Junior Participating Preferred Stock (the "Series B Preferred Stock"), 9 ³/₈% Series C Cumulative

Redeemable Preferred Stock (the "Series C Preferred Stock") or 9 1/4% Series D Cumulative Redeemable Preferred Stock (the "Series D Preferred Stock") outstanding and the Corporation has no authority to issue any shares of Series B Preferred Stock, Series C Preferred Stock or Series D Preferred Stock. All Charter provisions that relate solely to the Corporation's Original Series A Preferred Stock, Series B Preferred Stock, Series C Preferred Stock and Series D Preferred Stock have been omitted from the foregoing restatement of the Charter.

FIFTH: The foregoing restatement of the Charter has been approved by a majority of the entire Board of Directors.

SIXTH: The current address of the principal office of the Corporation is as set forth in Article II of the foregoing restatement of the Charter.

SEVENTH: The name and address of the Corporation's current resident agent is as set forth in Article II of the foregoing restatement of the Charter.

EIGHTH: There are currently six (6) directors of the Corporation, and the names of those directors currently in office are as follows: John B. Kilroy, Sr., John B. Kilroy, Jr., Dale F. Kinsella, William P. Dickey, Edward F. Brennan, Ph.D. and Scott S. Ingraham.

NINTH: The undersigned Executive Vice President acknowledges these Articles of Restatement to be the corporate act of the Corporation and, as to all matters or facts required to be verified under oath, the undersigned Executive or Vice President acknowledges that to the best of his knowledge, information, and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Corporation has caused these Articles of Restatement to be signed in its name and on its behalf by its Executive Vice President and attested to by its Assistant Secretary as of the 2nd day of February, 2010.

ATTEST:

KILROY REALTY CORPORATION

/s/ Tamara J. Porter
Tamara J. Porter, Assistant Secretary

By: /s/ Tyler H. Rose (SEAL)
Tyler H. Rose, Executive Vice President

EXHIBIT I

7.45% Series A Cumulative Redeemable Preferred Stock

KILROY REALTY CORPORATION

ARTICLES SUPPLEMENTARY

1,500,000 SHARES

7.45% SERIES A CUMULATIVE REDEEMABLE PREFERRED STOCK

Kilroy Realty Corporation, a Maryland corporation (the “Company”), hereby certifies to the State Department of Assessments and Taxation of Maryland that:

FIRST: By or as contemplated by Articles Supplementary filed with the State Department of Assessments and Taxation of Maryland (the “Department”) on February 6, 1998 (the “February 6, 1998 Articles Supplementary”), the Corporation classified 1,500,000 shares of its authorized but unissued Preferred Stock, par value \$.01 per share (“Preferred Stock”), as a separate class of Preferred Stock designated as “8.075% Series A Cumulative Redeemable Preferred Stock”, and set the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications, terms and conditions of redemption and other terms and conditions of such shares, all as set forth in the February 6, 1998 Articles Supplementary. By or as contemplated by Articles Supplementary filed with the Department on April 20, 1998 (the “April 20, 1998 Articles Supplementary”), and together with the February 6, 1998 Articles Supplementary, the “Prior Articles Supplementary”), the Corporation classified an additional 200,000 shares of its authorized but unissued Preferred Stock as “8.075% Series A Cumulative Redeemable Preferred Stock, having the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications, terms and conditions of redemption and other terms and conditions, identical to those as set forth in the February 6, 1998 Articles Supplementary. Correspondingly, and pursuant to or as contemplated by the Prior Articles Supplementary, there were classified as a separate class of Preferred Stock an aggregate of 1,700,000 shares designated as “8.075% Series A Cumulative Redeemable Preferred Stock.”

SECOND: As of the date hereof, no shares of Preferred Stock of the Corporation previously classified or designated as 8.075% Series A Cumulative Redeemable Preferred Stock pursuant to or as contemplated by the Prior Articles Supplementary have been issued by the Corporation, and accordingly, no such shares are either issued or outstanding as of the date hereof.

THIRD: Pursuant to the authority expressly vested in the Board of Directors by the Company by Article IV of the Articles of Amendment and Restatement of the Company filed with the Department on January 21, 1997, as amended, modified and supplemented to date (the “Charter”), and Section 2-105 of the MARYLAND GENERAL CORPORATION LAW (the “MGCL”), the Board of Directors of the Company and/or a duly authorized committee thereof (the “Board of Directors”), by resolutions duly adopted on February 10, 2004 and March 1, 2004, has determined it to be in the best interest of the Corporation that 1,500,000 shares of Preferred Stock of the Corporation previously classified and designated as 8.075% Series A Cumulative Redeemable Preferred Stock pursuant to or as contemplated by the Prior Articles Supplementary, be reclassified, and to that end (i) reclassified such previously classified shares

as a separate class of Preferred Stock to be designated as the “7.45% Series A Cumulative Redeemable Preferred Stock”, (ii) authorized the issuance of a maximum of 1,500,000 shares of such class of Preferred Stock, and (iii) set the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications, terms and conditions of redemption and other terms and conditions of such class of Preferred Stock. As a result of the reclassification as aforesaid and as contemplated herein of 1,500,000 shares of Preferred Stock previously classified and designated as 8.075% Series A Preferred Stock, 200,000 shares of Preferred Stock shall continue or remain classified or designated as “8.075% Series A Cumulative Redeemable Preferred Stock”, and in lieu of the 1,500,000 shares of 8.075% Series A Cumulative Redeemable Preferred Stock there shall be 1,500,000 shares of Preferred Stock reclassified as a separate class of Preferred Stock designated as “7.45% Series A Cumulative Redeemable Preferred Stock.”

FOURTH: The class of Preferred Stock of the Company created by the resolutions duly adopted by the Board of Directors of the Company and referred to in Article THIRD of these Articles Supplementary shall have the following designation, number of shares, preferences, conversion and other rights, voting powers, restrictions and limitation as to dividends, qualifications, terms and conditions of redemption and other terms and conditions:

Section 1. Designation And Number. A series of Preferred Stock, designated the “7.45% Series A Cumulative Redeemable Preferred Stock” (the “Series A Preferred Stock”) is hereby established. The number of shares of Series A Preferred Stock shall be 1,500,000.

Section 2. Rank. The Series A Preferred Stock will, with respect to distributions or rights upon voluntary or involuntary liquidation, winding-up or dissolution of the Company, or both, rank senior to all classes or series of Common Stock (as defined in the Charter) and to all classes or series of equity securities of the Company now or hereafter authorized, issued or outstanding, other than any class or series of equity securities of the Company expressly designated as ranking on a parity with or senior to the Series A Preferred Stock as to distributions or rights upon voluntary or involuntary liquidation, winding-up or dissolution of the Company, or both. For purposes of these Articles Supplementary, the term “Parity Preferred Stock” shall be used to refer to any class or series of equity securities of the Company now or hereafter authorized, issued or outstanding expressly designated by the Company to rank on a parity with Series A Preferred Stock with respect to distributions or rights upon voluntary or involuntary liquidation, winding-up or dissolution of the Company, or both, as the context may require. The term “equity securities” does not include debt securities, which will rank senior to the Series A Preferred Stock prior to conversion.

Section 3. Distributions. (a) Payment of Distributions. Subject to the rights of holders of Parity Preferred Stock as to the payment of distributions and holders of equity securities ranking senior to the Series A Preferred Stock as to payment of distributions, holders of Series A Preferred Stock will be entitled to receive, when, as and if declared by the Company, out of funds legally available for the payment of distributions, cumulative preferential cash distributions at the rate per annum of 7.45% of the \$50.00 liquidation preference per share of Series A Preferred Stock. Such distributions shall be cumulative, shall accrue from the original date of issuance and will be payable quarterly in arrears, on or before the 15th of February, May, August and November of each year and, in the event of a redemption, on the redemption dates

(each a “Preferred Stock Distribution Payment Date”), commencing in each case on the first Preferred Stock Distribution Payment Date after the original date of issuance. The amount of the distribution payable for any period will be computed on the basis of a 360-day year of twelve 30-day months and for any period shorter than a full quarterly period for which distributions are computed, the amount of the distribution payable will be computed on the basis of the actual number of days elapsed in such a 30-day month. If any date on which distributions are to be made on the Series A Preferred Stock is not a Business Day (as defined herein), then payment of the distribution to be made on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay) except that, if such Business Day is in the next succeeding calendar year, such payment shall be made on the immediately preceding Business Day, in each case with the same force and effect as if made on such date. Distributions on the Series A Preferred Stock will be made to the holders of record of the Series A Preferred Stock on the relevant record dates, which, unless otherwise provided by the Company with respect to any distribution, will be 15 Business Days prior to the relevant Preferred Stock Distribution Payment Date (each a “Distribution Record Date”). Notwithstanding anything to the contrary set forth herein, each share of Series A Preferred Stock shall also continue to accrue all accrued and unpaid distributions up to the exchange date on any Series A Preference Unit (as defined in the Fifth Amended and Restated Limited Partnership Agreement of Kilroy Realty, L.P. dated as of March 5, 2004 (the “Fifth Amendment”)) validly exchanged into such share of Series A Preferred Stock in accordance with the provisions of such Fifth Amendment.

The term “Business Day” shall mean each day, other than a Saturday or a Sunday, which is not a day on which banking institutions in New York, New York or Los Angeles, California are authorized or required by law, regulation or executive order to close.

(b) Limitation on Distributions. No distributions on the Series A Preferred Stock shall be declared or paid or set apart for payment by the Company at such time as the terms and provisions of any agreement of the Company, including any agreement relating to its indebtedness, prohibits such declaration, payment or setting apart for payment or provides that such declaration, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such declaration, payment or setting apart for payment shall be restricted or prohibited by law.

(c) Distributions Cumulative. Notwithstanding the foregoing, distributions on the Series A Preferred Stock will accrue whether or not the terms and provisions set forth in SECTION 3(b) hereof at any time prohibit the current payment of distributions, whether or not the Company has earnings, whether or not there are funds legally available for the payment of such of such distributions and whether or not such distributions are authorized. Accrued but unpaid distributions on the Series A Preferred Stock will accumulate as of the Preferred Stock Distribution Payment Date on which they first become payable. Accumulated and unpaid distributions will not bear interest.

(d) Priority as to Distributions. (i) So long as any Series A Preferred Stock is outstanding, no distribution of cash or other property shall be authorized, declared, paid or set apart for payment on or with respect to any class or series of Common Stock or any class or series of other stock of the Company ranking junior as to the payment of distributions to the

Series A Preferred Stock (such Common Stock or other junior stock, collectively, “Junior Stock”) nor shall any cash or other property be set aside for or applied to the purchase, redemption or other acquisition for consideration of any Series A Preferred Stock, any Parity Preferred Stock with respect to distributions or any Junior Stock, unless, in each case, all distributions accumulated on all Series A Preferred Stock and all classes and series of outstanding Parity Preferred Stock as to payment of distributions have been paid in full. The foregoing sentence will not prohibit (i) distributions payable solely in Junior Stock, (ii) the conversion of Junior Stock or Parity Preferred Stock into stock of the Company ranking junior to the Series A Preferred Stock as to distributions, and (iii) purchase by the Company of such Series A Preferred Stock, Parity Preferred Stock with respect to distributions or Junior Stock pursuant to Article IV.E. of the Charter with respect to the Common Stock and comparable Charter provisions with respect to other classes of capital stock of the Company to the extent required to preserve the Company’s status as a real estate investment trust.

(ii) So long as distributions have not been paid in full (or a sum sufficient for such full payment is not so set apart) upon the Series A Preferred Stock, all distributions authorized and declared on the Series A Preferred Stock and all classes or series of outstanding Parity Preferred Stock with respect to distributions shall be authorized and declared so that the amount of distributions authorized and declared per share of Series A Preferred Stock and such other classes or series of Parity Preferred Stock shall in all cases bear to each other the same ratio that accrued distributions per share on the Series A Preferred Stock and such other classes or series of Parity Preferred Stock (which shall not include any accumulation in respect of unpaid distributions for prior distribution periods if such class or series of Parity Preferred Stock do not have cumulative distribution rights) bear to each other.

(e) No Further Rights. Holders of Series A Preferred Stock shall not be entitled to any distributions, whether payable in cash, other property or otherwise, in excess of the full cumulative distributions described herein.

Section 4. Liquidation Preference. (a) Payment of Liquidating Distributions. Subject to the rights of holders of Parity Preferred Stock with respect to rights upon any voluntary or involuntary liquidation, dissolution or winding-up of the Company and subject to equity securities ranking senior to the Series A Preferred Stock with respect to rights upon any voluntary or involuntary liquidation, dissolution or winding-up of the Company, the holders of Series A Preferred Stock shall be entitled to receive out of the assets of the Company, the holders of Series A Preferred Stock shall be entitled to receive out of the assets of the Company legally available for distribution or the proceeds thereof, after payment or provision for debts and other liabilities of the Company, but before any payment or distributions of the assets shall be made to holders of Common Stock or any other class or series of shares of the Company that ranks junior to the Series A Preferred Stock as to rights upon liquidation, dissolution or winding-up of the Company, an amount equal to the sum of (i) a liquidation preference of \$50 per share of Series A Preferred Stock, and (ii) an amount equal to any accumulated and unpaid distributions thereon to the date of payment. In the event that, upon such voluntary or involuntary liquidation, dissolution or winding-up, there are insufficient assets to permit full payment of liquidating distributions to the holders of Series A Preferred Stock and any Parity Preferred Stock as to rights upon liquidation, dissolution or winding-up of the Company, all payments of liquidating distributions on the Series A Preferred Stock and such Parity Preferred Stock shall be made so

that the payments on the Series A Preferred Stock and such Parity Preferred Stock shall in all cases bear to each other the same ratio that the respective rights of the Series A Preferred Stock and such other Parity Preferred Stock (which shall not include any accumulation in respect of unpaid distributions for prior distribution periods if such Parity Preferred Stock do not have cumulative distribution rights) upon liquidation, dissolution or winding-up of the Company bear to each other.

(b) Notice. Written notice of any such voluntary or involuntary liquidation, dissolution or winding-up of the Company, stating the payment date or dates when, and the place or places where, the amounts distributable in such circumstances shall be payable, shall be given by (i) fax and (ii) by first class mail, postage pre-paid, not less than 30 and not more than 60 days prior to the payment date stated therein, to each record holder of the Series A Preferred Stock at the respective addresses of such holders as the same shall appear on the same transfer records of the Company.

(c) No Further Rights. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series A Preferred Stock will have no right or claim to any of the remaining assets of the Company.

(d) Consolidation, Merger or Certain Other Transactions. The consolidation or merger or other business combination of the Company with or into any corporation, trust or other entity (or of any corporation, trust or other entity with or into the Company) shall not be deemed to constitute a liquidation, dissolution or winding-up of the Company.

(e) Permissible Distributions. In determining whether a distribution (other than upon voluntary or involuntary liquidation) by dividend, redemption or other acquisition of shares of stock of the Company or otherwise is permitted under the MGCL, no effect shall be given to amounts that would be needed, if the Company were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of holders of shares of stock of the Company whose preferential rights upon dissolution are superior to those receiving the distribution.

Section 5. Optional Redemption. (a) Right of Optional Redemption. The Series A Preferred Stock may not, subject to Section 7 hereof and except as provided in Section 5(c) hereof, be redeemed prior to September 30, 2009. On or after such date, the Company shall have the right to redeem the Series A Preferred Stock, in whole or in part, at any time or from time to time, upon not less than 30 nor more than 60 days' written notice, at a redemption price, payable in cash, equal to \$50 per share of Series A Preferred Stock plus accumulated and unpaid distributions to the date of redemption (" Redemption Price"). If fewer than all of the outstanding shares of Series A Preferred Stock are to be redeemed, the shares of Series A Preferred Stock to be redeemed shall be selected pro rata (as nearly as practicable without creating fractional units).

(b) Limitation on Redemption. (i) The redemption price of the Series A Preferred Stock (other than the portion thereof consisting of accumulated but unpaid distributions) will be payable solely out of the sale proceeds of capital stock of the Company and from no other source. For purposes of the preceding sentence, "capital stock" means any equity

securities (including Common Stock and Preferred Stock), shares, participation or other ownership interests (however designated) and any rights (other than debt securities convertible into or exchangeable for equity securities) or options to purchase any of the foregoing.

(ii) Subject to Section 7 hereof, the Company may not redeem fewer than all of the outstanding shares of Series A Preferred Stock (pursuant to Section 5(a) or (c) hereof) unless all accumulated and unpaid distributions have been paid on all Series A Preferred Stock for all quarterly distribution periods terminating on or prior to the date of redemption.

(c) Redemption at the Option of the Holder. Notwithstanding any provision herein to the contrary but expressly subject to the limitations set forth in this Section 5(c), so long as any Series A Preferred Stock remains outstanding, in the event of the occurrence of a Covered Transaction (defined below), the Company shall offer to redeem, on the date such Covered Transaction is completed or occurs, all of the Series A Preferred Stock outstanding at the Redemption Price, payable in cash, provided, however, that the Company shall only be obligated to effect such redemption if the redemption of the Series A Preferred Stock was elected in writing by the holders of not less than a majority of the then outstanding Series A Preferred Stock in accordance with this Section 5(c). The payment of any portion of the Redemption Price shall be subject only to the prior right of payment of outstanding indebtedness, as applicable, and the restrictions or limitations imposed upon such payment by applicable law or otherwise under these Articles Supplementary or the terms applicable to any Parity Preferred Stock. The Company shall give written notice of a Covered Transaction to each of the respective holders of record of the Series A Preferred Stock, at their respective addresses as they appear on the transfer records of the Company, by the earlier of (i) not less than thirty (30) days prior to the completion or occurrence of a Covered Transaction, if such completion or occurrence is known, or (ii) as soon as practicable after the completion or occurrence of a Covered Transaction. Such notice shall not set forth any non-public information concerning such Covered Transaction. Each of the holders of record of the Series A Preferred Stock shall have until 5:00 p.m. (PST) on the fifteenth (15th) day following receipt of such notice from the Company, to give the Company notice of such holder's election that the Series A Preferred Stock be redeemed. Notwithstanding any provision herein to the contrary, with respect to a Covered Transaction that arises under clause (c) of the definition of Covered Transaction set forth below, in the event that the Company so fails to qualify as a real estate investment trust for any reason other than an affirmative election by the Company not to qualify, (a) the Company shall give notice of the occurrence of a Covered Transaction to each of the holders of record of the Series A Preferred Stock within 15 days after discovery of such failure to qualify, (b) each of the holders of record of the Series A Preferred Stock shall have until 5:00 p.m. (PST) on the fifteenth (15th) day following receipt of such notice from the Company, to give the Company notice of such holder's election that the Series A Preferred Stock be redeemed and (c) if the holders of not less than a majority of the then outstanding Series A Preferred Stock have elected to have the Series A Preferred Stock redeemed, the Series A Preferred Stock shall be redeemed on a date not later than 45 days following the date of discovery of the Company's failure to qualify.

For purposes of this Section 5(c), the term "Covered Transaction" shall mean (a) the Company's completion of a "Rule 13e-3 transaction" (as defined in Rule 13e-3 under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) in which, as a result of such transaction, the Company's common stock is no longer registered under Section 12 of the

Exchange Act, except that this clause (a) shall not apply to any delisting of the Company's common stock from the New York Stock Exchange or any national securities exchange (as defined in the Exchange Act), (b) the completion of any transaction or series of transactions that would result in a Reorganization Event (defined below) of the Company or (c) the Company's failure (or election not) to qualify as a real estate investment trust as defined in Section 856 (or any successor section) of the Internal Revenue Code of 1986, as amended.

For purposes of this Section 5(c), the term "Reorganization Event" shall mean (x) any sale or other disposition of all or substantially all of the assets of the Company, as the case may be, to an entity that is not an Affiliate of the Company; or (y) any consolidation, amalgamation, merger, business combination, share exchange, reorganization or similar transaction involving the Company pursuant to which the stockholders of the Company immediately prior to the consummation of such transaction will own less than a majority of the equity interests in the entity surviving such transaction; provided, however, a Reorganization Event shall not include any transaction contemplated by clauses (x) or (y) of this definition if the surviving entity has unsecured debt outstanding which is rated at least the lowest credit rating level established as investment grade by at least two of Standard & Poor's, Moody's Investor Service and Fitch Ratings (it being understood that as of the date of these Articles Supplementary the lowest investment grade rating of Standard & Poor's is BBB-, the lowest investment grade rating of Moody's is Baa3 and the lowest investment grade rating of Fitch Ratings is BBB-) and such rating has been reaffirmed in light of the contemplated transaction.

(d) Procedures for Redemption. (i) Notice of redemption will be (i) faxed, and (ii) mailed by the Company, postage prepaid, not less than 30 nor more than 60 days prior to the redemption date, addressed to the respective holders of record of the Series A Preferred Stock to be redeemed at their respective addresses as they appear on the transfer records of the Company. No failure to give or defect in such notice shall affect the validity of the proceedings for the redemption of any Series A Preferred Stock except as to the holder to whom such notice was defective or not given. In addition to any information required by law or by the applicable rules of any exchange upon which the Series A Preferred Stock may be listed or admitted to trading, each such notice shall state: (i) the redemption date, (ii) the redemption price, (iii) the number of shares of Series A Preferred Stock to be redeemed, (iv) the place or places where such shares of Series A Preferred Stock are to be surrendered for payment of the redemption price, (v) that distributions on the Series A Preferred Stock to be redeemed will cease to accumulate on such redemption date and (vi) that payment of the redemption price and any accumulated and unpaid distributions will be made upon presentation and surrender of such Series A Preferred Stock. If fewer than all of the shares of Series A Preferred Stock held by any holder are to be redeemed, the notice mailed to such holder shall also specify the number of shares of Series A Preferred Stock held by such holder to be redeemed.

(ii) If the Company gives a notice of redemption in respect of Series A Preferred Stock (which notice will be irrevocable) then, by 12:00 noon, New York City time, on the redemption date, the Company will deposit irrevocably in trust for the benefit of the Series A Preferred Stock being redeemed funds sufficient to pay the applicable redemption price, plus any accumulated and unpaid distributions, if any, on such shares to the date fixed for redemption, without interest, and will give irrevocable instructions and authority to pay such redemption price and any accumulated and unpaid distributions, if any, on such shares to the holders of the

Series A Preferred Stock upon surrender of the Series A Preferred Stock by such holders at the place designated in the notice of redemption. On and after the date of redemption, distributions will cease to accumulate on the Series A Preferred Stock or portions thereof called for redemption, unless the Company defaults in the payment thereof. If any date fixed for redemption of Series A Preferred Stock is not a Business Day, then payment of the redemption price payable on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay) except that, if such Business Day falls in the next calendar year, such payment will be made on the immediately preceding Business Day, in each case with the same force and effect as if made on such date fixed for redemption. If payment of the redemption price or any accumulated or unpaid distributions in respect of the Series A Preferred Stock is improperly withheld or refused and not paid by the Company, distributions on such Series A Preferred Stock will continue to accumulate from the original redemption date to the date of payment, in which case the actual payment date will be considered the date fixed for redemption for purposes of calculating the applicable redemption price and any accumulated and unpaid distributions.

(c) Status of Redeemed Stock. Any Series A Preferred Stock that shall at any time have been redeemed shall after such redemption, have the status of authorized but unissued Preferred Stock, without designation as to class or series until such shares are once more designated as part of a particular class or series by the Board of Directors.

Section 6. Voting Rights. (a) General. Holders of the Series A Preferred Stock will not have any voting rights, except as set forth below.

(b) Right to Elect Directors. If at any time full distributions shall not have been timely made on any Series A Preferred Stock with respect to any six (6) prior quarterly distribution periods, whether or not consecutive, (a “Preferred Distribution Default”), the holders such Series A Preferred Stock, voting together as a single class with the holders of each class or series of Parity Preferred Stock upon which like voting rights have been conferred and are exercisable, will have the right to elect two additional directors to serve on the Company’s Board of Directors (the “Preferred Stock Directors”) at a special meeting called by the holders of record of at least 10% of the outstanding shares of Series A Preferred Stock or any such class or series of Parity Preferred Stock or at the next annual meeting of stockholders, and at each subsequent annual meeting of stockholders or special meeting held in place thereof, until all such distributions in arrears and distributions for the current quarterly period on the Series A Preferred Stock and each such class or series of Parity Preferred Stock have been paid in full. A distribution in respect of Series A Preferred Stock shall be considered timely made if made within two (2) Business Days after the applicable Preferred Stock Distribution Payment Date if at time of such late payment there shall not be any prior quarterly distribution periods in respect of which full distributions were not timely made at the applicable Preferred Stock Distribution Date. If and when all accumulated distributions and the distribution for the current distribution period on the Series A Preferred Stock shall have been paid in full or set aside for payment in full, the holders of the Series A Preferred Stock shall be divested of the voting rights set forth in Section 6(b) herein (subject to revesting in the event of each and every Preferred Distribution Default) and, if all distributions in arrears and the distributions for the current distribution period have been paid in full or set aside for payment in full on all other classes or series of Parity Preferred Stock upon which like voting rights have been conferred and are exercisable, the term

and office of each Preferred Stock Director so elected shall terminate. Any Preferred Stock Director may be removed at any time with or without cause by the vote of, and shall not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding Series A Preferred Stock when they have the voting rights set forth in Section 6(b) (voting separately as a single class with all other classes or series of Parity Preferred Stock upon which like voting rights have been conferred and are exercisable). So long as a Preferred Distribution Default shall continue, any vacancy in the office of a Preferred Stock Director may be filled by written consent of the Preferred Stock Director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding Series A Preferred Stock when they have the voting rights set forth in Section 6(b) (voting separately as a single class with all other classes or series of Parity Preferred Stock upon which like voting rights have been conferred and are exercisable). The Preferred Stock Director shall each be entitled to one vote per director on any manner.

(c) Certain Voting Rights. So long as any Series A Preferred Stock remains outstanding, the Company shall not, without the affirmative vote of the holders of at least two-thirds of the Series A Preferred Stock outstanding at the time (i) designate or create, or increase the authorized or issued amount of, any class or series of shares ranking prior to the Series A Preferred Stock with respect to payment of distributions or rights upon liquidation, dissolution or winding-up or reclassify any authorized shares of the Company into any such shares, or create, authorize or issue any obligations or security convertible into or evidencing the right to purchase any such shares, (ii) designate or create, or increase the authorized or issued amount of, any Parity Preferred Stock or reclassify any authorized shares of the Company into any such shares, or create, authorize or issue any obligations or security convertible into or evidencing the right to purchase any such shares, but only to the extent such Parity Preferred Stock is issued to a an affiliate of the Company, or (iii) either (A) consolidate, merge into or with, or convey, transfer or lease its assets substantially as an entirety, to any corporation or other entity, or (B) amend, alter or repeal the provisions of the Company's Charter (including these Articles Supplementary) or By-laws, whether by merger, consolidation or otherwise, in each case that would materially and adversely affect the powers, special rights, preferences, privileges or voting power of the Series A Preferred Stock or the holders thereof; *provided, however*, that with respect to the occurrence of any event set forth in (iii) above, so long as (a) the Company is the surviving entity and the Series A Preferred Stock remains outstanding with the terms thereof unchanged, or (b) the resulting, surviving or transferee entity is a corporation organized under the laws of any state and substitutes the Series A Preferred Stock for other preferred stock having substantially the same terms and same rights as the Series A Preferred Stock, including with respect to distributions, voting rights and rights upon liquidation, dissolution or winding-up, then the occurrence of any such event shall not be deemed materially and adversely affect such rights, privileges or voting powers of the holders of the Series A Preferred Stock and provided further that any increase in the amount of authorized Preferred Stock or the creation or issuance of any other class or series of Preferred Stock, or any increase in an amount of authorized shares of each class or series, in each case ranking either (a) junior to the Series A Preferred Stock with respect to payment of distributions or the distribution of assets upon liquidation, dissolution or winding-up, or (b) on a parity with the Series A Preferred Stock with respect to payment of distributions or the distribution of assets upon liquidation, dissolution or winding-up to the extent such Preferred Stock is not issued to a affiliate of the Company, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers.

Section 7. Restrictions on Ownership and Transfer to Preserve Tax Benefit.

(a) Definitions. for the purposes of this Section 7 of these Articles Supplementary, the following terms shall have the following meanings:

“Beneficial Ownership” shall mean ownership of Series A Preferred Stock by a Person who is or would be treated as an owner of such Series A Preferred Stock either actually or constructively through the application of Section 544 of the Code, as modified by Section 856(h)(1)(B) of the Code. The terms “Beneficial Owner,” “Beneficially Owns” and “Beneficially Owned” shall have the correlative meanings.

“Beneficial Ownership Limit” shall mean 7.0% (by value) of the outstanding shares capital stock the Company.

“Charitable Beneficiary” shall mean one or more beneficiaries of a Trust, as determined pursuant to Section 7(c)(vi) of these Articles Supplementary, each of which shall be an organization described in Sections 170(b)(1)(A), 170(c)(2) or 501(c)(3) of the Code.

“Code” shall mean the Internal Revenue Code of 1986, as amended. All section references to the Code shall include any successor provisions thereof as may be adopted from time to time.

“Constructive Ownership” shall mean ownership of Series A Preferred Stock by a Person who is or would be treated as an owner of such Series A Preferred Stock either actually or constructively through the application of Section 318 of the Code, as modified by Section 856(d)(5) of the Code. The terms “Constructive Owner,” “Constructively Owns” and “Constructively Owned” shall have the correlative meanings.

“Constructive Ownership Limit” shall mean 9.8% (by value) of the outstanding shares of capital stock the Company.

“IRS” means the United States Internal Revenue Service.

“Market Price” shall mean the last reported sales price reported on the New York Stock Exchange of the Series A Preferred Stock on the trading day immediately preceding the relevant date, or if the Series A Preferred Stock is not then traded on the New York Stock Exchange, the last reported sales price of the Series A Preferred Stock on the trading day immediately preceding the relevant date as reported on any exchange or quotation system over which the Series A Preferred Stock may be traded, or if the Series A Preferred Stock is not then traded over any exchange or quotation system, then the market price of the Series A Preferred Stock on the relevant date as determined in good faith by the Board of Directors of the Company.

“MGCL” shall mean the MARYLAND GENERAL CORPORATION LAW, as amended from time to time, and any successor statute hereafter enacted.

“Operating Partnership” shall mean Kilroy Realty, L.P., a Delaware limited partnership.

“Partnership Agreement” shall mean the Agreement of Limited Partnership of the Operating Partnership, as such agreement may be amended from time to time.

“Person” shall mean an individual, corporation, partnership, limited liability company, estate, trust (including a trust qualified under Section 401(a) or 501(c)(17) of the Code), a portion of a trust permanently set aside for or to be used exclusively for the purposes described in Section 642(c) of the Code, association, private foundation within the meaning of Section 509(a) of the Code, joint stock company or other entity; but does not include an underwriter acting in a capacity as such in a public offering of shares of Series A Preferred Stock provided that the ownership of such shares of Series A Preferred Stock by such underwriter would not result in the Company being “closely held” within the meaning of Section 856(h) of the Code, or otherwise result in the Company failing to qualify as a REIT.

“Purported Beneficial Transferee” shall mean, with respect to any purported Transfer (or other event) which results in a transfer to a Trust, as provided in Section 7(b)(ii) of these Articles Supplementary, the Purported Record Transferee, unless the Purported Record Transferee would have acquired or owned shares of Series A Preferred Stock for another Person who is the beneficial transferee or owner of such shares, in which case the Purported Beneficial Transferee shall be such Person.

“Purported Record Transferee” shall mean, with respect to any purported Transfer (or other event) which results in a transfer to a Trust, as provided in Section 7(b)(ii) of these Articles Supplementary, the record holder of the Series A Preferred Stock if such Transfer had been valid under Section 7(b)(i) of these Articles Supplementary.

“REIT” shall mean a real estate investment trust under Sections 856 through 860 of the Code and, for purposes of taxation of the Company under applicable state law, comparable provisions of the law of such state.

“Restriction Termination Date” shall mean the first day after the date hereof on which the Board of Directors of the Company determines that it is no longer in the best interests of the Company to attempt to, or continue to, qualify as a REIT.

“Transfer” shall mean any sale, transfer, gift, assignment, devise or other disposition of Series A Preferred Stock, (including (i) the granting of any option or entering into any agreement for the sale, transfer or other disposition of Series

A Preferred Stock or (ii) the sale, transfer, assignment or other disposition of any securities (or rights convertible into or exchangeable for Series A Preferred Stock), whether voluntary or involuntary, whether such transfer has occurred of record or beneficially or Beneficially or Constructively (including but not limited to transfers of interests in other entities which results in changes in Beneficial or Constructive Ownership of Series A Preferred Stock), and whether such transfer has occurred by operation of law or otherwise.

“Trust” shall mean each of the trusts provided for in Section 7(c) of these Articles Supplementary.

“Trustee” shall mean any Person unaffiliated with the Company, or a Purported Beneficial Transferee, or a Purported Record Transferee, that is appointed by the Company to serve as trustee of a Trust.

(b) Restriction on Ownership and Transfers.

(i) Prior to the Restriction Termination Date:

(A) except as provided in Section 7(i) of these Articles Supplementary, no Person shall Beneficially Own Series A Preferred Stock which, taking into account any other capital stock of the Company Beneficially Owned by such Person, would cause such ownership to exceed the Beneficial Ownership Limit;

(B) except as provided in Section 7(i) of these Articles Supplementary, no Person shall Constructively Own Series A Preferred Stock which, taking into account any other capital stock of the Company Constructively Owned by such Person, would cause such ownership to exceed the Constructive Ownership Limit;

(C) no Person shall Beneficially or Constructively Own Series A Preferred Stock which, taking into account any other capital stock of the Company Beneficially or Constructively Owned by such Person, would result in the Company being “closely held” within the meaning of Section 856(h) of the Code, or otherwise failing to qualify as a REIT (including but not limited to Beneficial or Constructive Ownership that would result in the Company owning (actually or Constructively) an interest in a tenant that is described in Section 856(d)(2)(B) of the Code if the income derived by the Company (either directly or indirectly through one or more partnerships) from such tenant would cause the Company to fail to satisfy any of the gross income requirements of Section 856(c) of the Code or comparable provisions of state law).

(ii) If, prior to the Restriction Termination Date, any Transfer (whether or not such Transfer is the result of a transaction entered into through the facilities of the New York Stock Exchange (“NYSE”)) or other event occurs that, if effective, would result in any Person Beneficially or Constructively Owning Series A Preferred Stock in violation of Section

7(b)(i) of these Articles Supplementary, (1) then that number of shares of Series A Preferred Stock that otherwise would cause such Person to violate Section 7(b)(i) of these Articles Supplementary (rounded up to the nearest whole share) shall be automatically transferred to a Trust for the benefit of a Charitable Beneficiary, as described in Section 7(c), effective as of the close of business on the business day prior to the date of such Transfer or other event, and such Purported Beneficial Transferee shall thereafter have no rights in such shares or (2) if, for any reason, the transfer to the Trust described in clause (1) of this sentence is not automatically effective as provided therein to prevent any Person from Beneficially or Constructively Owning Series A Preferred Stock in violation of Section 7(b)(i) of these Articles Supplementary, then the Transfer of that number of shares of Series A Preferred Stock that otherwise would cause any Person to violate Section 7(b)(1) shall be void *ab initio*, and the Purported Beneficial Transferee shall have no rights in such shares.

(iii) Notwithstanding any other provisions contained herein, prior to the Restriction Termination Date, any Transfer of Series A Preferred Stock (whether or not such Transfer is the result of a transaction entered into through the facilities of the NYSE) that, if effective, would result in the capital stock of the Company being beneficially owned by less than 100 Persons (determined without reference to any rules of attribution) shall be void *ab initio*, and the intended transferee shall acquire no rights in such Series A Preferred Stock.

(iv) It is expressly intended that the restrictions on ownership and Transfer described in this Section 7(b) shall apply to the exchange rights provided in Section 16.7 of the Partnership Agreement. Notwithstanding any of the provisions of the Partnership Agreement to the contrary, a partner of the Operating Partnership shall not be entitled to effect an exchange of an interest in the Operating Partnership for Series A Preferred Stock if the actual or beneficial or Beneficial or Constructive Ownership of Series A Preferred Stock would be prohibited under the provisions of this Section 7.

(c) Transfers of Series A Preferred Stock in Trust.

(i) Upon any purported Transfer or other event described in Section 7(b)(ii) of these Articles Supplementary, such Series A Preferred Stock shall be deemed to have been transferred to the Trustee in his capacity as trustee of a Trust for the exclusive benefit of one or more Charitable Beneficiaries. Such transfer to the Trustee shall be deemed to be effective as of the close of business on the business day prior to the purported Transfer or other event that results in a transfer to the Trust pursuant to Section 7(b)(ii). The Trustee shall be appointed by the Company and shall be a Person unaffiliated with the Company, any Purported Beneficial Transferee, or any Purported Record Transferee. Each Charitable Beneficiary shall be designated by the Company as provided in Section 7(c)(vi) of these Articles Supplementary.

(ii) Series A Preferred Stock held by the Trustee shall be issued and outstanding Series A Preferred Stock of the Company. The Purported Beneficial Transferee or Purported Record Transferee shall have no rights in the shares of Series A Preferred Stock held by the Trustee. The Purported Beneficial Transferee or Purported Record Transferee shall not benefit economically from ownership of any shares held in trust by the Trustee, shall have no rights to dividends and shall not possess any rights to vote or other rights attributable to the shares of Series A Preferred Stock held in the Trust.

(iii) The Trustee shall have all voting rights and rights to dividends with respect to Series A Preferred Stock held in the Trust, which rights shall be exercised for the exclusive benefit of the Charitable Beneficiary. Any dividend or distribution paid prior to the discovery by the Company that shares of Series A Preferred Stock have been transferred to the Trustee shall be paid to the Trustee upon demand, and any dividend or distribution declared but unpaid shall be paid when due to the Trustee with respect to such Series A Preferred Stock. Any dividends or distribution so paid over to the Trustee shall be held in trust for the Charitable Beneficiary.

The Purported Record Transferee and Purported Beneficial Transferee shall have no voting rights with respect to the Series A Preferred Stock held in the Trust and, subject to Maryland law, effective as of the date the Series A Preferred Stock has been transferred to the Trustee, the Trustee shall have the authority (at the Trustee's sole discretion) (i) to rescind as void any vote cast by a Purported Record Transferee with respect to such Series A Preferred Stock prior to the discovery by the Company that the Series A Preferred Stock has been transferred to the Trustee and (ii) to recast such vote in accordance with the desires of the Trustee acting for the benefit of the Charitable Beneficiary; *provided, however*, that if the Company has already taken irreversible corporate action, then the Trustee shall not have the authority to rescind and recast such vote. Notwithstanding any other provision of these Articles Supplementary to the contrary, until the Company has received notification that the Series A Preferred Stock has been transferred into a Trust, the Company shall be entitled to rely on its share transfer and other stockholder records for purposes of preparing lists of stockholders entitled to vote at meetings, determining the validity and authority of proxies and otherwise conducting votes to stockholders.

(iv) Within 20 days of receiving notice from the Company that shares of Series A Preferred Stock have been transferred to the Trust, the Trustee of the Trust shall sell the shares of Series A Preferred Stock held in the Trust to a Person, designated by the Trustee, whose ownership of the shares of Series A Preferred Stock will not violate the ownership limitations set forth in Section 7(b)(i). Upon such sale, the interest of the Charitable beneficiary in the shares of Series A Preferred Stock sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Purported Record Transferee and to the Charitable Beneficiary as provided in this Section 7(c)(iv). The Purported Record Transferee shall receive the lesser of (1) the price paid by the Purported Record Transferee for the shares of Series A Preferred Stock in the transaction that resulted in such transfer to the Trust (or, if the event which resulted in the transfer to the Trust did not involve a purchase of such shares of Series A Preferred Stock at Market Price, the Market Price of such shares of Series A Preferred Stock on the day of the event which resulted in the transfer of such shares of Series A Preferred Stock to the Trust) and (2) the price per share received by the Trustee (net of any commissions and other expenses of sale) from the sale or other disposition of the shares of Series A Preferred Stock held in the Trust. Any net sales proceeds in excess of the amount payable to the Purported Record Transferee shall be immediately paid to the Charitable Beneficiary together with any dividends or other distributions thereon. If, prior to the discovery by the Company that shares of such Series A Preferred Stock have been transferred to the Trustee, such shares of Series A Preferred Stock are sold by a Purported Record Transferee then (i) such shares of Series A Preferred Stock shall be deemed to have been sold on behalf of the Trust and (ii) to the extent that the Purported Record Transferee received an amount for such shares of Series A Preferred Stock that exceeds the amount that such Purported Record Transferee was entitled to receive pursuant to this Section 7(c)(iv), such excess shall be paid to the Trustee upon demand.

(v) Series A Preferred Stock transferred to the Trustee shall be deemed to have been offered for sale to the Company, or its designee, at a price per share equal to the lesser of (i) the price paid by the Purported Record Transferee for the shares of Series A Preferred Stock in the transaction that resulted in such transfer to the Trust (or, if the event which resulted in the transfer to the Trust did not involve a purchase of such shares of Series A Preferred Stock at Market Price, the Market Price of such shares of Series A Preferred Stock on the day of the event which resulted in the transfer of such shares of Series A Preferred Stock to the Trust) and (ii) the Market Price on the date the Company, or its designee, accepts such offer. The Company shall have the right to accept such offer until the Trustee has sold the shares of Series A Preferred Stock held in the Trust pursuant to Section 7(c)(iv). Upon such a sale to the Company, the interest of the Charitable Beneficiary in the shares of Series A Preferred Stock sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Purported Record Transferee and any dividends or other distributions held by the Trustee with respect to such Series A Preferred Stock shall thereupon be paid to the Charitable Beneficiary.

(vi) By written notice to the Trustee, the Company shall designate one or more nonprofit organizations to be the Charitable beneficiary of the interest in the Trust such that (i) the Series A Preferred Stock held in the Trust would not violate the restrictions set forth in Section 7(b)(i) in the hands of such Charitable Beneficiary and (ii) each charitable Beneficiary is an organization described in Sections 170(l)(A), 170(c)(2) or 501(c)(3) of the Code.

(d) Remedies For Breach. If the Board of Directors or a committee thereof or other designees if permitted by the MGCL shall at any time determine in good faith that a Transfer or other event has taken place in violation of Section 7(b) of these Articles Supplementary or that a Person intends to acquire, has attempted to acquire or may acquire beneficial ownership (determined without reference to any rules of attribution), Beneficial Ownership or Constructive Ownership of any shares of Series A Preferred Stock of the Company in violation of Section 7(b) of these Articles Supplementary, the Board of Directors or a committee thereof or other designees if permitted by the MGCL shall take such action as it deems advisable to refuse to give effect to or prevent such Transfer, including, but not limited to, causing the Company to redeem shares of Series A Preferred Stock, refusing to give effect to such Transfer on the books of the Company or instituting proceedings to enjoin such transfer; *provided, however*, that any Transfers (or, in the case of events other than a Transfer, ownership or Constructive Ownership or Beneficial Ownership) in violation of Section 7(b)(i) of these Articles Supplementary, shall automatically result in the transfer to a Trust as described in Section 7(b)(ii) and any Transfer in violation of Section 7(b)(iii) shall automatically be void *ab initio* irrespective of any action (or non-action) by the Board of Directors.

(e) Notice of Restricted Transfer. Any Person who acquires or attempts to acquire shares of Series A Preferred Stock in violation of Section 7(b) of these Articles Supplementary, or any Person who is a Purported Beneficial Transferee such that an automatic transfer to a Trust results under Section 7(b)(ii) of these Articles Supplementary, shall immediately give written notice to the Company of such event and shall provide to the Company such other information as the Company may request in order to determine the effect, if any, of such Transfer or attempted Transfer on the Company's status as a REIT.

(f) Owners Required To Provide Information. Prior to the Restriction Termination date each Person who is a beneficial owner or Beneficial Owner or Constructive Owner of Series A Preferred Stock and each Person (including the shareholder of record) who is holding Series A Preferred Stock for a beneficial owner or Beneficial Owner or Constructive Owner shall provide to the Company such information that the Company may request, in good faith, in order to determine the Company's status as a REIT.

(g) Remedies Not Limited. Nothing contained in these Articles Supplementary (but subject to Section 7(n) of these Articles Supplementary) shall limit the authority of the Board of Directors to take such other action as it deems necessary or advisable to protect the Company and the interests of its shareholders by preservation of the Company's status as a REIT.

(h) Ambiguity. In the case of an ambiguity in the application of any of the provisions of this Section 7 of these Articles Supplementary, including any definition contained in Section 7(a), the Board of Directors shall have the power to determine the application of the provisions of this Section 7 with respect to any situation based on the facts known to it (subject, however, to the provision of Section 7(n) of these Articles Supplementary). In the event Section 7 requires an action by the Board of Directors and these Articles Supplementary fail to provide specific guidance with respect to such action, the Board of Directors shall have the power to determine the action to be taken so long as such action is not contrary to the provisions of Section 7. Absent a decision to the contrary by the Board of Directors (which the Board of Directors may make in its sole and absolute discretion), if a Person would have (but for the remedies set forth in Section 7(b)) acquired Beneficial or Constructive Ownership of Series A Preferred Stock in violation of Section 7(b)(i), such remedies (as applicable) shall apply first to the shares of Series A Preferred Stock which, but for such remedies, would have been actually owned by such Person, and second to shares of Series A Preferred Stock, which, but for such remedies, would have been Beneficially Owned or Constructively Owned (but not actually owned) by such Person, pro rata among the Persons who actually own such shares of Series A Preferred Stock based upon the relative number of the shares of Series A Preferred Stock held by each such Person.

(i) Exceptions.

(i) Subject to Section 7(b)(i)(C), the Board of Directors, in its sole discretion, may exempt a Person from the limitation on a Person Beneficially Owning shares of Series A Preferred Stock in violation of Section 7(b)(i)(A) if the Board of Directors obtains such representations and undertakings from such Person as are reasonably necessary to ascertain that no individual's Beneficial Ownership of such shares of Series A Preferred Stock will violate Section 7(b)(i)(A) or that any such violation will not cause the Company to fail to qualify as a REIT under the Code, and agrees that any violation of such representations or undertakings (or other action which is contrary to the restrictions contained in Section 7(b) of these Articles Supplementary) or attempted violation will result in such Series A Preferred Stock being transferred to a Trust in accordance with Section 7(b)(ii) of these Articles Supplementary.

(ii) Subject to Section 7(b)(i)(C), the Board of Directors, in its sole discretion, may exempt a Person from the limitation on a Person Constructively Owning Series A Preferred Stock in violation of Section 7(b)(i)(B), if such Person does not and represents that it will not own, actually or Constructively, an interest in a tenant of the Company (or a tenant of any entity owned in whole or in part by the Company) that would cause the Company to own, actually or Constructively more than a 9.8% interest (as set forth in Section 856(d)(2)(B) of the Code) in such tenant and the Company obtains such representations and undertakings from such Person as are reasonably necessary to ascertain this fact and agrees that any violation or attempted violation will result in such Series A Preferred Stock being transferred to a Trust in accordance with Section 7(b)(ii) of these Articles Supplementary. Notwithstanding the foregoing, the inability of a Person to make the certification described in this Section 7(i)(ii) shall not prevent the Board of Directors, in its sole discretion, from exempting such Person from the limitation on a Person Constructively Owning Series A Preferred Stock in violation of Section 7(b)(i)(B) if the Board of Directors determines that the resulting application of Section 856(d)(2)(B) of the Code and comparable provisions of applicable state law would affect the characterization of less than 0.5% of the gross income (as such term is used in Section 856(c)(2) of the Code) of the Company in any taxable year, after taking into account the effect of this sentence with respect to all other capital stock of the Company to which this sentence applies.

(iii) Prior to granting any exception pursuant to Section 7(i)(i) or (ii) of these Articles Supplementary, the Board of Directors may require a ruling from the internal Revenue Service, or an opinion of counsel, in either case in form and substance satisfactory to the Board of Directors in its sole discretion, as it may deem necessary or advisable in order to determine or ensure the Company's status as a REIT.

(j) Legends. Each certificate for Series A Preferred Stock shall bear the following legends:

Class of Stock

THE COMPANY IS AUTHORIZED TO ISSUE CAPITAL STOCK OF MORE THAN ONE CLASS, CONSISTING OF COMMON STOCK AND ONE OR MORE CLASSES OF PREFERRED STOCK. THE BOARD OF DIRECTORS IS AUTHORIZED TO DETERMINE THE PREFERENCES, LIMITATIONS AND RELATIVE RIGHTS OF ANY CLASS OF THE PREFERRED STOCK BEFORE THE ISSUANCE OF SHARES OF SUCH CLASS OF PREFERRED STOCK. THE COMPANY WILL FURNISH, WITHOUT CHARGE, TO ANY STOCKHOLDER MAKING A WRITTEN REQUEST THEREFOR, A COPY OF THE COMPANY'S CHARTER AND A WRITTEN STATEMENT OF THE DESIGNATIONS, RELATIVE RIGHTS, PREFERENCES, CONVERSION OR OTHER RIGHTS, VOTING POWERS, RESTRICTIONS, LIMITATIONS AS TO DIVIDENDS AND OTHER DISTRIBUTIONS, QUALIFICATIONS AND TERMS AND CONDITIONS OF REDEMPTION OF THE STOCK OF EACH CLASS WHICH THE COMPANY HAS THE AUTHORITY TO ISSUE AND, IF THE COMPANY IS AUTHORIZED TO ISSUE ANY PREFERRED OR SPECIAL CLASS AND SERIES, (i) THE DIFFERENCES IN THE RELATIVE RIGHTS AND PREFERENCES BETWEEN THE SHARES OF EACH SERIES

TO THE EXTENT SET, AND (ii) THE AUTHORITY OF THE BOARD OF DIRECTORS TO SET SUCH RIGHTS AND PREFERENCES OF SUBSEQUENT SERIES. REQUESTS FOR SUCH WRITTEN STATEMENT MAY BE DIRECTED TO THE SECRETARY OF THE COMPANY AT ITS PRINCIPAL OFFICE.

Restrictions on Ownership and Transfer

THE SHARES OF SERIES A PREFERRED STOCK REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON BENEFICIAL AND CONSTRUCTIVE OWNERSHIP AND TRANSFER FOR THE PURPOSE OF THE COMPANY'S MAINTENANCE OF ITS STATUS AS A REAL ESTATE INVESTMENT TRUST UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"). SUBJECT TO CERTAIN FURTHER RESTRICTIONS AND EXCEPT AS EXPRESSLY PROVIDED IN THE ARTICLES SUPPLEMENTARY FOR THE SERIES A PREFERRED STOCK, (i) NO PERSON MAY BENEFICIALLY OWN SHARES OF THE COMPANY'S SERIES A PREFERRED STOCK WHICH, TAKING INTO ACCOUNT ANY OTHER CAPITAL STOCK OF THE COMPANY BENEFICIALLY OWNED BY SUCH PERSON, WOULD CAUSE SUCH OWNERSHIP TO EXCEED THE BENEFICIAL OWNERSHIP LIMIT OF 7%; (ii) NO PERSON MAY CONSTRUCTIVELY OWN SHARES OF THE COMPANY'S SERIES A PREFERRED STOCK WHICH, TAKING INTO ACCOUNT ANY OTHER CAPITAL STOCK OF THE COMPANY CONSTRUCTIVELY OWNED BY SUCH PERSON, WOULD CAUSE SUCH OWNERSHIP TO EXCEED THE CONSTRUCTIVE OWNERSHIP LIMIT OF 9.8%; (iii) NO PERSON MAY BENEFICIALLY OR CONSTRUCTIVELY OWN SERIES A PREFERRED STOCK THAT, TAKING INTO ACCOUNT ANY OTHER CAPITAL STOCK OF THE COMPANY BENEFICIALLY OR CONSTRUCTIVELY OWNED BY SUCH PERSON, WOULD RESULT IN THE COMPANY BEING "CLOSELY HELD" UNDER SECTION 856(h) OF THE CODE OR OTHERWISE CAUSE THE COMPANY TO FAIL TO QUALIFY AS A REIT; AND (iv) NO PERSON MAY TRANSFER SERIES A PREFERRED STOCK IF SUCH TRANSFER WOULD RESULT IN THE CAPITAL STOCK OF THE COMPANY BEING OWNED BY FEWER THAN 100 PERSONS. ANY PERSON WHO BENEFICIALLY OR CONSTRUCTIVELY OWNS OR ATTEMPTS TO BENEFICIALLY OR CONSTRUCTIVELY OWN SERIES A PREFERRED STOCK WHICH CAUSES OR WILL CAUSE A PERSON TO BENEFICIALLY OR CONSTRUCTIVELY OWN SERIES A PREFERRED STOCK IN EXCESS OF THE ABOVE LIMITATIONS MUST IMMEDIATELY NOTIFY THE COMPANY. IF ANY OF THE RESTRICTIONS ON TRANSFER OR OWNERSHIP ARE VIOLATED, THE SERIES A PREFERRED STOCK REPRESENTED HEREBY WILL BE AUTOMATICALLY TRANSFERRED TO THE TRUSTEE OF A TRUST FOR THE BENEFIT OF ONE OR MORE CHARITABLE BENEFICIARIES. IN ADDITION, THE COMPANY MAY REDEEM SHARES UPON THE TERMS AND CONDITIONS SPECIFIED BY

THE BOARD OF DIRECTORS IN ITS SOLE DISCRETION IF THE BOARD OF DIRECTORS DETERMINES THAT OWNERSHIP OR A TRANSFER OR OTHER EVENT MAY VIOLATE THE RESTRICTIONS DESCRIBED ABOVE. FURTHERMORE, UPON THE OCCURRENCE OF CERTAIN EVENTS, ATTEMPTED TRANSFERS IN VIOLATION OF THE RESTRICTIONS DESCRIBED ABOVE MAY BE VOID *AB INITIO*. ALL TERMS IN THIS LEGEND DEFINED IN THE ARTICLES SUPPLEMENTARY FOR THE SERIES A PREFERRED STOCK SHALL HAVE THE MEANINGS ASCRIBED TO THEM IN THE ARTICLES SUPPLEMENTARY FOR THE SERIES A PREFERRED STOCK AS THE SAME MAY BE AMENDED FROM TIME TO TIME, A COPY OF WHICH, INCLUDING THE RESTRICTIONS ON TRANSFER AND OWNERSHIP, WILL BE FURNISHED TO EACH HOLDER OF SERIES A PREFERRED STOCK ON REQUEST AND WITHOUT CHARGE. REQUESTS FOR SUCH A COPY MAY BE DIRECTED TO THE SECRETARY OF THE COMPANY AT ITS PRINCIPAL OFFICE.

(k) Exchange of Series A Preferred Units. So long as the Company remains the general partner of the Operating Partnership, the Board of Directors of the Company is hereby expressly vested with authority (subject to the restrictions on ownership, transfer and redemption of Series A Preferred Stock set forth in this Section 7) to issue, and shall issue to the extent provided in the Partnership Agreement, Series A Preferred Stock in exchange for Series A Preferred Units (as defined in the Partnership Agreement) (the “Series A Preferred Units”).

(l) Reservation of Shares. Pursuant to the obligations of the Company under the Partnership Agreement to issue Series A Preferred Stock in exchange for Series A Preferred Units, the Board of Directors is hereby required to reserve and authorize for issuance a number of authorized but unissued shares of Series A Preferred Stock not less than the number of Series A Preferred Units issued to permit the Company to issue Series A Preferred Stock in exchange for Series A Preferred Units that may be exchanged for or converted into Series A Preferred Stock as provided in the Partnership Agreement.

(m) Severability. If any provision of this Section 7 or any application of any such provision is determined to be invalid by any Federal or state court having jurisdiction over the issues, the validity of the remaining provisions shall not be affected and other applications of such provision shall be affected only to the extent necessary to comply with the determination of such court.

(n) NYSE. Nothing in this Section 7 shall preclude the settlement of any transaction entered into through the facilities of the NYSE. The shares of Series A preferred Stock that are the subject of such transaction shall continue to be subject to the provisions of this Section 7 after such settlement.

(o) Applicability of Section 7. The provisions set forth in this Section 7 shall apply to the Series A Preferred Stock notwithstanding any contrary provisions of the Series A Preferred Stock provided for elsewhere in these Articles Supplementary.

Section 8. No Conversion Rights. The holders of the Series A Preferred Stock shall not have any rights to convert such shares into shares of any other class or series of stock or into any other securities of, or interest in, the Company.

Section 9. No Sinking Fund. No sinking fund shall be established for the retirement or redemption of Series A Preferred Stock.

Section 10. No Preemptive Rights. No holder of the Series A Preferred Stock of the Company shall, as such holder, have any preemptive rights to purchase or subscribe for additional shares of stock of the Company or any other security of the Company which it may issue or sell.

FIFTH: The Series A Preferred Stock have been classified and designated by the Board of Directors under the authority contained in the Charter.

SIXTH: These Articles Supplementary have been approved by the Board of Directors in the manner and by the vote required by law.

SEVENTH: The undersigned Vice President of the Company acknowledges these Articles Supplementary to be the corporate act of the Company and, as to all matters or facts required to be verified under oath, the undersigned Vice President acknowledges that to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

IN WITNESS WHEREOF, the Company has caused these Articles Supplementary to be executed under seal in its name and on its behalf by its Senior Vice President and attested to by its Secretary on this 5th day of March, 2004.

KILROY REALTY CORPORATION

By: /s/ Tyler H. Rose

Name: Tyler H. Rose

Title: Senior Vice President

[SEAL]

ATTEST:

/s/ Richard E. Moran, Jr.

Richard E. Moran, Jr.

Secretary

[SIGNATURE PAGE FOR ARTICLES SUPPLEMENTARY]

EXHIBIT II

7.80% Series E Cumulative Redeemable Preferred Stock

KILROY REALTY CORPORATION

ARTICLES SUPPLEMENTARY

1,610,000 SHARES OF

7.80% SERIES E CUMULATIVE REDEEMABLE PREFERRED STOCK

Kilroy Realty Corporation, a Maryland corporation (the “Company”), hereby certifies to the State Department of Assessments and Taxation of Maryland (the “Department”) that:

FIRST: Pursuant to the authority expressly vested in the Board of Directors of the Company by Article IV of the Articles of Amendment and Restatement of the Company filed with the Department on January 21, 1997, as amended and supplemented (the “Charter”) and Section 2-105 of the MARYLAND GENERAL CORPORATION LAW (the “MGCL”), the Board of Directors of the Company (the “Board of Directors”), by resolutions duly adopted on September 26, 2003, has authorized the classification and designation of up to 5,000,000 shares of the authorized but unissued preferred stock of the Company, par value \$.01 per share (“Preferred Stock”) as a separate class of Preferred Stock and the issuance of a maximum of 5,000,000 shares of such class of Preferred Stock, and pursuant to the powers contained in the Bylaws of the Company and the MGCL, appointed a committee (the “Committee”) of the Board of Directors and delegated to the Committee, to the fullest extent permitted by the MGCL and the Charter and Bylaws of the Company, all powers of the Board of Directors with respect to classifying, designating, and setting the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications and terms and conditions of redemption and other terms and conditions of, such class of Preferred Stock, and determining the number of shares of such class of Preferred Stock (not in excess of the aforesaid maximum number) to be classified and issued and the consideration and other terms and conditions upon which such shares of such class of Preferred Stock are to be issued.

SECOND: Pursuant to the authority conferred upon the Committee as aforesaid, the Committee has unanimously adopted resolutions classifying and designating 1,610,000 shares of the authorized but unissued Preferred Stock as a separate class of Preferred Stock to be known as the “7.80% Series E Cumulative Redeemable Preferred Stock,” setting the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications, terms and conditions of redemption and other terms and conditions of such 7.80% Series E Cumulative Redeemable Preferred Stock and authorizing the issuance of up to 1,610,000 shares of 7.80% Series E Cumulative Redeemable Preferred Stock.

THIRD: The designation, number of shares, preferences, rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, terms and conditions of redemption and other terms and conditions of the separate class of Preferred Stock of the Company designated as 7.80% Series E Cumulative Redeemable Preferred Stock are as follows (the “Series E Terms”), which upon any restatement of the Charter shall be made a part of or incorporated by reference into the Charter with any necessary or appropriate changes to the enumeration or lettering of sections or subsections thereof:

Section 1. Designation and Number. A series of Preferred Stock, designated the “7.80% Series E Cumulative Redeemable Preferred Stock” (the “Series E Preferred Stock”) is hereby established. The number of shares of Series E Preferred Stock shall be 1,610,000.

Section 2. Rank. The Series E Preferred Stock will, with respect to dividend rights and rights upon voluntary or involuntary liquidation, winding-up or dissolution of the Company, rank: (i) senior to all classes or series of the Company's common stock, par value \$.01 per share (the "Common Stock"), the Company's Series B Junior Participating Preferred Stock (the "Series B Preferred Stock") and all classes or series of equity securities of the Company now or hereafter authorized, issued or outstanding expressly designated as ranking junior to the Series E Preferred Stock as to dividend rights and rights upon voluntary or involuntary liquidation, winding-up or dissolution of the Company; (ii) on parity with the Company's 8.075% Series A Cumulative Redeemable Preferred Stock (the "Series A Preferred Stock"), 9.375% Series C Cumulative Redeemable Preferred Stock (the "Series C Preferred Stock"), 9.250% Series D Cumulative Redeemable Preferred Stock (the "Series D Preferred Stock") and any class or series of equity securities of the Company expressly designated as ranking on a parity with the Series E Preferred Stock as to dividend rights and rights upon voluntary or involuntary liquidation, winding-up or dissolution of the Company; and (iii) junior to any class or series of equity securities of the Company expressly designated as ranking senior to the Series E Preferred Stock as to dividend rights and rights upon voluntary or involuntary liquidation, winding-up or dissolution of the Company. For purposes of these Articles Supplementary (which upon any restatement of the Charter shall be referred to, where appropriate, as the Series E Terms), the term "Parity Preferred Stock" shall be used to refer to the Series A Preferred Stock, the Series C Preferred Stock, the Series D Preferred Stock and any class or series of equity securities of the Company now or hereafter authorized, issued or outstanding expressly designated by the Company to rank on a parity with Series E Preferred Stock with respect to dividend rights and rights upon voluntary or involuntary liquidation, winding-up or dissolution of the Company. The term "equity securities" does not include debt securities, which will rank senior to the Series E Preferred Stock prior to conversion.

Section 3. Dividends.

(a) Payment of Dividends. Subject to the rights of holders of Parity Preferred Stock as to the payment of dividends and holders of equity securities ranking senior to the Series E Preferred Stock as to payment of dividends, holders of Series E Preferred Stock will be entitled to receive, when, as and if declared by the Board of Directors, out of funds legally available to the Company for the payment of dividends, cumulative preferential cash dividends at the rate per annum of 7.80% of the \$25 liquidation preference per share of Series E Preferred Stock. All dividends shall be cumulative, shall accrue from the original date of issuance and shall be payable (i) quarterly (such quarterly periods for purposes of payment and accrual will be the quarterly periods ending on the dates specified in this sentence and not calendar quarters) in arrears, on February 15, May 15, August 15 and November 15 of each year, commencing on the first of such dates to occur after the original date of issuance and, (ii) in the event of a redemption, on the redemption date (each a "Dividend Payment Date"). The amount of the dividend payable for any period will be computed on the basis of a 360-day year consisting of twelve 30-day months, and, for any period shorter than a full quarterly period for which dividends are computed, the amount of the dividend payable will be prorated and computed on

the basis of the actual number of days elapsed in such a period to ninety (90) days. If any date on which dividends are to be made on the Series E Preferred Stock is not a Business Day (as defined herein), then payment of the dividend to be made on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay) except that, if such Business Day is in the next succeeding calendar year, such payment shall be made on the immediately preceding Business Day, in each case with the same force and effect as if made on such date. Dividends on the Series E Preferred Stock will be made to the holders of record of the Series E Preferred Stock at the close of business on the relevant record dates, which, unless designated otherwise by the Board of Directors with respect to any dividend, will be fifteen (15) Business Days prior to the relevant Dividend Payment Date (each a "Dividend Record Date"). Notwithstanding any provision to the contrary contained herein, each outstanding share of Series E Preferred Stock shall be entitled to receive, and shall receive a dividend with respect to any Dividend Record Date equal to the dividend paid with respect to each other share of Series E Preferred Stock which is outstanding on such date.

The term "Business Day" shall mean each day, other than a Saturday or a Sunday, which is not a day on which banking institutions in New York, New York are authorized or required by law, regulation or executive order to close.

(b) Limitations on Dividends. No dividends on the Series E Preferred Stock shall be declared by the Board of Directors or paid or set apart for payment by the Company at such time as the terms and provisions of any agreement of the Company, including any agreement relating to its indebtedness, prohibits such declaration, payment or setting apart for payment or provides that such declaration, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such declaration, payment or setting apart for payment shall be restricted or prohibited by law.

(c) Dividends Cumulative. Notwithstanding the foregoing, dividends on the Series E Preferred Stock will accrue whether or not the terms and provisions set forth in Section 3(b) hereof at any time prohibit the current payment of dividends, whether or not the Company has earnings, whether or not there are funds legally available for the payment of such dividends and whether or not authorized or declared by the Board of Directors. Accrued but unpaid dividends on the Series E Preferred Stock will accumulate as of the Dividend Payment Date on which they first become payable. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividends on the Series E Preferred stock which may be in arrears. Any dividend made on the Series E Preferred Stock shall first be credited against the earliest accrued but unpaid dividend due with respect to such shares that remains payable.

(d) Priority as to Dividends.

(i) Unless all dividends accumulated on all Series E Preferred Stock and all classes and series of outstanding Parity Preferred Stock as to payment of dividends have been paid in full, (i) no dividend of cash or other property shall be authorized, declared, paid or set apart for payment on or with respect to any class or series of Common Stock, the Series B Preferred Stock or any class or series of other stock of the Company ranking junior as to the payment of dividends to the Series E Preferred Stock and any series of outstanding Parity Preferred Stock (such Common Stock or other junior stock, collectively, "Junior Stock"), and (ii)

no cash or other property shall be set aside for or applied to the purchase, redemption or other acquisition for consideration of any Series E Preferred Stock, any Parity Preferred Stock as to payment of dividends, or any Junior Stock. Without limiting Section 6(c) hereof, the foregoing sentence will not prohibit (i) dividends payable solely in Junior Stock, (ii) the conversion of Junior Stock or Parity Preferred Stock into Junior Stock, and (iii) the purchase by the Company of such Series E Preferred Stock, Parity Preferred Stock or Junior Stock pursuant to the Charter to the extent necessary to preserve the Company's status as a real estate investment trust.

(ii) So long as dividends have not been paid in full (and a sum sufficient for such full payment is not set apart for payment) upon the Series E Preferred Stock, all dividends authorized or declared upon the Series E Preferred Stock and all classes or series of outstanding Parity Preferred Stock as to the payment of dividends with the Series E Preferred Stock shall be authorized and declared pro rata so that the amount of dividends authorized and declared per share of Series E Preferred Stock and such other classes or series of outstanding Parity Preferred Stock shall in all cases bear to each other the same ratio that the sum of the liquidation preference plus accrued dividends per share on the Series E Preferred Stock bears to the sum of the liquidation preference plus accrued dividends per share on such other classes or series of outstanding Parity Preferred Stock (which, in any event, shall not include any accumulation in respect of unpaid dividends for prior dividend periods if such class or series of Parity Preferred Stock does not have cumulative dividend rights).

(e) No Further Rights. Holders of Series E Preferred Stock shall not be entitled to any dividends, whether payable in cash, other property or otherwise, in excess of the full cumulative dividends described herein.

(f) Capital Gain Dividend. If, for any taxable year, the Company elects to designate as a "capital gain dividend" (as defined in Section 857 of the Internal Revenue Code of 1986, as amended) any portion (the "Capital Gain Amount") of the total dividends (as determined for federal income tax purposes) paid or made available for the year to holders of all classes and series of capital stock of the Company, then the portion of the Capital Gain Amount that shall be allocable to holders of the Series E Preferred Stock shall be the same proportion that the total dividends (as determined for federal income tax purposes) paid or made available to the holders of the Series E Preferred Stock for the year bears to the total amount of dividends (as determined for federal income tax purposes) paid or made available to the holders of all classes of series of stock of the Company for such year.

Section 4. Liquidation Preference.

(a) Payment of Liquidating Distributions. Subject to the rights of holders of Parity Preferred Stock with respect to rights upon any voluntary or involuntary liquidation, dissolution or winding-up of the Company and subject to the rights of holders of any equity securities ranking senior to the Series E Preferred Stock with respect to rights upon any voluntary or involuntary liquidation, dissolution or winding-up of the Company, the holders of Series E Preferred Stock shall be entitled to receive out of the assets of the Company legally available for distribution or the proceeds thereof, after payment or provision for debts and other liabilities of the Company, but before any payment or distributions of the assets shall be made to holders of Common Stock or any other class or series of stock of the Company that ranks junior

to the Series E Preferred Stock as to rights upon liquidation, dissolution or winding-up of the Company, an amount equal to the sum of (i) a liquidation preference of \$25 per share of Series E Preferred Stock plus (ii) an amount equal to any accumulated and unpaid dividends thereon, whether or not declared, to the date of payment. In the event that, upon such voluntary or involuntary liquidation, dissolution or winding-up, there are insufficient assets to permit full payment of liquidating distributions to the holders of Series E Preferred Stock and any Parity Preferred Stock as to rights upon liquidation, dissolution or winding-up of the Company, all payments of liquidating distributions on the Series E Preferred Stock and such Parity Preferred Stock shall be made so that the payments on the Series E Preferred Stock and such Parity Preferred Stock shall in all cases bear to each other the same ratio that the sum of the liquidation preference plus accrued dividends per share on the Series E Preferred Stock bears to the sum of the liquidation preference plus accrued dividends per share on the other series of Parity Preferred Stock (which, in any event, shall not include any accumulation in respect of unpaid dividends for prior dividend periods if such Parity Preferred Stock does not have cumulative dividend rights).

(b) Notice. Written notice of any such voluntary or involuntary liquidation, dissolution or winding-up of the Company, stating the payment date or dates when, and the place or places where, the amounts distributable in such circumstances shall be payable, shall be given by (i) fax and (ii) by first class mail, postage pre-paid, not less than thirty (30) and not more than sixty (60) days prior to the payment date stated therein, to each record holder of the Series E Preferred Stock at the respective addresses of such holders as the same shall appear on the share transfer records of the Company.

(c) No Further Rights. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series E Preferred Stock will have no right or claim to any of the remaining assets of the Company.

(d) Consolidation, Merger or Certain Other Transactions. The voluntary sale, conveyance, lease, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all of the property or assets of the Company to, or the consolidation or merger or other business combination of the Company with or into any corporation, trust or other entity (or of any corporation, trust or other entity with or into the Company) shall not be deemed to constitute a liquidation, dissolution or winding-up of the Company.

(e) Permissible Distributions. In determining whether a distribution (other than upon voluntary or involuntary liquidation) by dividend, redemption or other acquisition of shares of stock of the Company or otherwise is permitted under the MGCL, no effect shall be given to amounts that would be needed, if the Company were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of holders of shares of stock of the Company whose preferential rights upon dissolution are superior to those receiving the distribution.

Section 5. Redemption.

(a) Optional Redemption. Subject to Section 7, the Series E Preferred Stock may not be redeemed prior to November 21, 2008; *provided, however,* that the foregoing shall not prevent the purchase by the Company of shares of Series E Preferred Stock in order to ensure that the Company continues to meet the requirements for qualification as a REIT for federal and state income tax purposes. On or after such date, the Company shall have the right to redeem the Series E Preferred Stock, in whole or in part, at any time or from time to time, upon not less than thirty (30) nor more than sixty (60) days written notice, at a redemption price, payable in cash, equal to \$25 per share of Series E Preferred Stock plus accumulated and unpaid dividends, whether or not declared, up to and including the date of redemption. Except with respect to a redemption to preserve REIT qualification, if fewer than all of the outstanding shares of Series E Preferred Stock are to be redeemed, the shares of Series E Preferred Stock to be redeemed shall be selected pro rata (as nearly as practicable without creating fractional shares) by lot or by any other equitable method determined by the Company.

(b) Limitation on Redemption. Subject to Section 7 hereof, the Company may not redeem fewer than all of the outstanding shares of Series E Preferred Stock unless all accumulated and unpaid dividends have been paid on all outstanding Series E Preferred Stock for all quarterly dividend periods terminating on or prior to the date of redemption; *provided, however,* that the foregoing shall not prevent the purchase by the Company of shares of Series E Preferred Stock in order to ensure that the Company continues to meet the requirements for qualification as a REIT for federal and state income tax purposes. So long as no dividends are in arrears, the Company shall be entitled at any time and from time to time to repurchase shares of Series E Preferred Stock in open-market transactions duly authorized by the Board of Directors and effected in compliance with applicable laws.

(c) Procedures for Redemption.

(i) Notice of redemption will be given by publication in a newspaper of general circulation in the City of New York, such publication to be made once a week for two successive weeks commencing not less than thirty (30) nor more than sixty (60) days prior to the redemption date. A similar notice will be mailed by the Company, postage prepaid, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, addressed to the respective holders of record of the Series E Preferred Stock to be redeemed at their respective addresses as they appear on the transfer records of the Company. No failure to give or defect in such notice shall affect the validity of the proceedings for the redemption of any Series E Preferred Stock except as to the holder to whom such notice was defective or not given. In addition to any information required by law or by the applicable rules of any exchange upon which the Series E Preferred Stock may be listed or admitted to trading, each such notice shall state: (i) the redemption date, (ii) the redemption price, (iii) the number of shares of Series E Preferred Stock to be redeemed, (iv) the place or places where the certificates evidencing shares of Series E Preferred Stock are to be surrendered for payment of the redemption price, (v) that dividends on the Series E Preferred Stock to be redeemed will cease to accumulate on such redemption date and (vi) that payment of the redemption price and any accumulated and unpaid dividends will be made upon presentation and surrender of such Series E Preferred Stock. If fewer than all of the shares of Series E Preferred Stock held by any holder are to be redeemed, the notice mailed to such holder shall also specify the number of shares of Series E Preferred Stock held by such holder to be redeemed.

(ii) If the Company gives a notice of redemption in respect of Series E Preferred Stock (which notice will be irrevocable) then, by 12:00 noon, New York City time, on the redemption date, the Company will deposit irrevocably in trust for the benefit of the Series E Preferred Stock being redeemed funds sufficient to pay the applicable redemption price, plus any accumulated and unpaid dividends, if any, on such shares to the date fixed for redemption (which if following the Dividend Record Date but preceding a Dividend Payment Date shall include accumulated and unpaid dividends through the applicable Dividend Payment Date), without interest, and will give irrevocable instructions and authority to pay such redemption price and any accumulated and unpaid dividends, whether or not declared, if any, on such shares to the holders of the Series E Preferred Stock upon surrender of the Series E Preferred Stock by such holders at the place designated in the notice of redemption. If less than all Series E Preferred Stock evidenced by any certificate is being redeemed, a new certificate shall be issued upon surrender of the certificate evidencing all Series E Preferred Stock, evidencing the unredeemed Series E Preferred Stock without cost to the holder thereof. On and after the date of redemption, dividends will cease to accumulate on the Series E Preferred Stock or portions thereof called for redemption, unless the Company defaults in the payment thereof. If any date fixed for redemption of Series E Preferred Stock is not a Business Day, then payment of the redemption price payable on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay) except that, if such Business Day falls in the next calendar year, such payment will be made on the immediately preceding Business Day, in each case with the same force and effect as if made on such date fixed for redemption. If payment of the redemption price or any accumulated or unpaid dividends in respect of the Series E Preferred Stock is improperly withheld or refused and not paid by the Company, dividends on such Series E Preferred Stock will continue to accumulate from the original redemption date to the date of payment, in which case the actual payment date will be considered the date fixed for redemption for purposes of calculating the applicable redemption price and any accumulated and unpaid dividends.

(iii) If redemption is to be by lot and, as a result, any holder of shares of Series E Preferred Stock would have actual ownership or Constructive Ownership (as defined in Section 7(a)) in excess of the Ownership Limit (as defined in Section 7(a)), or such other limit as permitted by the Board of Directors or the Committee pursuant to Section 7(i), because such holder's shares of Series E Preferred Stock were not redeemed, or were only redeemed in part, then, except as otherwise provided in the Charter, the Company shall redeem the requisite number of shares of Series E Preferred Stock of such holder such that no holder will hold an amount of Series E Preferred Stock in excess of the Ownership Limit or such other limit, as applicable, subsequent to such redemption.

(iv) The holders of shares of Series E Preferred Stock at the close of business on a Dividend Record Date will be entitled to receive dividends payable with respect to the shares of Series E Preferred Stock held on the corresponding Dividend Payment Date notwithstanding the redemption thereof between such Dividend Record Date and the corresponding Dividend Payment Date or the Company's default in the payment of such dividends. Except as provided above, the Company shall make no payment or allowance for any accumulated and unpaid dividends on the shares of Series E Preferred Stock to be redeemed.

(d) Status of Redeemed Stock. Any shares of Series E Preferred Stock that shall at any time have been redeemed shall, after such redemption, have the status of authorized but unissued Preferred Stock, without designation as to class or series until such shares are once more designated as part of a particular class or series by the Board of Directors.

Section 6. Voting Rights.

(a) General. Holders of the Series E Preferred Stock will not have any voting rights, except as set forth below.

(b) Right to Elect Directors.

(i) If at any time full dividends shall not have been timely made on any Series E Preferred Stock with respect to any six (6) prior quarterly dividend periods, whether or not consecutive, (a “Preferred Dividend Default”), the holders of such Series E Preferred Stock, voting together as a single class with the holders of each class or series of Parity Preferred Stock, which is on parity with the Series E Preferred Stock as to both dividend rights and rights upon voluntary or involuntary liquidation, dissolution or winding-up of the Company, upon which like voting rights have been conferred and are exercisable (collectively with the Series E Preferred Stock, the “Parity Securities”), will have the right to elect two additional directors to serve on the Company’s Board of Directors (the “Preferred Stock Directors”). The Preferred Stock Directors will be elected by a plurality of the votes cast in the election for a one-year term and each Preferred Stock Director will serve until his or her successor is duly elected and qualified or until such Preferred Stock Director’s right to hold the office terminates, whichever occurs earlier, subject to such Preferred Stock Director’s earlier death, disqualification, resignation or removal. The election will take place at (i) either (A) a special meeting called in accordance with Section 6(b)(ii) below if the request is received more than ninety (90) days before the date fixed for the Company’s next annual or special meeting of stockholders or (B) the next annual or special meeting of stockholders if the request is received within ninety (90) days of the date fixed for the Company’s next annual or special meeting of stockholders and (ii) at each subsequent annual meeting of stockholders or special meeting held in place thereof, until all such dividends in arrears and dividends for the current quarterly period on the Series E Preferred Stock and each such class or series of outstanding Parity Preferred Stock have been paid in full (or set apart for payment in full as described in Section 6(b)(iii) below). A dividend in respect of Series E Preferred Stock shall be considered timely made if made within two (2) Business Days after the applicable Dividend Payment if at the time of such late payment date there shall not be any prior quarterly dividend periods in respect of which full dividends were not timely made at the applicable Preferred Stock Dividend Date.

(ii) At any time when such voting rights shall have vested, a proper officer of the Company shall call or cause to be called, upon written request of holders of record of at least 10% of the outstanding shares of Series E Preferred Stock, a special meeting of the holders of Series E Preferred Stock and each class or series of other Parity Securities by mailing or causing to be mailed to such holders a notice of such special meeting to be held not less than ten and not more than forty-five (45) days after the date such notice is given. The record date for determining holders of the Parity Securities entitled to notice of and to vote at such special meeting will be the close of business on the third Business Day preceding the day on which such

notice is mailed. At any such annual or special meeting, all of the holders of the Series E Preferred Stock and other Parity Securities, by plurality vote, voting together as a single class without regard to class or series will be entitled to elect two directors on the basis of one vote per \$50 of liquidation preference to which such Parity Securities are entitled by their terms (excluding amounts in respect of accumulated and unpaid dividends) and not cumulatively. As a result, each share of Series E Preferred Stock will be entitled to one-half of a vote. The holder or holders of one-third of the Parity Securities then outstanding, present in person or by proxy, will constitute a quorum for the election of the Preferred Stock Directors except as otherwise provided by law. Notice of all meetings at which holders of the Series E Preferred Stock shall be entitled to vote will be given to such holders at their addresses as they appear in the transfer records. At any such meeting or adjournment thereof in the absence of a quorum, subject to the provisions of any applicable law, a majority of the holders of the Parity Securities present in person or by proxy shall have the power to adjourn the meeting for the election of the Preferred Stock Directors, without notice other than an announcement at the meeting, until a quorum is present. If a Preferred Dividend Default shall terminate after the notice of a special meeting has been given but before such special meeting has been held, the Company shall, as soon as practicable after such termination, mail or cause to be mailed notice of such termination to holders of the Series E Preferred Stock that would have been entitled to vote at such special meeting.

(iii) If and when all accumulated dividends and the dividend for the current dividend period on the Series E Preferred Stock shall have been paid in full or a sum sufficient for such payment is irrevocably deposited in trust for payment, the holders of the Series E Preferred Stock shall be divested of the voting rights set forth in Section 6(b) herein (subject to reversioning in the event of each and every Preferred Dividend Default) and, if all dividends in arrears and the dividends for the current dividend period have been paid in full or set aside for payment in full on all other classes or series of Parity Securities, the term of office of each Preferred Stock Director so elected shall terminate. Any Preferred Stock Director may be removed at any time with or without cause by the vote of, and shall not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding Series E Preferred Stock and other Parity Securities entitled to vote thereon when they have the voting rights set forth in Section 6(b) (voting separately as a single class with all other classes or series of Parity Securities). So long as a Preferred Dividend Default shall continue, any vacancy in the office of a Preferred Stock Director may be filled by written consent of the Preferred Stock Director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding Series E Preferred Stock and other Parity Securities entitled to vote thereon when they have the voting rights set forth in Section 6(b) (voting separately as a single class with all other classes or series of Parity Securities). The Preferred Stock Directors shall each be entitled to one vote per director on any matter.

(c) Certain Voting Rights. So long as any Series E Preferred Stock remains outstanding, the Company shall not, without the affirmative vote of the holders of at least two-thirds of the Series E Preferred Stock outstanding at the time (i) designate or create, or increase the authorized or issued amount of, any class or series of shares ranking senior to the Series E Preferred Stock with respect to dividend rights or rights upon liquidation, dissolution or winding-up or (ii) reclassify any authorized shares of the Company into any such shares, or create, authorize or issue any obligations or security convertible into or evidencing the right to purchase

any such shares referenced in clause (i) of this subsection (c), (iii) designate or create, or increase the authorized or issued amount of, any Parity Preferred Stock or reclassify any authorized shares of the Company into any such shares, or create, authorize or issue any obligations or security convertible into or evidencing the right to purchase any such shares, but only to the extent such Parity Preferred Stock is issued to an affiliate of the Company, or (iv) either (A) consolidate, merge into or with, or convey, transfer or lease its assets substantially as an entirety, to any corporation or other entity, or (B) amend, alter or repeal the provisions of the Company's Charter (including these Articles Supplementary) or Bylaws, whether by merger, consolidation or otherwise, in either (A) or (B) above in such a way that would materially and adversely affect the powers, special rights, preferences, privileges or voting power of the Series E Preferred Stock or the holders thereof; *provided, however*, that with respect to the occurrence of any event set forth in (iv) above, so long as (a) the Company is the surviving entity and the Series E Preferred Stock remains outstanding with the terms thereof unchanged or (b) the resulting, surviving or transferee entity is a corporation, business trust or other like entity organized under the laws of any state and substitutes for the Series E Preferred Stock other preferred stock having substantially the same terms and same rights as the Series E Preferred Stock, including with respect to dividends, voting rights and rights upon liquidation, dissolution or winding-up, then the occurrence of any such event shall not be deemed to materially and adversely affect the rights, privileges or voting powers of the Series E Preferred Stock or the holders thereof; and *provided, further*, that any increase in the amount of authorized Preferred Stock or the creation or issuance of any other class or series of Preferred Stock, or any increase in an amount of authorized shares of each class or series, in each case ranking either (a) junior to the Series E Preferred Stock with respect to dividend rights and rights upon liquidation, dissolution or winding-up or (b) on a parity with the Series E Preferred Stock with respect to dividend rights and rights upon liquidation, dissolution or winding-up of the Company to the extent such Preferred Stock is not issued to an affiliate of the Company, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers; and *provided, further*, that notwithstanding clauses (iii) or (iv) above, the Company may increase the authorized or issued amount of the Series E Preferred Stock and/or any Parity Preferred Stock, whether by amendment or supplementation of the Charter, these Articles Supplementary or otherwise, without any vote of the Series E Preferred Stock if all such additional shares (a) remain unissued, and/or (b) are issued to an underwriter in a public offering registered with the Securities and Exchange Commission. In any matter in which the holders of the Series E Preferred Stock shall be entitled to vote (as provided herein), including any action by written consent, each share of Series E Preferred Stock shall have one vote per share, except that when shares of any other series of preferred stock shall have the right to vote with the Series E Preferred Stock as a single class on any matter, then the Series E Preferred Stock and such other series shall have with respect to such matters one vote per \$50.00 of stated liquidation preference, resulting in each share of Series E Preferred Stock being entitled to one-half of a vote.

(d) No Voting Rights After Redemption. The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required would occur, all outstanding shares of Series E Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

Section 7. Restrictions on Ownership and Transfer to Preserve Tax Benefit.

(a) Definitions. For the purposes of Section 5 and this Section 7 of these Articles Supplementary, the following terms shall have the following meanings:

“Beneficial Ownership” shall mean ownership of Series E Preferred Stock by a Person who is or would be treated as an owner of such Series E Preferred Stock either actually or constructively through the application of Section 544 of the Code, as modified by Section 856(h)(1)(B) of the Code. The terms “Beneficial Owner,” “Beneficially Owns” and “Beneficially Owned” shall have the correlative meanings.

“Charitable Beneficiary” shall mean one or more beneficiaries of a Trust, as determined pursuant to Section 7(c)(vi) of these Articles Supplementary, each of which shall be an organization described in Sections 170(b)(1)(A), 170(c)(2) and 501(c)(3) of the Code.

“Code” shall mean the Internal Revenue Code of 1986, as amended. All section references to the Code shall include any successor provisions thereof as may be adopted from time to time.

“Constructive Ownership” shall mean ownership of Series E Preferred Stock by a Person who is or would be treated as an owner of such Series E Preferred Stock either actually or constructively through the application of Section 318 of the Code, as modified by Section 856(d)(5) of the Code. The terms “Constructive Owner,” “Constructively Owns” and “Constructively Owned” shall have the correlative meanings.

“Individual” means an individual, a trust qualified under Section 401(a) or 501(c)(17) of the Code, a portion of a trust permanently set aside for or to be used exclusively for the purposes described in Section 642(c) of the Code, or a private foundation within the meaning of Section 509(a) of the Code, provided that a trust described in Section 401(a) of the Code and exempt from tax under Section 501(a) of the Code shall be excluded from this definition.

“IRS” means the United States Internal Revenue Service.

“Market Price” shall mean the last reported sales price reported on the New York Stock Exchange of the Series E Preferred Stock on the trading day immediately preceding the relevant date, or if the Series E Preferred Stock is not then traded on the New York Stock Exchange, the last reported sales price of the Series E Preferred Stock on the trading day immediately preceding the relevant date as reported on any exchange or quotation system over which the Series E Preferred Stock may be traded, or if the Series E Preferred Stock is not then traded over any exchange or quotation system, the market price of the Series E Preferred Stock on the relevant date as determined in good faith by the Board of Directors of the Company.

“Ownership Limit” shall mean 9.8% (by value or number of shares, whichever is more restrictive) of the outstanding shares of Series E Preferred Stock of the Company. The number and value of shares of outstanding Series E Preferred Stock of the Company shall be determined by the Board of Directors in good faith, which determination shall be conclusive for all purposes hereof.

“Person” shall mean an Individual, corporation, partnership, limited liability company, estate, trust (including a trust qualified under Section 401(a) or 501(c)(17) of the Code), a portion of a trust permanently set aside for or to be used exclusively for the purposes described in Section 642(c) of the Code, association, private foundation within the meaning of Section 509(a) of the Code, joint stock company or other entity; but does not include an underwriter acting in a capacity as such in a public offering of shares of Series E Preferred Stock provided that the ownership of such shares of Series E Preferred Stock by such underwriter would not result in the Company being “closely held” within the meaning of Section 856(h) of the Code, or otherwise result in the Company failing to qualify as a REIT.

“Purported Beneficial Transferee” shall mean, with respect to any purported Transfer (or other event) which results in a transfer to a Trust, as provided in Section 7(b)(ii) of these Articles Supplementary, the Purported Record Transferee, unless the Purported Record Transferee would have acquired or owned shares of Series E Preferred Stock for another Person who is the beneficial transferee or beneficial owner of such shares, in which case the Purported Beneficial Transferee shall be such Person.

“Purported Record Transferee” shall mean, with respect to any purported Transfer (or other event) which results in a transfer to a Trust, as provided in Section 7(b)(ii) of these Articles Supplementary, the record holder of the Series E Preferred Stock if such Transfer had been valid under Section 7(b)(i) of these Articles Supplementary.

“REIT” shall mean a real estate investment trust under Sections 856 through 860 of the Code and, for purposes of taxation of the Company under applicable state law, comparable provisions of the law of such state.

“Restriction Termination Date” shall mean the first day after the date hereof on which the Board of Directors of the Company determines that it is no longer in the best interests of the Company to attempt to, or continue to, qualify as a REIT.

“Transfer” shall mean any sale, issuance, transfer, gift, assignment, devise or other disposition of Series E Preferred Stock as well as any other event that causes any Person to Beneficially Own or Constructively Own Series E Preferred Stock, including (i) the granting of any option or entering into any agreement for the sale, transfer or other disposition of Series E Preferred Stock or (ii) the sale, transfer, assignment or other disposition of any securities (or rights convertible into or exchangeable for Series E Preferred Stock), whether voluntary or involuntary, whether such transfer has occurred of record or beneficially or

Beneficially or Constructively (including but not limited to transfers of interests in other entities which result in changes in Beneficial or Constructive Ownership of Series E Preferred Stock), and whether such transfer has occurred by operation of law or otherwise.

“Trust” shall mean each of the trusts provided for in Section 7(c) of these Articles Supplementary.

“Trustee” shall mean any Person unaffiliated with the Company, or a Purported Beneficial Transferee, or a Purported Record Transferee, that is appointed by the Company to serve as trustee of a Trust.

(b) Restriction on Ownership and Transfers.

(i) Prior to the Restriction Termination Date:

(A) except as provided in Section 7(i) of these Articles Supplementary, no Person shall Beneficially Own Series E Preferred Stock in excess of the Ownership Limit;

(B) except as provided in Section 7(i) of these Articles Supplementary, no Person shall Constructively Own Series E Preferred Stock in excess of the Ownership Limit;

(C) no Person shall Beneficially or Constructively Own Series E Preferred Stock which, taking into account any other capital stock of the Company Beneficially or Constructively Owned by such Person, would result in the Company being “closely held” within the meaning of Section 856(h) of the Code, or otherwise failing to qualify as a REIT (including but not limited to Beneficial or Constructive Ownership that would result in the Company owning (actually or Constructively) an interest in a tenant that is described in Section 856(d)(2)(B) of the Code if the income derived by the Company (either directly or indirectly through one or more subsidiaries) from such tenant would cause the Company to fail to satisfy any of the gross income requirements of Section 856(c) of the Code or comparable provisions of state law).

(ii) If, prior to the Restriction Termination Date, any Transfer (whether or not such Transfer is the result of a transaction entered into through the facilities of the New York Stock Exchange (“NYSE”)) or other event occurs that, if effective, would result in any Person Beneficially or Constructively Owning Series E Preferred Stock in violation of Section 7(b)(i) of these Articles Supplementary, (i) then that number of shares of Series E Preferred Stock that otherwise would cause such Person to violate Section 7(b)(i) of these Articles Supplementary (rounded up to the nearest whole share) shall be automatically transferred to a Trust for the benefit of a Charitable Beneficiary, as described in Section 7(c), effective as of the close of business on the Business Day prior to the date of such Transfer or other event, and such Purported Beneficial Transferee shall thereafter have no rights in such shares or (ii) if, for any reason, the transfer to the Trust described in clause (i) of this sentence is not automatically

effective as provided therein to prevent any Person from Beneficially or Constructively Owning Series E Preferred Stock in violation of Section 7(b)(i) of these Articles Supplementary, then the Transfer of that number of shares of Series E Preferred Stock that otherwise would cause any Person to violate Section 7(b)(i) shall be void *ab initio*, and the Purported Beneficial Transferee shall have no rights in such shares.

(iii) Subject to Section 7(l) and notwithstanding any other provisions contained herein, prior to the Restriction Termination Date, any Transfer of Series E Preferred Stock (whether or not such Transfer is the result of a transaction entered into through the facilities of the NYSE) that, if effective, would result in the capital stock of the Company being beneficially owned by less than 100 Persons (determined without reference to any rules of attribution) shall be void *ab initio*, and the intended transferee shall acquire no rights in such Series E Preferred Stock.

(c) Transfers of Series E Preferred Stock in Trust.

(i) Upon any purported Transfer or other event described in Section 7(b)(ii) of these Articles Supplementary, such Series E Preferred Stock shall be deemed to have been transferred to the Trustee in his capacity as trustee of a Trust for the exclusive benefit of one or more Charitable Beneficiaries. Such transfer to the Trustee shall be deemed to be effective as of the close of business on the Business Day prior to the purported Transfer or other event that results in a transfer to the Trust pursuant to Section 7(b)(ii). The Trustee shall be appointed by the Company and shall be a Person unaffiliated with the Company, any Purported Beneficial Transferee or any Purported Record Transferee. Each Charitable Beneficiary shall be designated by the Company as provided in Section 7(c)(vi) of these Articles Supplementary.

(ii) Series E Preferred Stock held by the Trustee shall be issued and outstanding Series E Preferred Stock of the Company. The Purported Beneficial Transferee or Purported Record Transferee shall have no rights in the shares of the Series E Preferred Stock held by the Trustee. The Purported Beneficial Transferee or Purported Record Transferee shall not benefit economically from ownership of any shares held in trust by the Trustee, shall have no rights to dividends and shall not possess any rights to vote or other rights attributable to the shares of Series E Preferred Stock held in the Trust.

(iii) The Trustee shall have all voting rights and rights to dividends with respect to Series E Preferred Stock held in the Trust, which rights shall be exercised for the exclusive benefit of the Charitable Beneficiary. Any dividend or distribution paid to or on behalf of the Purported Record Transferee or Purported Beneficial Transferee prior to the discovery by the Company that shares of Series E Preferred Stock have been transferred to the Trustee shall be paid to the Trustee upon demand, and any dividend or distribution declared but unpaid shall be paid when due to the Trustee with respect to such Series E Preferred Stock. Any dividends or distributions so paid over to the Trustee shall be held in trust for the Charitable Beneficiary. The Purported Record Transferee and Purported Beneficial Transferee shall have no voting rights with respect to the Series E Preferred Stock held in the Trust and, subject to Maryland law, effective as of the date the Series E Preferred Stock has been transferred to the Trustee, the Trustee shall have the authority (at the Trustee's sole discretion) (i) to rescind as void any vote cast by a Purported Record Transferee with respect to such Series E Preferred Stock prior to the

discovery by the Company that the Series E Preferred Stock has been transferred to the Trustee and (ii) to recast such vote in accordance with the desires of the Trustee acting for the benefit of the Charitable Beneficiary; *provided, however*, that if the Company has already taken irreversible corporate action, then the Trustee shall not have the authority to rescind and recast such vote. Notwithstanding any other provision of these Articles Supplementary to the contrary, until the Company has received notification that the Series E Preferred Stock has been transferred into a Trust, the Company shall be entitled to rely on its share transfer and other stockholder records for purposes of preparing lists of stockholders entitled to vote at meetings, determining the validity and authority of proxies and otherwise conducting votes of stockholders.

(iv) Within twenty (20) days of receiving notice from the Company that shares of Series E Preferred Stock have been transferred to the Trust, the Trustee of the Trust shall sell the shares of Series E Preferred Stock held in the Trust to a Person, designated by the Trustee, whose ownership of the shares of Series E Preferred Stock will not violate the ownership limitations set forth in Section 7(b)(i). Upon such sale, the interest of the Charitable Beneficiary in the shares of Series E Preferred Stock sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Purported Record Transferee and to the Charitable Beneficiary as provided in this Section 7(c)(iv). The Purported Record Transferee shall receive the lesser of (i) the price paid by the Purported Record Transferee for the shares of Series E Preferred Stock in the transaction that resulted in such transfer to the Trust (or, if the event which resulted in the transfer to the Trust did not involve a purchase of such shares of Series E Preferred Stock at Market Price, the Market Price of such shares of Series E Preferred Stock on the day of the event which resulted in the transfer of such shares of Series E Preferred Stock to the Trust) and (ii) the price per share received by the Trustee (net of any commissions and other expenses of sale) from the sale or other disposition of the shares of Series E Preferred Stock held in the Trust. Any net sales proceeds in excess of the amount payable to the Purported Record Transferee shall be immediately paid to the Charitable Beneficiary together with any dividends or other distributions thereon. If, prior to the discovery by the Company that shares of such Series E Preferred Stock have been transferred to the Trustee, such shares of Series E Preferred Stock are sold by a Purported Record Transferee then (i) such shares of Series E Preferred Stock shall be deemed to have been sold on behalf of the Trust and (ii) to the extent that the Purported Record Transferee received an amount for such shares of Series E Preferred Stock that exceeds the amount that such Purported Record Transferee was entitled to receive pursuant to this Section 7(c)(iv), such excess shall be paid to the Trustee upon demand.

(v) Series E Preferred Stock transferred to the Trustee shall be deemed to have been offered for sale to the Company, or its designee, at a price per share equal to the lesser of (i) the price paid by the Purported Record Transferee for the shares of Series E Preferred Stock in the transaction that resulted in such transfer to the Trust (or, if the event which resulted in the transfer to the Trust did not involve a purchase of such shares of Series E Preferred Stock at Market Price, the Market Price of such shares of Series E Preferred Stock on the day of the event which resulted in the transfer of such shares of Series E Preferred Stock to the Trust) and (ii) the Market Price on the date the Company, or its designee, accepts such offer. The Company shall have the right to accept such offer until the Trustee has sold the shares of Series E Preferred Stock held in the Trust pursuant to Section 7(c)(iv). Upon such a sale to the Company, the interest of the Charitable Beneficiary in the shares of Series E Preferred Stock sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Purported Record Transferee and any dividends or other distributions held by the Trustee with respect to such Series E Preferred Stock shall thereupon be paid to the Charitable Beneficiary.

(vi) By written notice to the Trustee, the Company shall designate one or more nonprofit organizations to be the Charitable Beneficiary of the interest in the Trust such that the Series E Preferred Stock held in the Trust would not violate the restrictions set forth in Section 7(b)(i) in the hands of such Charitable Beneficiary.

(d) Remedies For Breach. If the Board of Directors or a committee thereof or other designees if permitted by the MGCL shall at any time determine in good faith that a Transfer or other event has taken place in violation of Section 7(b) of these Articles Supplementary or that a Person intends to acquire, has attempted to acquire or may acquire beneficial ownership (determined without reference to any rules of attribution), Beneficial Ownership or Constructive Ownership of any shares of Series E Preferred Stock of the Company in violation of Section 7(b) of these Articles Supplementary, the Board of Directors or the Committee or other designees if permitted by the MGCL shall take such action as it deems advisable to refuse to give effect or to prevent such Transfer, including, but not limited to, causing the Company to redeem shares of Series E Preferred Stock, refusing to give effect to such Transfer on the books of the Company or instituting proceedings to enjoin such Transfer; *provided, however*, that any Transfers (or, in the case of events other than a Transfer, ownership or Constructive Ownership or Beneficial Ownership) in violation of Section 7(b)(i) of these Articles Supplementary, shall automatically result in the transfer to a Trust as described in Section 7(b)(ii) and any Transfer in violation of Section 7(b)(iii) shall automatically be void *ab initio* irrespective of any action (or non-action) by the Board of Directors.

(e) Notice of Restricted Transfer. Any Person who acquires or attempts to acquire shares of Series E Preferred Stock in violation of Section 7(b) of these Articles Supplementary, or any Person who is a Purported Beneficial Transferee such that an automatic transfer to a Trust results under Section 7(b)(ii) of these Articles Supplementary, shall immediately give written notice to the Company of such event and shall provide to the Company such other information as the Company may request in order to determine the effect, if any of such Transfer or attempted Transfer on the Company's status as a REIT.

(f) Owners Required To Provide Information. Prior to the Restriction Termination Date each Person who is a beneficial owner or Beneficial Owner or Constructive Owner of Series E Preferred Stock and each Person (including the shareholder of record) who is holding Series E Preferred Stock for a beneficial owner or Beneficial Owner or Constructive Owner shall provide to the Company such information that the Company may request, in good faith, in order to determine the Company's status as a REIT.

(g) Remedies Not Limited. Nothing contained in these Articles Supplementary (but subject to Section 7(l) of these Articles Supplementary) shall limit the authority of the Board of Directors to take such other action as it deems necessary or advisable to protect the Company and the interests of its shareholders by preservation of the Company's status as a REIT.

(h) Ambiguity. In the case of an ambiguity in the application of any of the provisions of this Section 7 of these Articles Supplementary, including any definition contained in Section 7(a), the Board of Directors shall have the power to determine the application of the provisions of this Section 7 with respect to any situation based on the facts known to it (subject, however, to the provisions of Section 7(l) of these Articles Supplementary). In the event Section 7 requires an action by the Board of Directors and these Articles Supplementary fail to provide specific guidance with respect to such action, the Board of Directors shall have the power to determine the action to be taken so long as such action is not contrary to the provisions of Section 7. Absent a decision to the contrary by the Board of Directors (which the Board of Directors may make in its sole and absolute discretion), if a Person would have (but for the remedies set forth in Section 7(b)) acquired Beneficial or Constructive Ownership of Series E Preferred Stock in violation of Section 7(b)(i), such remedies (as applicable) shall apply first to the shares of Series E Preferred Stock which, but for such remedies, would have been actually owned by such Person, and second to shares of Series E Preferred Stock, which, but for such remedies, would have been Beneficially Owned or Constructively Owned (but not actually owned) by such Person, pro rata among the Persons who actually own such shares of Series E Preferred Stock based upon the relative number of the shares of Series E Preferred Stock held by each such Person.

(i) Exceptions.

(i) Subject to Section 7(b)(i)(C), the Board of Directors, or the committee of the Board of Directors appointed by the Board of Directors by resolutions duly adopted on September 26, 2003 and delegated with the authority to classify, designate, set the terms and conditions and authorize the issuance of the shares of Series E Preferred Stock (the “Committee”), in its sole discretion, may exempt (prospectively or retroactively) a Person from the limitation on a Person Beneficially Owning shares of Series E Preferred Stock in violation of Section 7(b)(i)(A) if the Board of Directors or the Committee, as applicable, determines that such exemption will not cause the Company to fail to qualify as a REIT under the Code.

(ii) Subject to Section 7(b)(i)(C), the Board of Directors or the Committee, as applicable, in its sole discretion, may exempt (prospectively or retroactively) a Person from the limitation on a Person Constructively Owning Series E Preferred Stock in violation of Section 7(b)(i)(B), if the Board of Directors or the Committee, as applicable, determines that such ownership would not cause the Company to fail to qualify as a REIT under the Code.

(iii) Subject to Section 7(b)(i)(C) and the remainder of this Section 7(i)(iii), the Board of Directors or the Committee, as applicable, may from time to time increase or decrease the Ownership Limit; *provided, however*, that the decreased Ownership Limit will not be effective for any Person whose percentage ownership in Series E Preferred Stock is in excess of such decreased Ownership Limit until such time as such Person’s percentage of Series E Preferred Stock equals or falls below the decreased Ownership Limit, but any further acquisition of Series E Preferred Stock in excess of such percentage ownership of Series E Preferred Stock will be in violation of the Ownership Limit, and, provided further, that the new Ownership Limit would not allow five or fewer Persons to Beneficially Own more than 49% in value of the outstanding capital stock of the Company.

(iv) In granting a person an exemption under Section 7(i)(i) or (ii) above, the Board of Directors or the Committee, as applicable, may require such Person to make certain representations or undertakings or to agree that any violation or attempted violation of such representations or undertakings (or other action which is contrary to the restrictions contained in Section 7(b)(i) or (ii) of these Articles Supplementary) will result in such Series E Preferred Stock being transferred to a Trust in accordance with Section 7(b)(ii) of these Articles Supplementary. In granting any exception pursuant to Section 7(i)(i) or (ii) of these Articles Supplementary, the Board of Directors or the Committee, as applicable, may require a ruling from the IRS, or an opinion of counsel, in either case in form and substance satisfactory to the Board of Directors or the Committee, as applicable, in its sole discretion, as it may deem necessary or advisable in order to determine or ensure the Company's status as a REIT.

(j) Legends. Each certificate for Series E Preferred Stock shall bear substantially the following legends in addition to any legends required to comply with federal and state securities laws:

Classes of Stock

THE COMPANY IS AUTHORIZED TO ISSUE CAPITAL STOCK OF MORE THAN ONE CLASS, CONSISTING OF COMMON STOCK AND ONE OR MORE CLASSES OF PREFERRED STOCK. THE BOARD OF DIRECTORS IS AUTHORIZED TO DETERMINE THE PREFERENCES, LIMITATIONS AND RELATIVE RIGHTS OF ANY CLASS OF THE PREFERRED STOCK BEFORE THE ISSUANCE OF SHARES OF SUCH CLASS OF PREFERRED STOCK. THE COMPANY WILL FURNISH, WITHOUT CHARGE, TO ANY STOCKHOLDER MAKING A WRITTEN REQUEST THEREFOR, A COPY OF THE COMPANY'S CHARTER AND A WRITTEN STATEMENT OF THE DESIGNATIONS, RELATIVE RIGHTS, PREFERENCES, CONVERSION OR OTHER RIGHTS, VOTING POWERS, RESTRICTIONS, LIMITATIONS AS TO DIVIDENDS AND OTHER DISTRIBUTIONS, QUALIFICATIONS AND TERMS AND CONDITIONS OF REDEMPTION OF THE STOCK OF EACH CLASS WHICH THE COMPANY HAS THE AUTHORITY TO ISSUE AND, IF THE COMPANY IS AUTHORIZED TO ISSUE ANY PREFERRED OR SPECIAL CLASS AND SERIES, (i) THE DIFFERENCES IN THE RELATIVE RIGHTS AND PREFERENCES BETWEEN THE SHARES OF EACH SERIES TO THE EXTENT SET, AND (ii) THE AUTHORITY OF THE BOARD OF DIRECTORS TO SET SUCH RIGHTS AND PREFERENCES OF SUBSEQUENT SERIES. REQUESTS FOR SUCH WRITTEN STATEMENT MAY BE DIRECTED TO THE SECRETARY OF THE COMPANY AT ITS PRINCIPAL OFFICE.

Restriction on Ownership and Transfer

THE SHARES OF SERIES E PREFERRED STOCK REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON BENEFICIAL AND CONSTRUCTIVE OWNERSHIP AND TRANSFER FOR THE PURPOSE OF THE COMPANY'S MAINTENANCE OF ITS STATUS AS A REAL ESTATE

INVESTMENT TRUST UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"). SUBJECT TO CERTAIN FURTHER RESTRICTIONS AND EXCEPT AS EXPRESSLY PROVIDED IN THE ARTICLES SUPPLEMENTARY FOR THE SERIES E PREFERRED STOCK, (i) NO PERSON MAY BENEFICIALLY OWN SHARES OF THE COMPANY'S SERIES E PREFERRED STOCK IN EXCESS OF 9.8% (BY VALUE OR BY NUMBER OF SHARES, WHICHEVER IS MORE RESTRICTIVE) OF THE OUTSTANDING SERIES E PREFERRED STOCK OF THE COMPANY; (ii) NO PERSON MAY CONSTRUCTIVELY OWN SHARES OF THE COMPANY'S SERIES E PREFERRED STOCK IN EXCESS OF 9.8% (BY VALUE OR BY NUMBER OF SHARES, WHICHEVER IS MORE RESTRICTIVE) OF THE OUTSTANDING SERIES E PREFERRED STOCK OF THE COMPANY; (iii) NO PERSON MAY BENEFICIALLY OR CONSTRUCTIVELY OWN SERIES E PREFERRED STOCK THAT, TAKING INTO ACCOUNT ANY OTHER CAPITAL STOCK OF THE COMPANY BENEFICIALLY OR CONSTRUCTIVELY OWNED BY SUCH PERSON, WOULD RESULT IN THE COMPANY BEING "CLOSELY HELD" UNDER SECTION 856(h) OF THE CODE OR OTHERWISE CAUSE THE COMPANY TO FAIL TO QUALIFY AS A REIT; AND (iv) NO PERSON MAY TRANSFER SERIES E PREFERRED STOCK IF SUCH TRANSFER WOULD RESULT IN THE CAPITAL STOCK OF THE COMPANY BEING OWNED BY FEWER THAN 100 PERSONS. ANY PERSON WHO BENEFICIALLY OR CONSTRUCTIVELY OWNS OR ATTEMPTS TO BENEFICIALLY OR CONSTRUCTIVELY OWN SERIES E PREFERRED STOCK WHICH CAUSES OR WILL CAUSE A PERSON TO BENEFICIALLY OR CONSTRUCTIVELY OWN SERIES E PREFERRED STOCK IN EXCESS OF THE ABOVE LIMITATIONS MUST IMMEDIATELY NOTIFY THE COMPANY. IF ANY OF THE RESTRICTIONS ON TRANSFER OR OWNERSHIP ARE VIOLATED, THE SERIES E PREFERRED STOCK REPRESENTED HEREBY IN EXCESS OF SUCH RESTRICTIONS WILL BE AUTOMATICALLY TRANSFERRED TO THE TRUSTEE OF A TRUST FOR THE BENEFIT OF ONE OR MORE CHARITABLE BENEFICIARIES. IN ADDITION, THE COMPANY MAY REDEEM SHARES UPON THE TERMS AND CONDITIONS SPECIFIED BY THE BOARD OF DIRECTORS IN ITS SOLE DISCRETION IF THE BOARD OF DIRECTORS DETERMINES THAT OWNERSHIP OR A TRANSFER OR OTHER EVENT MAY VIOLATE THE RESTRICTIONS DESCRIBED ABOVE. FURTHERMORE, UPON THE OCCURRENCE OF CERTAIN EVENTS, ATTEMPTED TRANSFERS IN VIOLATION OF THE RESTRICTIONS DESCRIBED ABOVE MAY BE VOID *AB INITIO*. ALL TERMS IN THIS LEGEND WHICH ARE DEFINED IN THE ARTICLES SUPPLEMENTARY FOR THE SERIES E PREFERRED STOCK SHALL HAVE THE MEANINGS ASCRIBED TO THEM IN SUCH ARTICLES SUPPLEMENTARY, AS THE SAME MAY BE AMENDED FROM TIME TO TIME, A COPY OF WHICH, INCLUDING THE RESTRICTIONS ON TRANSFER AND OWNERSHIP, WILL BE FURNISHED TO EACH HOLDER OF SERIES E PREFERRED STOCK ON REQUEST AND WITHOUT CHARGE. REQUESTS FOR SUCH A COPY MAY BE DIRECTED TO THE SECRETARY OF THE COMPANY AT ITS PRINCIPAL OFFICE.

(k) Severability. If any provision of this Section 7 or any application of any such provision is determined to be invalid by any Federal or state court having jurisdiction over the issues, the validity of the remaining provisions shall not be affected and other applications of such provision shall be affected only to the extent necessary to comply with the determination of such court.

(l) NYSE. Nothing in this Section 7 shall preclude the settlement of any transaction entered into through the facilities of the NYSE. The shares of Series E Preferred Stock that are the subject of such transaction shall continue to be subject to the provisions of this Section 7 after such settlement.

(m) Applicability of Section 7. The provisions set forth in this Section 7 shall apply to the Series E Preferred Stock notwithstanding any contrary provisions of the Series E Preferred Stock provided for elsewhere in these Articles Supplementary.

Section 8. No Conversion Rights. The holders of the Series E Preferred Stock shall not have any rights to convert such shares into shares of any other class or series of stock or into any other securities of, or interest in, the Company.

Section 9. No Maturity or Sinking Fund. The Series E Preferred Stock has no maturity date, and no sinking fund has been established for the retirement or redemption of Series E Preferred Stock.

Section 10. No Preemptive Rights. No holder of the Series E Preferred Stock of the Company shall, as such holder, have any preemptive rights to purchase or subscribe for additional shares of stock of the Company or any other security of the Company which it may issue or sell.

FOURTH: The Series E Preferred Stock have been classified and designated by the Board of Directors under the authority contained in the Charter.

FIFTH: These Articles Supplementary have been approved by the Board in the manner and by the vote required by law.

SIXTH: These Articles Supplementary shall be effective at the time the State Department of Assessment and Taxation of Maryland accepts these Articles Supplementary for the record.

SEVENTH: The undersigned Senior Vice President of the Company acknowledges these Articles Supplementary to be the corporate act of the Company and, as to all matters or facts required to be verified under oath, the undersigned Senior Vice President acknowledges that to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

IN WITNESS WHEREOF, the Company has caused these Articles Supplementary to be executed under seal in its name and on its behalf by its Senior Vice President and attested to by its Secretary on this 22nd day of October, 2003.

KILROY REALTY CORPORATION

By: /s/ Tyler H. Rose

Name: Tyler H. Rose

Title: Senior Vice President and Treasurer

[SEAL]

ATTEST:

/s/ Richard E. Moran, Jr.

Richard E. Moran, Jr.

Executive Vice President, Chief Financial
Officer and Secretary

EXHIBIT III

7.50% Series F Cumulative Redeemable Preferred Stock

KILROY REALTY CORPORATION

ARTICLES SUPPLEMENTARY

3,450,000 SHARES OF

7.50% SERIES F CUMULATIVE REDEEMABLE PREFERRED STOCK

Kilroy Realty Corporation, a Maryland corporation (the “Company”), hereby certifies to the State Department of Assessments and Taxation of Maryland (the “Department”) that:

FIRST: Pursuant to the authority expressly vested in the Board of Directors of the Company (the “Board of Directors”) by Article IV of the Articles of Amendment and Restatement of the Company filed with the Department on January 21, 1997, as amended and supplemented (the “Charter”), and Section 2-105 of the MARYLAND GENERAL CORPORATION LAW (the “MGCL”), the Board of Directors, by resolutions duly adopted on September 30, 2004, has authorized the classification and designation of up to 4,600,000 shares of the authorized but unissued preferred stock of the Company, par value \$.01 per share (“Preferred Stock”), as a separate class of Preferred Stock and the issuance of a maximum of 4,600,000 shares of such class of Preferred Stock, and pursuant to the powers contained in the Bylaws of the Company and the MGCL, appointed a committee (the “Committee”) of the Board of Directors and delegated to the Committee, to the fullest extent permitted by the MGCL and the Charter and Bylaws of the Company, all powers of the Board of Directors with respect to classifying, designating, and setting the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications and terms and conditions of redemption and other terms and conditions of, such class of Preferred Stock, and determining the number of shares of such class of Preferred Stock (not in excess of the aforesaid maximum number) to be classified and issued and the consideration and other terms and conditions upon which such shares of such class of Preferred Stock are to be issued.

SECOND: Pursuant to the authority conferred upon the Committee as aforesaid, the Committee has unanimously adopted resolutions classifying and designating 3,450,000 shares of the authorized but unissued Preferred Stock as a separate class of Preferred Stock to be known as the “7.50% Series F Cumulative Redeemable Preferred Stock,” setting the preferences, conversion and other rights, voting powers, restrictions, limitations as to dividends, qualifications, terms and conditions of redemption and other terms and conditions of such 7.50% Series F Cumulative Redeemable Preferred Stock and authorizing the issuance of up to 3,450,000 shares of 7.50% Series F Cumulative Redeemable Preferred Stock.

THIRD: The designation, number of shares, preferences, rights, voting powers, restrictions, limitations as to dividends and other distributions, qualifications, terms and conditions of redemption and other terms and conditions of the separate class of Preferred Stock of the Company designated as 7.50% Series F Cumulative Redeemable Preferred Stock are as follows (the “Series F Terms”), which upon any restatement of the Charter shall be made a part of or incorporated by reference into the Charter with any necessary or appropriate changes to the enumeration or lettering of sections or subsections thereof:

Section 1. Designation and Number. A series of Preferred Stock, designated the “7.50% Series F Cumulative Redeemable Preferred Stock” (the “Series F Preferred Stock”) is hereby established. The number of shares of Series F Preferred Stock shall be 3,450,000.

Section 2. Rank. The Series F Preferred Stock will, with respect to dividend rights and rights upon voluntary or involuntary liquidation, winding-up or dissolution of the Company, rank: (i) senior to all classes or series of the Company's common stock, par value \$.01 per share (the "Common Stock"), the Company's Series B Junior Participating Preferred Stock (the "Series B Preferred Stock") and all classes or series of equity securities of the Company now or hereafter authorized, issued or outstanding expressly designated as ranking junior to the Series F Preferred Stock as to dividend rights and rights upon voluntary or involuntary liquidation, winding-up or dissolution of the Company; (ii) on parity with the Company's 8.075% Series A Cumulative Redeemable Preferred Stock (the "Series A Preferred Stock"), 9.250% Series D Cumulative Redeemable Preferred Stock (the "Series D Preferred Stock"), 7.80% Series E Cumulative Redeemable Preferred Stock (the "Series E Preferred Stock") and any class or series of equity securities of the Company expressly designated as ranking on a parity with the Series F Preferred Stock as to dividend rights and rights upon voluntary or involuntary liquidation, winding-up or dissolution of the Company; and (iii) junior to any class or series of equity securities of the Company expressly designated as ranking senior to the Series F Preferred Stock as to dividend rights and rights upon voluntary or involuntary liquidation, winding-up or dissolution of the Company. For purposes of these Articles Supplementary (which upon any restatement of the Charter shall be referred to, where appropriate, as the Series F Terms), the term "Parity Preferred Stock" shall be used to refer to the Series A Preferred Stock, the Series D Preferred Stock, the Series E Preferred Stock and any class or series of equity securities of the Company now or hereafter authorized, issued or outstanding expressly designated by the Company to rank on a parity with Series F Preferred Stock with respect to dividend rights and rights upon voluntary or involuntary liquidation, winding-up or dissolution of the Company. The term "equity securities" does not include debt securities, which will rank senior to the Series F Preferred Stock prior to conversion.

Section 3. Dividends.

(a) Payment of Dividends. Subject to the rights of holders of Parity Preferred Stock as to the payment of dividends and holders of equity securities ranking senior to the Series F Preferred Stock as to payment of dividends, holders of Series F Preferred Stock will be entitled to receive, when, as and if declared by the Board of Directors, out of funds legally available to the Company for the payment of dividends, cumulative preferential cash dividends at the rate per annum of 7.50% of the \$25 liquidation preference per share of Series F Preferred Stock. All dividends shall be cumulative, shall accrue from the original date of issuance and shall be payable (i) quarterly (such quarterly periods for purposes of payment and accrual will be the quarterly periods ending on the dates specified in this sentence and not calendar quarters) in arrears, on February 15, May 15, August 15 and November 15 of each year, commencing on the first of such dates to occur after the original date of issuance and, (ii) in the event of a redemption, on the redemption date (each a "Dividend Payment Date"). The amount of the dividend payable for any period will be computed on the basis of a 360-day year consisting of twelve 30-day months, and, for any period shorter than a full quarterly period for which dividends are computed, the amount of the dividend payable will be prorated and computed on

the basis of the actual number of days elapsed in such a period to ninety (90) days. If any date on which dividends are to be made on the Series F Preferred Stock is not a Business Day (as defined herein), then payment of the dividend to be made on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay) except that, if such Business Day is in the next succeeding calendar year, such payment shall be made on the immediately preceding Business Day, in each case with the same force and effect as if made on such date. Dividends on the Series F Preferred Stock will be made to the holders of record of the Series F Preferred Stock at the close of business on the relevant record dates, which, unless designated otherwise by the Board of Directors with respect to any dividend, will be fifteen (15) Business Days prior to the relevant Dividend Payment Date (each a "Dividend Record Date"). Notwithstanding any provision to the contrary contained herein, each outstanding share of Series F Preferred Stock shall be entitled to receive, and shall receive a dividend with respect to any Dividend Record Date equal to the dividend paid with respect to each other share of Series F Preferred Stock which is outstanding on such date.

The term "Business Day" shall mean each day, other than a Saturday or a Sunday, which is not a day on which banking institutions in New York, New York are authorized or required by law, regulation or executive order to close.

(b) Limitations on Dividends. No dividends on the Series F Preferred Stock shall be declared by the Board of Directors or paid or set apart for payment by the Company at such time as the terms and provisions of any agreement of the Company, including any agreement relating to its indebtedness, prohibits such declaration, payment or setting apart for payment or provides that such declaration, payment or setting apart for payment would constitute a breach thereof or a default thereunder, or if such declaration, payment or setting apart for payment shall be restricted or prohibited by law.

(c) Dividends Cumulative. Notwithstanding the foregoing, dividends on the Series F Preferred Stock will accrue whether or not the terms and provisions set forth in Section 3(b) hereof at any time prohibit the current payment of dividends, whether or not the Company has earnings, whether or not there are funds legally available for the payment of such dividends and whether or not authorized or declared by the Board of Directors. Accrued but unpaid dividends on the Series F Preferred Stock will accumulate as of the Dividend Payment Date on which they first become payable. No interest, or sum of money in lieu of interest, shall be payable in respect of any dividends on the Series F Preferred stock which may be in arrears. Any dividend made on the Series F Preferred Stock shall first be credited against the earliest accrued but unpaid dividend due with respect to such shares that remains payable.

(d) Priority as to Dividends.

(i) Unless all dividends accumulated on all Series F Preferred Stock and all classes and series of outstanding Parity Preferred Stock as to payment of dividends have been paid in full, (i) no dividend of cash or other property shall be authorized, declared, paid or set apart for payment on or with respect to any class or series of Common Stock, the Series B Preferred Stock or any class or series of other stock of the Company ranking junior as to the payment of dividends to the Series F Preferred Stock and any series of outstanding Parity Preferred Stock (such Common Stock or other junior stock, collectively, "Junior Stock"), and (ii)

no cash or other property shall be set aside for or applied to the purchase, redemption or other acquisition for consideration of any Series F Preferred Stock, any Parity Preferred Stock as to payment of dividends, or any Junior Stock. Without limiting Section 6(c) hereof, the foregoing sentence will not prohibit (i) dividends payable solely in Junior Stock, (ii) the conversion of Junior Stock or Parity Preferred Stock into Junior Stock, and (iii) the purchase by the Company of such Series F Preferred Stock, Parity Preferred Stock or Junior Stock pursuant to the Charter to the extent necessary to preserve the Company's status as a real estate investment trust.

(ii) So long as dividends have not been paid in full (and a sum sufficient for such full payment is not set apart for payment) upon the Series F Preferred Stock, all dividends authorized or declared upon the Series F Preferred Stock and all classes or series of outstanding Parity Preferred Stock as to the payment of dividends with the Series F Preferred Stock shall be authorized and declared pro rata so that the amount of dividends authorized and declared per share of Series F Preferred Stock and such other classes or series of outstanding Parity Preferred Stock shall in all cases bear to each other the same ratio that the sum of the liquidation preference plus accrued dividends per share on the Series F Preferred Stock bears to the sum of the liquidation preference plus accrued dividends per share on such other classes or series of outstanding Parity Preferred Stock (which, in any event, shall not include any accumulation in respect of unpaid dividends for prior dividend periods if such class or series of Parity Preferred Stock does not have cumulative dividend rights).

(e) No Further Rights. Holders of Series F Preferred Stock shall not be entitled to any dividends, whether payable in cash, other property or otherwise, in excess of the full cumulative dividends described herein.

(f) Capital Gain Dividend. If, for any taxable year, the Company elects to designate any portion of a dividend as a "capital gain dividend" (as defined in Section 857 of the Internal Revenue Code of 1986, as amended), then, except as required by law, the portion of such capital gain dividend that shall be allocable to holders of the Series F Preferred Stock shall be the same proportion that the total dividends (as determined for federal income tax purposes) paid or made available to the holders of the Series F Preferred Stock for the year bears to the total amount of such dividends (as determined for federal income tax purposes) for the year paid or made available to the holders of all classes and series of stock of the Company. In addition, except as otherwise required by applicable law, the Company shall make a similar allocation with respect to any undistributed long-term capital gains which are to be included in the long-term capital gains of a holder of Series F Preferred Stock, based on the allocation of the capital gains which would have resulted if those undistributed long-term capital gains had been distributed as "capital gain dividends" by the Company to holders of all classes and series of stock of the Company.

Section 4. Liquidation Preference.

(a) Payment of Liquidating Distributions. Subject to the rights of holders of Parity Preferred Stock with respect to rights upon any voluntary or involuntary liquidation, dissolution or winding-up of the Company and subject to the rights of holders of any equity securities ranking senior to the Series F Preferred Stock with respect to rights upon any voluntary or involuntary liquidation, dissolution or winding-up of the Company, the holders of Series F

Preferred Stock shall be entitled to receive out of the assets of the Company legally available for distribution or the proceeds thereof, after payment or provision for debts and other liabilities of the Company, but before any payment or distributions of the assets shall be made to holders of Common Stock or any other class or series of stock of the Company that ranks junior to the Series F Preferred Stock as to rights upon liquidation, dissolution or winding-up of the Company, an amount equal to the sum of (i) a liquidation preference of \$25 per share of Series F Preferred Stock plus (ii) an amount equal to any accumulated and unpaid dividends thereon, whether or not declared, to the date of payment. In the event that, upon such voluntary or involuntary liquidation, dissolution or winding-up, there are insufficient assets to permit full payment of liquidating distributions to the holders of Series F Preferred Stock and any Parity Preferred Stock as to rights upon liquidation, dissolution or winding-up of the Company, all payments of liquidating distributions on the Series F Preferred Stock and such Parity Preferred Stock shall be made so that the payments on the Series F Preferred Stock and such Parity Preferred Stock shall in all cases bear to each other the same ratio that the sum of the liquidation preference plus accrued dividends per share on the Series F Preferred Stock bears to the sum of the liquidation preference plus accrued dividends per share on the other series of Parity Preferred Stock (which, in any event, shall not include any accumulation in respect of unpaid dividends for prior dividend periods if such Parity Preferred Stock does not have cumulative dividend rights).

(b) Notice. Written notice of any such voluntary or involuntary liquidation, dissolution or winding-up of the Company, stating the payment date or dates when, and the place or places where, the amounts distributable in such circumstances shall be payable, shall be given by (i) fax and (ii) by first class mail, postage pre-paid, not less than thirty (30) and not more than sixty (60) days prior to the payment date stated therein, to each record holder of the Series F Preferred Stock at the respective addresses of such holders as the same shall appear on the share transfer records of the Company.

(c) No Further Rights. After payment of the full amount of the liquidating distributions to which they are entitled, the holders of Series F Preferred Stock will have no right or claim to any of the remaining assets of the Company.

(d) Consolidation, Merger or Certain Other Transactions. The voluntary sale, conveyance, lease, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all of the property or assets of the Company to, or the consolidation or merger or other business combination of the Company with or into any corporation, trust or other entity (or of any corporation, trust or other entity with or into the Company) shall not be deemed to constitute a liquidation, dissolution or winding-up of the Company.

(e) Permissible Distributions. In determining whether a distribution (other than upon voluntary or involuntary liquidation) by dividend, redemption or other acquisition of shares of stock of the Company or otherwise is permitted under the MGCL, no effect shall be given to amounts that would be needed, if the Company were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of holders of shares of stock of the Company whose preferential rights upon dissolution are superior to those receiving the distribution.

Section 5. Redemption.

(a) Optional Redemption. Subject to Section 7, the Series F Preferred Stock may not be redeemed prior to December 8, 2009; *provided, however*, that the foregoing shall not prevent the purchase by the Company of shares of Series F Preferred Stock in order to ensure that the Company continues to meet the requirements for qualification as a REIT for federal and state income tax purposes. On or after such date, the Company shall have the right to redeem the Series F Preferred Stock, in whole or in part, at any time or from time to time, upon not less than thirty (30) nor more than sixty (60) days written notice, at a redemption price, payable in cash, equal to \$25 per share of Series F Preferred Stock plus accumulated and unpaid dividends, whether or not declared, up to and including the date of redemption. Except with respect to a redemption to preserve REIT qualification, if fewer than all of the outstanding shares of Series F Preferred Stock are to be redeemed, the shares of Series F Preferred Stock to be redeemed shall be selected pro rata (as nearly as practicable without creating fractional shares) by lot or by any other equitable method determined by the Company.

(b) Limitation on Redemption. Subject to Section 7 hereof, the Company may not redeem fewer than all of the outstanding shares of Series F Preferred Stock unless all accumulated and unpaid dividends have been paid on all outstanding Series F Preferred Stock for all quarterly dividend periods terminating on or prior to the date of redemption; *provided, however*, that the foregoing shall not prevent the purchase by the Company of shares of Series F Preferred Stock in order to ensure that the Company continues to meet the requirements for qualification as a REIT for federal and state income tax purposes. So long as no dividends are in arrears, the Company shall be entitled at any time and from time to time to repurchase shares of Series F Preferred Stock in open-market transactions duly authorized by the Board of Directors and effected in compliance with applicable laws.

(c) Procedures for Redemption.

(i) Notice of redemption will be given by publication in a newspaper of general circulation in the City of New York, such publication to be made once a week for two successive weeks commencing not less than thirty (30) nor more than sixty (60) days prior to the redemption date. A similar notice will be mailed by the Company, postage prepaid, not less than thirty (30) nor more than sixty (60) days prior to the redemption date, addressed to the respective holders of record of the Series F Preferred Stock to be redeemed at their respective addresses as they appear on the transfer records of the Company. No failure to give or defect in such notice shall affect the validity of the proceedings for the redemption of any Series F Preferred Stock except as to the holder to whom such notice was defective or not given. In addition to any information required by law or by the applicable rules of any exchange upon which the Series F Preferred Stock may be listed or admitted to trading, each such notice shall state: (i) the redemption date, (ii) the redemption price, (iii) the number of shares of Series F Preferred Stock to be redeemed, (iv) the place or places where the certificates evidencing shares of Series F Preferred Stock are to be surrendered for payment of the redemption price, (v) that dividends on the Series F Preferred Stock to be redeemed will cease to accumulate on such redemption date and (vi) that payment of the redemption price and any accumulated and unpaid dividends will be made upon presentation and surrender of such Series F Preferred Stock. If fewer than all of the shares of Series F Preferred Stock held by any holder are to be redeemed, the notice mailed to such holder shall also specify the number of shares of Series F Preferred Stock held by such holder to be redeemed.

(ii) If the Company gives a notice of redemption in respect of Series F Preferred Stock (which notice will be irrevocable) then, by 12:00 noon, New York City time, on the redemption date, the Company will deposit irrevocably in trust for the benefit of the Series F Preferred Stock being redeemed funds sufficient to pay the applicable redemption price, plus any accumulated and unpaid dividends, if any, on such shares to the date fixed for redemption (which if following the Dividend Record Date but preceding a Dividend Payment Date shall include accumulated and unpaid dividends through the applicable Dividend Payment Date), without interest, and will give irrevocable instructions and authority to pay such redemption price and any accumulated and unpaid dividends, whether or not declared, if any, on such shares to the holders of the Series F Preferred Stock upon surrender of the Series F Preferred Stock by such holders at the place designated in the notice of redemption. If less than all Series F Preferred Stock evidenced by any certificate is being redeemed, a new certificate shall be issued upon surrender of the certificate evidencing all Series F Preferred Stock, evidencing the unredeemed Series F Preferred Stock without cost to the holder thereof. On and after the date of redemption, dividends will cease to accumulate on the Series F Preferred Stock or portions thereof called for redemption, unless the Company defaults in the payment thereof. If any date fixed for redemption of Series F Preferred Stock is not a Business Day, then payment of the redemption price payable on such date will be made on the next succeeding day that is a Business Day (and without any interest or other payment in respect of any such delay) except that, if such Business Day falls in the next calendar year, such payment will be made on the immediately preceding Business Day, in each case with the same force and effect as if made on such date fixed for redemption. If payment of the redemption price or any accumulated or unpaid dividends in respect of the Series F Preferred Stock is improperly withheld or refused and not paid by the Company, dividends on such Series F Preferred Stock will continue to accumulate from the original redemption date to the date of payment, in which case the actual payment date will be considered the date fixed for redemption for purposes of calculating the applicable redemption price and any accumulated and unpaid dividends.

(iii) If redemption is to be by lot and, as a result, any holder of shares of Series F Preferred Stock would have actual ownership or Constructive Ownership (as defined in Section 7(a)) in excess of the Ownership Limit (as defined in Section 7(a)), or such other limit as permitted by the Board of Directors or the Committee pursuant to Section 7(i), because such holder's shares of Series F Preferred Stock were not redeemed, or were only redeemed in part, then, except as otherwise provided in the Charter, the Company shall redeem the requisite number of shares of Series F Preferred Stock of such holder such that no holder will hold an amount of Series F Preferred Stock in excess of the Ownership Limit or such other limit, as applicable, subsequent to such redemption.

(iv) The holders of shares of Series F Preferred Stock at the close of business on a Dividend Record Date will be entitled to receive dividends payable with respect to the shares of Series F Preferred Stock held on the corresponding Dividend Payment Date notwithstanding the redemption thereof between such Dividend Record Date and the corresponding Dividend Payment Date or the Company's default in the payment of such dividends. Except as provided above, the Company shall make no payment or allowance for any accumulated and unpaid dividends on the shares of Series F Preferred Stock to be redeemed.

(d) Status of Redeemed Stock. Any shares of Series F Preferred Stock that shall at any time have been redeemed shall, after such redemption, have the status of authorized but unissued Preferred Stock, without designation as to class or series until such shares are once more designated as part of a particular class or series by the Board of Directors.

Section 6. Voting Rights.

(a) General. Holders of the Series F Preferred Stock will not have any voting rights, except as set forth below.

(b) Right to Elect Directors.

(i) If at any time full dividends shall not have been timely made on any Series F Preferred Stock with respect to any six (6) prior quarterly dividend periods, whether or not consecutive (a “Preferred Dividend Default”), the holders of such Series F Preferred Stock, voting together as a single class with the holders of each class or series of Parity Preferred Stock, which is on parity with the Series F Preferred Stock as to both dividend rights and rights upon voluntary or involuntary liquidation, dissolution or winding-up of the Company, upon which like voting rights have been conferred and are exercisable (collectively with the Series F Preferred Stock, the “Parity Securities”), will have the right to elect two additional directors to serve on the Company’s Board of Directors (the “Preferred Stock Directors”). The Preferred Stock Directors will be elected by a plurality of the votes cast in the election for a one-year term and each Preferred Stock Director will serve until his or her successor is duly elected and qualifies or until such Preferred Stock Director’s right to hold the office terminates, whichever occurs earlier, subject to such Preferred Stock Director’s earlier death, disqualification, resignation or removal. The election will take place at (i) either (A) a special meeting called in accordance with Section 6(b)(ii) below if the request is received more than ninety (90) days before the date fixed for the Company’s next annual or special meeting of stockholders or (B) the next annual or special meeting of stockholders if the request is received within ninety (90) days of the date fixed for the Company’s next annual or special meeting of stockholders and (ii) at each subsequent annual meeting of stockholders or special meeting held in place thereof, until all such dividends in arrears and dividends for the current quarterly period on the Series F Preferred Stock and each such class or series of outstanding Parity Preferred Stock have been paid in full (or set apart for payment in full as described in Section 6(b)(iii) below). A dividend in respect of Series F Preferred Stock shall be considered timely made if made within two (2) Business Days after the applicable Dividend Payment Date if at the time of such late payment date there shall not be any prior quarterly dividend periods in respect of which full dividends were not timely made at the applicable Dividend Payment Date.

(ii) At any time when such voting rights shall have vested, a proper officer of the Company shall call or cause to be called, upon written request of holders of record of at least 10% of the outstanding shares of Series F Preferred Stock, a special meeting of the holders of Series F Preferred Stock and each class or series of other Parity Securities by mailing or causing to be mailed to such holders a notice of such special meeting to be held not less than

ten and not more than forty-five (45) days after the date such notice is given. The record date for determining holders of the Parity Securities entitled to notice of and to vote at such special meeting will be the close of business on the third Business Day preceding the day on which such notice is mailed. At any such annual or special meeting, all of the holders of the Series F Preferred Stock and other Parity Securities, by plurality vote, voting together as a single class without regard to class or series will be entitled to elect two directors on the basis of one vote per \$50 of liquidation preference to which such Parity Securities are entitled by their terms (excluding amounts in respect of accumulated and unpaid dividends) and not cumulatively. As a result, each share of Series F Preferred Stock will be entitled to one-half of a vote. The holder or holders of one-third of the Parity Securities then outstanding, present in person or by proxy, will constitute a quorum for the election of the Preferred Stock Directors except as otherwise provided by law. Notice of all meetings at which holders of the Series F Preferred Stock shall be entitled to vote will be given to such holders at their addresses as they appear in the transfer records. At any such meeting or adjournment thereof in the absence of a quorum, subject to the provisions of any applicable law, a majority of the holders of the Parity Securities present in person or by proxy shall have the power to adjourn the meeting for the election of the Preferred Stock Directors, without notice other than an announcement at the meeting, until a quorum is present. If a Preferred Dividend Default shall terminate after the notice of a special meeting has been given but before such special meeting has been held, the Company shall, as soon as practicable after such termination, mail or cause to be mailed notice of such termination to holders of the Series F Preferred Stock that would have been entitled to vote at such special meeting.

(iii) If and when all accumulated dividends and the dividend for the current dividend period on the Series F Preferred Stock shall have been paid in full or a sum sufficient for such payment is irrevocably deposited in trust for payment, the holders of the Series F Preferred Stock shall be divested of the voting rights set forth in Section 6(b) herein (subject to reversion in the event of each and every Preferred Dividend Default) and, if all dividends in arrears and the dividends for the current dividend period have been paid in full or set aside for payment in full on all other classes or series of Parity Securities, the term of office of each Preferred Stock Director so elected shall terminate. Any Preferred Stock Director may be removed at any time with or without cause by the vote of, and shall not be removed otherwise than by the vote of, the holders of record of a majority of the outstanding Series F Preferred Stock and other Parity Securities entitled to vote thereon when they have the voting rights set forth in Section 6(b) (voting separately as a single class with all other classes or series of Parity Securities). So long as a Preferred Dividend Default shall continue, any vacancy in the office of a Preferred Stock Director may be filled by written consent of the Preferred Stock Director remaining in office, or if none remains in office, by a vote of the holders of record of a majority of the outstanding Series F Preferred Stock and other Parity Securities entitled to vote thereon when they have the voting rights set forth in Section 6(b) (voting separately as a single class with all other classes or series of Parity Securities). The Preferred Stock Directors shall each be entitled to one vote per director on any matter.

(c) Certain Voting Rights. So long as any Series F Preferred Stock remains outstanding, the Company shall not, without the affirmative vote of the holders of at least two-thirds of the Series F Preferred Stock outstanding at the time (i) designate or create, or increase the authorized or issued amount of, any class or series of shares ranking senior to the Series F

Preferred Stock with respect to dividend rights or rights upon liquidation, dissolution or winding-up or (ii) reclassify any authorized shares of the Company into any such shares, or create, authorize or issue any obligations or security convertible into or evidencing the right to purchase any such shares referenced in clause (i) of this subsection (c), (iii) designate or create, or increase the authorized or issued amount of, any Parity Preferred Stock or reclassify any authorized shares of the Company into any such shares, or create, authorize or issue any obligations or security convertible into or evidencing the right to purchase any such shares, but only to the extent such Parity Preferred Stock is issued to an affiliate of the Company, or (iv) either (A) consolidate, merge into or with, or convey, transfer or lease its assets substantially as an entirety, to any corporation or other entity, or (B) amend, alter or repeal the provisions of the Company's Charter (including these Articles Supplementary) or Bylaws, whether by merger, consolidation or otherwise, in either (A) or (B) above in such a way that would materially and adversely affect the powers, special rights, preferences, privileges or voting power of the Series F Preferred Stock or the holders thereof; *provided, however*, that with respect to the occurrence of any event set forth in (iv) above, so long as (a) the Company is the surviving entity and the Series F Preferred Stock remains outstanding with the terms thereof unchanged or (b) the resulting, surviving or transferee entity is a corporation, business trust or other like entity organized under the laws of any state and substitutes for the Series F Preferred Stock other preferred stock having substantially the same terms and same rights as the Series F Preferred Stock, including with respect to dividends, voting rights and rights upon liquidation, dissolution or winding-up, then the occurrence of any such event shall not be deemed to materially and adversely affect the rights, privileges or voting powers of the Series F Preferred Stock or the holders thereof; and *provided, further*, that any increase in the amount of authorized Preferred Stock or the creation or issuance of any other class or series of Preferred Stock, or any increase in an amount of authorized shares of each class or series, in each case ranking either (a) junior to the Series F Preferred Stock with respect to dividend rights and rights upon liquidation, dissolution or winding-up or (b) on a parity with the Series F Preferred Stock with respect to dividend rights and rights upon liquidation, dissolution or winding-up of the Company to the extent such Preferred Stock is not issued to an affiliate of the Company, shall not be deemed to materially and adversely affect such rights, preferences, privileges or voting powers; and *provided, further*, that notwithstanding clauses (iii) or (iv) above, the Company may increase the authorized or issued amount of the Series F Preferred Stock and/or any Parity Preferred Stock, whether by amendment or supplementation of the Charter, these Articles Supplementary or otherwise, without any vote of the holders of the Series F Preferred Stock if all such additional shares (a) remain unissued, and/or (b) are issued to an underwriter in a public offering registered with the Securities and Exchange Commission. In any matter in which the holders of the Series F Preferred Stock shall be entitled to vote (as provided herein), including any action by written consent, each share of Series F Preferred Stock shall have one vote per share, except that when shares of any other series of preferred stock shall have the right to vote with the Series F Preferred Stock as a single class on any matter, then the Series F Preferred Stock and such other series shall have with respect to such matters one vote per \$50.00 of stated liquidation preference, resulting in each share of Series F Preferred Stock being entitled to one-half of a vote.

(d) No Voting Rights After Redemption. The foregoing voting provisions will not apply if, at or prior to the time when the act with respect to which such vote would otherwise be required would occur, all outstanding shares of Series F Preferred Stock shall have been redeemed or called for redemption upon proper notice and sufficient funds shall have been deposited in trust to effect such redemption.

Section 7. Restrictions on Ownership and Transfer to Preserve Tax Benefit.

(a) Definitions. For the purposes of Section 5 and this Section 7 of these Articles Supplementary, the following terms shall have the following meanings:

“Beneficial Ownership” shall mean ownership of Series F Preferred Stock by a Person who is or would be treated as an owner of such Series F Preferred Stock either actually or constructively through the application of Section 544 of the Code, as modified by Section 856(h)(1)(B) of the Code. The terms “Beneficial Owner,” “Beneficially Owns” and “Beneficially Owned” shall have the correlative meanings.

“Charitable Beneficiary” shall mean one or more beneficiaries of a Trust, as determined pursuant to Section 7(c)(vi) of these Articles Supplementary, each of which shall be an organization described in Sections 170(b)(1)(A), 170(c)(2) and 501(c)(3) of the Code.

“Code” shall mean the Internal Revenue Code of 1986, as amended. All section references to the Code shall include any successor provisions thereof as may be adopted from time to time.

“Constructive Ownership” shall mean ownership of Series F Preferred Stock by a Person who is or would be treated as an owner of such Series F Preferred Stock either actually or constructively through the application of Section 318 of the Code, as modified by Section 856(d)(5) of the Code. The terms “Constructive Owner,” “Constructively Owns” and “Constructively Owned” shall have the correlative meanings.

“Individual” means an individual, a trust qualified under Section 401(a) or 501(c)(17) of the Code, a portion of a trust permanently set aside for or to be used exclusively for the purposes described in Section 642(c) of the Code, or a private foundation within the meaning of Section 509(a) of the Code, *provided* that a trust described in Section 401(a) of the Code and exempt from tax under Section 501(a) of the Code shall be excluded from this definition.

“IRS” means the United States Internal Revenue Service.

“Market Price” shall mean the last reported sales price reported on the New York Stock Exchange of the Series F Preferred Stock on the trading day immediately preceding the relevant date, or if the Series F Preferred Stock is not then traded on the New York Stock Exchange, the last reported sales price of the Series F Preferred Stock on the trading day immediately preceding the relevant date as reported on any exchange or quotation system over which the Series F Preferred Stock may be traded, or if the Series F Preferred Stock is not then traded over any exchange or quotation system, the market price of the Series F Preferred Stock on the relevant date as determined in good faith by the Board of Directors.

“Ownership Limit” shall mean 9.8% (by value or number of shares, whichever is more restrictive) of the outstanding shares of Series F Preferred Stock of the Company. The number and value of shares of outstanding Series F Preferred Stock of the Company shall be determined by the Board of Directors in good faith, which determination shall be conclusive for all purposes hereof.

“Person” shall mean an Individual, corporation, partnership, limited liability company, estate, trust (including a trust qualified under Section 401(a) or 501(c)(17) of the Code), a portion of a trust permanently set aside for or to be used exclusively for the purposes described in Section 642(c) of the Code, association, private foundation within the meaning of Section 509(a) of the Code, joint stock company or other entity; but does not include an underwriter acting in a capacity as such in a public offering of shares of Series F Preferred Stock, *provided* that the ownership of such shares of Series F Preferred Stock by such underwriter would not result in the Company being “closely held” within the meaning of Section 856(h) of the Code, or otherwise result in the Company failing to qualify as a REIT.

“Purported Beneficial Transferee” shall mean, with respect to any purported Transfer (or other event) which results in a transfer to a Trust, as provided in Section 7(b)(ii) of these Articles Supplementary, the Purported Record Transferee, unless the Purported Record Transferee would have acquired or owned shares of Series F Preferred Stock for another Person who is the beneficial transferee or beneficial owner of such shares, in which case the Purported Beneficial Transferee shall be such Person.

“Purported Record Transferee” shall mean, with respect to any purported Transfer (or other event) which results in a transfer to a Trust, as provided in Section 7(b)(ii) of these Articles Supplementary, the record holder of the Series F Preferred Stock if such Transfer had been valid under Section 7(b)(i) of these Articles Supplementary.

“REIT” shall mean a real estate investment trust under Sections 856 through 860 of the Code and, for purposes of taxation of the Company under applicable state law, comparable provisions of the law of such state.

“Restriction Termination Date” shall mean the first day after the date hereof on which the Board of Directors determines that it is no longer in the best interests of the Company to attempt to, or continue to, qualify as a REIT.

“Transfer” shall mean any sale, issuance, transfer, gift, assignment, devise or other disposition of Series F Preferred Stock as well as any other event that causes any Person to Beneficially Own or Constructively Own Series F Preferred Stock, including (i) the granting of any option or entering into any agreement for

the sale, transfer or other disposition of Series F Preferred Stock or (ii) the sale, transfer, assignment or other disposition of any securities (or rights convertible into or exchangeable for Series F Preferred Stock), whether voluntary or involuntary, whether such transfer has occurred of record or beneficially or Beneficially or Constructively (including but not limited to transfers of interests in other entities which result in changes in Beneficial or Constructive Ownership of Series F Preferred Stock), and whether such transfer has occurred by operation of law or otherwise.

“Trust” shall mean each of the trusts provided for in Section 7(c) of these Articles Supplementary.

“Trustee” shall mean any Person unaffiliated with the Company, or a Purported Beneficial Transferee, or a Purported Record Transferee, that is appointed by the Company to serve as trustee of a Trust.

(b) Restriction on Ownership and Transfers.

(i) Prior to the Restriction Termination Date:

(A) except as provided in Section 7(i) of these Articles Supplementary, no Person shall Beneficially Own Series F Preferred Stock in excess of the Ownership Limit;

(B) except as provided in Section 7(i) of these Articles Supplementary, no Person shall Constructively Own Series F Preferred Stock in excess of the Ownership Limit;

(C) no Person shall Beneficially or Constructively Own Series F Preferred Stock which, taking into account any other capital stock of the Company Beneficially or Constructively Owned by such Person, would result in the Company being “closely held” within the meaning of Section 856(h) of the Code, or otherwise failing to qualify as a REIT (including but not limited to Beneficial or Constructive Ownership that would result in the Company owning (actually or Constructively) an interest in a tenant that is described in Section 856(d)(2)(B) of the Code if the income derived by the Company (either directly or indirectly through one or more subsidiaries) from such tenant would cause the Company to fail to satisfy any of the gross income requirements of Section 856(c) of the Code or comparable provisions of state law).

(ii) If, prior to the Restriction Termination Date, any Transfer (whether or not such Transfer is the result of a transaction entered into through the facilities of the New York Stock Exchange (“NYSE”)) or other event occurs that, if effective, would result in any Person Beneficially or Constructively Owning Series F Preferred Stock in violation of Section 7(b)(i) of these Articles Supplementary, (i) then that number of shares of Series F Preferred Stock that otherwise would cause such Person to violate Section 7(b)(i) of these Articles Supplementary (rounded up to the nearest whole share) shall be automatically transferred to a

Trust for the benefit of a Charitable Beneficiary, as described in Section 7(c), effective as of the close of business on the Business Day prior to the date of such Transfer or other event, and such Purported Beneficial Transferee shall thereafter have no rights in such shares or (ii) if, for any reason, the transfer to the Trust described in clause (i) of this sentence is not automatically effective as provided therein to prevent any Person from Beneficially or Constructively Owning Series F Preferred Stock in violation of Section 7(b)(i) of these Articles Supplementary, then the Transfer of that number of shares of Series F Preferred Stock that otherwise would cause any Person to violate Section 7(b)(i) shall be *void ab initio*, and the Purported Beneficial Transferee shall have no rights in such shares.

(iii) Subject to Section 7(l) and notwithstanding any other provisions contained herein, prior to the Restriction Termination Date, any Transfer of Series F Preferred Stock (whether or not such Transfer is the result of a transaction entered into through the facilities of the NYSE) that, if effective, would result in the capital stock of the Company being beneficially owned by less than 100 Persons (determined without reference to any rules of attribution) shall be *void ab initio*, and the intended transferee shall acquire no rights in such Series F Preferred Stock.

(c) Transfers of Series F Preferred Stock in Trust.

(i) Upon any purported Transfer or other event described in Section 7(b)(ii) of these Articles Supplementary, such Series F Preferred Stock shall be deemed to have been transferred to the Trustee in his capacity as trustee of a Trust for the exclusive benefit of one or more Charitable Beneficiaries. Such transfer to the Trustee shall be deemed to be effective as of the close of business on the Business Day prior to the purported Transfer or other event that results in a transfer to the Trust pursuant to Section 7(b)(ii). The Trustee shall be appointed by the Company and shall be a Person unaffiliated with the Company, any Purported Beneficial Transferee or any Purported Record Transferee. Each Charitable Beneficiary shall be designated by the Company as provided in Section 7(c)(vi) of these Articles Supplementary.

(ii) Series F Preferred Stock held by the Trustee shall be issued and outstanding Series F Preferred Stock of the Company. The Purported Beneficial Transferee or Purported Record Transferee shall have no rights in the shares of the Series F Preferred Stock held by the Trustee. The Purported Beneficial Transferee or Purported Record Transferee shall not benefit economically from ownership of any shares held in trust by the Trustee, shall have no rights to dividends and shall not possess any rights to vote or other rights attributable to the shares of Series F Preferred Stock held in the Trust.

(iii) The Trustee shall have all voting rights and rights to dividends with respect to Series F Preferred Stock held in the Trust, which rights shall be exercised for the exclusive benefit of the Charitable Beneficiary. Any dividend or distribution paid to or on behalf of the Purported Record Transferee or Purported Beneficial Transferee prior to the discovery by the Company that shares of Series F Preferred Stock have been transferred to the Trustee shall be paid to the Trustee upon demand, and any dividend or distribution declared but unpaid shall be paid when due to the Trustee with respect to such Series F Preferred Stock. Any dividends or distributions so paid over to the Trustee shall be held in trust for the Charitable Beneficiary. The Purported Record Transferee and Purported Beneficial Transferee shall have no voting rights

with respect to the Series F Preferred Stock held in the Trust and, subject to Maryland law, effective as of the date the Series F Preferred Stock has been transferred to the Trustee, the Trustee shall have the authority (at the Trustee's sole discretion) (i) to rescind as void any vote cast by a Purported Record Transferee with respect to such Series F Preferred Stock prior to the discovery by the Company that the Series F Preferred Stock has been transferred to the Trustee and (ii) to recast such vote in accordance with the desires of the Trustee acting for the benefit of the Charitable Beneficiary; *provided, however*, that if the Company has already taken irreversible corporate action, then the Trustee shall not have the authority to rescind and recast such vote. Notwithstanding any other provision of these Articles Supplementary to the contrary, until the Company has received notification that the Series F Preferred Stock has been transferred into a Trust, the Company shall be entitled to rely on its share transfer and other stockholder records for purposes of preparing lists of stockholders entitled to vote at meetings, determining the validity and authority of proxies and otherwise conducting votes of stockholders.

(iv) Within twenty (20) days of receiving notice from the Company that shares of Series F Preferred Stock have been transferred to the Trust, the Trustee of the Trust shall sell the shares of Series F Preferred Stock held in the Trust to a Person, designated by the Trustee, whose ownership of the shares of Series F Preferred Stock will not violate the ownership limitations set forth in Section 7(b)(i). Upon such sale, the interest of the Charitable Beneficiary in the shares of Series F Preferred Stock sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Purported Record Transferee and to the Charitable Beneficiary as provided in this Section 7(c)(iv). The Purported Record Transferee shall receive the lesser of (i) the price paid by the Purported Record Transferee for the shares of Series F Preferred Stock in the transaction that resulted in such transfer to the Trust (or, if the event which resulted in the transfer to the Trust did not involve a purchase of such shares of Series F Preferred Stock at Market Price, the Market Price of such shares of Series F Preferred Stock on the day of the event which resulted in the transfer of such shares of Series F Preferred Stock to the Trust) and (ii) the price per share received by the Trustee (net of any commissions and other expenses of sale) from the sale or other disposition of the shares of Series F Preferred Stock held in the Trust. Any net sales proceeds in excess of the amount payable to the Purported Record Transferee shall be immediately paid to the Charitable Beneficiary together with any dividends or other distributions thereon. If, prior to the discovery by the Company that shares of such Series F Preferred Stock have been transferred to the Trustee, such shares of Series F Preferred Stock are sold by a Purported Record Transferee then (i) such shares of Series F Preferred Stock shall be deemed to have been sold on behalf of the Trust and (ii) to the extent that the Purported Record Transferee received an amount for such shares of Series F Preferred Stock that exceeds the amount that such Purported Record Transferee was entitled to receive pursuant to this Section 7(c)(iv), such excess shall be paid to the Trustee upon demand.

(v) Series F Preferred Stock transferred to the Trustee shall be deemed to have been offered for sale to the Company, or its designee, at a price per share equal to the lesser of (i) the price paid by the Purported Record Transferee for the shares of Series F Preferred Stock in the transaction that resulted in such transfer to the Trust (or, if the event which resulted in the transfer to the Trust did not involve a purchase of such shares of Series F Preferred Stock at Market Price, the Market Price of such shares of Series F Preferred Stock on the day of the event which resulted in the transfer of such shares of Series F Preferred Stock to the Trust) and (ii) the Market Price on the date the Company, or its designee, accepts such offer.

The Company shall have the right to accept such offer until the Trustee has sold the shares of Series F Preferred Stock held in the Trust pursuant to Section 7(c)(iv). Upon such a sale to the Company, the interest of the Charitable Beneficiary in the shares of Series F Preferred Stock sold shall terminate and the Trustee shall distribute the net proceeds of the sale to the Purported Record Transferee and any dividends or other distributions held by the Trustee with respect to such Series F Preferred Stock shall thereupon be paid to the Charitable Beneficiary.

(vi) By written notice to the Trustee, the Company shall designate one or more nonprofit organizations to be the Charitable Beneficiary of the interest in the Trust such that the Series F Preferred Stock held in the Trust would not violate the restrictions set forth in Section 7(b)(i) in the hands of such Charitable Beneficiary.

(d) Remedies For Breach. If the Board of Directors or a committee thereof or other designees if permitted by the MGCL shall at any time determine in good faith that a Transfer or other event has taken place in violation of Section 7(b) of these Articles Supplementary or that a Person intends to acquire, has attempted to acquire or may acquire beneficial ownership (determined without reference to any rules of attribution), Beneficial Ownership or Constructive Ownership of any shares of Series F Preferred Stock of the Company in violation of Section 7(b) of these Articles Supplementary, the Board of Directors or the Committee or other designees if permitted by the MGCL shall take such action as it deems advisable to refuse to give effect or to prevent such Transfer, including, but not limited to, causing the Company to redeem shares of Series F Preferred Stock, refusing to give effect to such Transfer on the books of the Company or instituting proceedings to enjoin such Transfer; *provided, however*, that any Transfers (or, in the case of events other than a Transfer, ownership or Constructive Ownership or Beneficial Ownership) in violation of Section 7(b)(i) of these Articles Supplementary, shall automatically result in the transfer to a Trust as described in Section 7(b)(ii) and any Transfer in violation of Section 7(b)(iii) shall automatically be *void ab initio* irrespective of any action (or non-action) by the Board of Directors.

(e) Notice of Restricted Transfer. Any Person who acquires or attempts to acquire shares of Series F Preferred Stock in violation of Section 7(b) of these Articles Supplementary, or any Person who is a Purported Beneficial Transferee such that an automatic transfer to a Trust results under Section 7(b)(ii) of these Articles Supplementary, shall immediately give written notice to the Company of such event and shall provide to the Company such other information as the Company may request in order to determine the effect, if any of such Transfer or attempted Transfer on the Company's status as a REIT.

(f) Owners Required To Provide Information. Prior to the Restriction Termination Date each Person who is a beneficial owner or Beneficial Owner or Constructive Owner of Series F Preferred Stock and each Person (including the shareholder of record) who is holding Series F Preferred Stock for a beneficial owner or Beneficial Owner or Constructive Owner shall provide to the Company such information that the Company may request, in good faith, in order to determine the Company's status as a REIT.

(g) Remedies Not Limited. Nothing contained in these Articles Supplementary (but subject to Section 7(l) of these Articles Supplementary) shall limit the authority of the Board of Directors to take such other action as it deems necessary or advisable to protect the Company and the interests of its shareholders by preservation of the Company's status as a REIT.

(h) Ambiguity. In the case of an ambiguity in the application of any of the provisions of this Section 7 of these Articles Supplementary, including any definition contained in Section 7(a), the Board of Directors shall have the power to determine the application of the provisions of this Section 7 with respect to any situation based on the facts known to it (subject, however, to the provisions of Section 7(l) of these Articles Supplementary). In the event Section 7 requires an action by the Board of Directors and these Articles Supplementary fail to provide specific guidance with respect to such action, the Board of Directors shall have the power to determine the action to be taken so long as such action is not contrary to the provisions of Section 7. Absent a decision to the contrary by the Board of Directors (which the Board of Directors may make in its sole and absolute discretion), if a Person would have (but for the remedies set forth in Section 7(b)) acquired Beneficial or Constructive Ownership of Series F Preferred Stock in violation of Section 7(b)(i), such remedies (as applicable) shall apply first to the shares of Series F Preferred Stock which, but for such remedies, would have been actually owned by such Person, and second to shares of Series F Preferred Stock, which, but for such remedies, would have been Beneficially Owned or Constructively Owned (but not actually owned) by such Person, pro rata among the Persons who actually own such shares of Series F Preferred Stock based upon the relative number of the shares of Series F Preferred Stock held by each such Person.

(i) Exceptions.

(i) Subject to Section 7(b)(i)(C), the Board of Directors or the Committee, each in its sole discretion, may exempt (prospectively or retroactively) a Person from the limitation on a Person Beneficially Owning shares of Series F Preferred Stock in violation of Section 7(b)(i)(A) if the Board of Directors or the Committee, as applicable, determines that such exemption will not cause the Company to fail to qualify as a REIT under the Code.

(ii) Subject to Section 7(b)(i)(C), the Board of Directors or the Committee, as applicable, in its sole discretion, may exempt (prospectively or retroactively) a Person from the limitation on a Person Constructively Owning Series F Preferred Stock in violation of Section 7(b)(i)(B), if the Board of Directors or the Committee, as applicable, determines that such ownership would not cause the Company to fail to qualify as a REIT under the Code.

(iii) Subject to Section 7(b)(i)(C) and the remainder of this Section 7(i)(iii), the Board of Directors or the Committee, as applicable, may from time to time increase or decrease the Ownership Limit; *provided, however*, that the decreased Ownership Limit will not be effective for any Person whose percentage ownership in Series F Preferred Stock is in excess of such decreased Ownership Limit until such time as such Person's percentage of Series F Preferred Stock equals or falls below the decreased Ownership Limit, but any further acquisition of Series F Preferred Stock in excess of such percentage ownership of Series F Preferred Stock will be in violation of the Ownership Limit, and, *provided further*, that the new Ownership Limit would not allow five or fewer Persons to Beneficially Own more than 49% in value of the outstanding capital stock of the Company.

(iv) In granting a person an exemption under Section 7(i)(i) or (ii) above, the Board of Directors or the Committee, as applicable, may require such Person to make certain representations or undertakings or to agree that any violation or attempted violation of such representations or undertakings (or other action which is contrary to the restrictions contained in Section 7(b)(i) or (ii) of these Articles Supplementary) will result in such Series F Preferred Stock being transferred to a Trust in accordance with Section 7(b)(ii) of these Articles Supplementary. In granting any exception pursuant to Section 7(i)(i) or (ii) of these Articles Supplementary, the Board of Directors or the Committee, as applicable, may require a ruling from the IRS, or an opinion of counsel, in either case in form and substance satisfactory to the Board of Directors or the Committee, as applicable, in its sole discretion, as it may deem necessary or advisable in order to determine or ensure the Company's status as a REIT.

(j) Legends. Each certificate for Series F Preferred Stock shall bear substantially the following legends in addition to any legends required to comply with federal and state securities laws:

Classes of Stock

THE COMPANY IS AUTHORIZED TO ISSUE CAPITAL STOCK OF MORE THAN ONE CLASS, CONSISTING OF COMMON STOCK AND ONE OR MORE CLASSES OF PREFERRED STOCK. THE BOARD OF DIRECTORS IS AUTHORIZED TO DETERMINE THE PREFERENCES, LIMITATIONS AND RELATIVE RIGHTS OF ANY CLASS OF THE PREFERRED STOCK BEFORE THE ISSUANCE OF SHARES OF SUCH CLASS OF PREFERRED STOCK. THE COMPANY WILL FURNISH, WITHOUT CHARGE, TO ANY STOCKHOLDER MAKING A WRITTEN REQUEST THEREFOR, A COPY OF THE COMPANY'S CHARTER AND A WRITTEN STATEMENT OF THE DESIGNATIONS, RELATIVE RIGHTS, PREFERENCES, CONVERSION OR OTHER RIGHTS, VOTING POWERS, RESTRICTIONS, LIMITATIONS AS TO DIVIDENDS AND OTHER DISTRIBUTIONS, QUALIFICATIONS AND TERMS AND CONDITIONS OF REDEMPTION OF THE STOCK OF EACH CLASS WHICH THE COMPANY HAS THE AUTHORITY TO ISSUE AND, IF THE COMPANY IS AUTHORIZED TO ISSUE ANY PREFERRED OR SPECIAL CLASS AND SERIES, (i) THE DIFFERENCES IN THE RELATIVE RIGHTS AND PREFERENCES BETWEEN THE SHARES OF EACH SERIES TO THE EXTENT SET, AND (ii) THE AUTHORITY OF THE BOARD OF DIRECTORS TO SET SUCH RIGHTS AND PREFERENCES OF SUBSEQUENT SERIES. REQUESTS FOR SUCH WRITTEN STATEMENT MAY BE DIRECTED TO THE SECRETARY OF THE COMPANY AT ITS PRINCIPAL OFFICE.

Restriction on Ownership and Transfer

THE SHARES OF SERIES F PREFERRED STOCK REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON BENEFICIAL AND CONSTRUCTIVE OWNERSHIP AND TRANSFER FOR THE PURPOSE OF THE COMPANY'S MAINTENANCE OF ITS STATUS AS A REAL ESTATE INVESTMENT TRUST UNDER THE INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE "CODE"). SUBJECT TO CERTAIN FURTHER RESTRICTIONS AND EXCEPT AS EXPRESSLY PROVIDED IN THE ARTICLES SUPPLEMENTARY FOR THE SERIES F PREFERRED STOCK, (i) NO PERSON MAY BENEFICIALLY OWN SHARES OF THE COMPANY'S SERIES F PREFERRED STOCK IN EXCESS OF 9.8% (BY VALUE OR BY NUMBER OF SHARES, WHICHEVER IS MORE RESTRICTIVE) OF THE OUTSTANDING SERIES F PREFERRED STOCK OF THE COMPANY; (ii) NO PERSON MAY CONSTRUCTIVELY OWN SHARES OF THE COMPANY'S SERIES F PREFERRED STOCK IN EXCESS OF 9.8% (BY VALUE OR BY NUMBER OF SHARES, WHICHEVER IS MORE RESTRICTIVE) OF THE OUTSTANDING SERIES F PREFERRED STOCK OF THE COMPANY; (iii) NO PERSON MAY BENEFICIALLY OR CONSTRUCTIVELY OWN SERIES F PREFERRED STOCK THAT, TAKING INTO ACCOUNT ANY OTHER CAPITAL STOCK OF THE COMPANY BENEFICIALLY OR CONSTRUCTIVELY OWNED BY SUCH PERSON, WOULD RESULT IN THE COMPANY BEING "CLOSELY HELD" UNDER SECTION 856(h) OF THE CODE OR OTHERWISE CAUSE THE COMPANY TO FAIL TO QUALIFY AS A REIT; AND (iv) NO PERSON MAY TRANSFER SERIES F PREFERRED STOCK IF SUCH TRANSFER WOULD RESULT IN THE CAPITAL STOCK OF THE COMPANY BEING OWNED BY FEWER THAN 100 PERSONS. ANY PERSON WHO BENEFICIALLY OR CONSTRUCTIVELY OWNS OR ATTEMPTS TO BENEFICIALLY OR CONSTRUCTIVELY OWN SERIES F PREFERRED STOCK WHICH CAUSES OR WILL CAUSE A PERSON TO BENEFICIALLY OR CONSTRUCTIVELY OWN SERIES F PREFERRED STOCK IN EXCESS OF THE ABOVE LIMITATIONS MUST IMMEDIATELY NOTIFY THE COMPANY. IF ANY OF THE RESTRICTIONS ON TRANSFER OR OWNERSHIP ARE VIOLATED, THE SERIES F PREFERRED STOCK REPRESENTED HEREBY IN EXCESS OF SUCH RESTRICTIONS WILL BE AUTOMATICALLY TRANSFERRED TO THE TRUSTEE OF A TRUST FOR THE BENEFIT OF ONE OR MORE CHARITABLE BENEFICIARIES. IN ADDITION, THE COMPANY MAY REDEEM SHARES UPON THE TERMS AND CONDITIONS SPECIFIED BY THE BOARD OF DIRECTORS IN ITS SOLE DISCRETION IF THE BOARD OF DIRECTORS DETERMINES THAT OWNERSHIP OR A TRANSFER OR OTHER EVENT MAY VIOLATE THE RESTRICTIONS DESCRIBED ABOVE. FURTHERMORE, UPON THE OCCURRENCE OF CERTAIN EVENTS, ATTEMPTED TRANSFERS IN VIOLATION OF THE RESTRICTIONS DESCRIBED ABOVE MAY BE *VOID AB INITIO*. ALL TERMS IN THIS LEGEND WHICH ARE DEFINED IN THE ARTICLES SUPPLEMENTARY FOR THE SERIES F PREFERRED STOCK

SHALL HAVE THE MEANINGS ASCRIBED TO THEM IN SUCH ARTICLES SUPPLEMENTARY, AS THE SAME MAY BE AMENDED FROM TIME TO TIME, A COPY OF WHICH, INCLUDING THE RESTRICTIONS ON TRANSFER AND OWNERSHIP, WILL BE FURNISHED TO EACH HOLDER OF SERIES F PREFERRED STOCK ON REQUEST AND WITHOUT CHARGE. REQUESTS FOR SUCH A COPY MAY BE DIRECTED TO THE SECRETARY OF THE COMPANY AT ITS PRINCIPAL OFFICE.

(k) Severability. If any provision of this Section 7 or any application of any such provision is determined to be invalid by any Federal or state court having jurisdiction over the issues, the validity of the remaining provisions shall not be affected and other applications of such provision shall be affected only to the extent necessary to comply with the determination of such court.

(l) NYSE. Nothing in this Section 7 shall preclude the settlement of any transaction entered into through the facilities of the NYSE. The shares of Series F Preferred Stock that are the subject of such transaction shall continue to be subject to the provisions of this Section 7 after such settlement.

(m) Applicability of Section 7. The provisions set forth in this Section 7 shall apply to the Series F Preferred Stock notwithstanding any contrary provisions of the Series F Preferred Stock provided for elsewhere in these Articles Supplementary.

Section 8. No Conversion Rights. The holders of the Series F Preferred Stock shall not have any rights to convert such shares into shares of any other class or series of stock or into any other securities of, or interest in, the Company.

Section 9. No Maturity or Sinking Fund. The Series F Preferred Stock has no maturity date, and no sinking fund has been established for the retirement or redemption of Series F Preferred Stock.

Section 10. No Preemptive Rights. No holder of the Series F Preferred Stock of the Company shall, as such holder, have any preemptive rights to purchase or subscribe for additional shares of stock of the Company or any other security of the Company which it may issue or sell.

FOURTH: The Series F Preferred Stock have been classified and designated by the Board of Directors under the authority contained in the Charter.

FIFTH: These Articles Supplementary have been approved by the Board of Directors in the manner and by the vote required by law.

SIXTH: These Articles Supplementary shall be effective at the time the Department accepts these Articles Supplementary for the record.

SEVENTH: The undersigned Senior Vice President of the Company acknowledges these Articles Supplementary to be the corporate act of the Company and, as to all matters or facts required to be verified under oath, the undersigned Senior Vice President acknowledges that to the best of his knowledge, information and belief, these matters and facts are true in all material respects and that this statement is made under the penalties for perjury.

IN WITNESS WHEREOF, the Company has caused these Articles Supplementary to be executed under seal in its name and on its behalf by its Senior Vice President and attested to by its Secretary on this 3rd day of December, 2004.

KILROY REALTY CORPORATION

By: /s/ Tyler H. Rose

Name: Tyler H. Rose

Title: Senior Vice President and Treasurer

[SEAL]

ATTEST:

/s/ Richard E. Moran, Jr.

Richard E. Moran, Jr.

Executive Vice President, Chief Financial

Officer and Secretary

INDEMNIFICATION AGREEMENT

This INDEMNIFICATION AGREEMENT is made this ____ day of _____, 20__ (“Agreement”), by and between KILROY REALTY CORPORATION, a Maryland corporation (the “Company”), and _____ (“Indemnitee”).

RECITALS

WHEREAS, at the request of the Company, the Indemnitee currently serves as a director and/or officer of the Company and/or one or more affiliates of the Company and renders valuable services to, or for the benefit of, the Company; and

WHEREAS, the Company desires to attract and retain the services of highly qualified individuals, such as Indemnitee, to serve as directors and officers of the Company and its affiliates; and

WHEREAS, both the Company and the Indemnitee recognize the increased legal risks and potential liabilities to which directors and officers of corporations are subject in connection with their positions and that liability insurance for directors and officers and statutory indemnification provisions may be inadequate to provide proper protection to individuals requested to serve as directors and officers of the Company; and

WHEREAS, in order to induce Indemnitee to continue to provide services to the Company as an officer and/or director, the Company desires to provide for the indemnification of, and the advancement of expenses to, Indemnitee as set forth in this Agreement.

NOW THEREFORE, in consideration of the foregoing premises, the covenants and agreements contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Indemnitee do hereby agree as follows:

1. **Certain Definitions.** For purposes of this Agreement the following terms should have the following meanings:

- (a) “Board of Directors” means the Board of Directors of the Company.
- (b) “Bylaws” mean the bylaws of the Company, as the same may be amended from time to time.

(c) "Change in Control" means the following:

- i. A transaction or series of transactions (other than an offering of stock to the general public through a registration statement filed with the Securities and Exchange Commission) whereby any "person" or related "group" of "persons" (as such terms are used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")) (other than the Company, any of its subsidiaries, an employee benefit plan maintained by the Company or any of its subsidiaries or a "person" that, prior to such transaction, directly or indirectly controls, is controlled by, or is under common control with, the Company) directly or indirectly acquires beneficial ownership (within the meaning of Rule 13d-3 under the Exchange Act) of securities of the Company and immediately after such acquisition possesses more than 50% of the total combined voting power of the Company's securities outstanding immediately after such acquisition; or
- ii. During any period of two consecutive years, individuals who, at the beginning of such period, constitute the Board of Directors together with any new director(s) (other than a director designated by a person who shall have entered into an agreement with the Company to effect a transaction described in clause (i) hereof or clause (iii) hereof) whose election by the Board of Directors or nomination for election by the Company's stockholders was approved by a vote of at least two-thirds of the directors then still in office who either were directors at the beginning of the two-year period or whose election or nomination for election was previously so approved, cease for any reason to constitute a majority thereof; or
- iii. The consummation by the Company (whether directly involving the Company or indirectly involving the Company through one or more intermediaries) of (x) a merger, consolidation, reorganization, or business combination or (y) a sale or other disposition of all or substantially all of the Company's assets in any single transaction or series of related transactions or (z) the acquisition of assets or stock of another entity, in each case other than a transaction:
 - (A) Which results in the Company's voting securities outstanding immediately before the transaction continuing to represent (either by remaining outstanding or by being converted into voting securities of the Company or the person that, as a result of the transaction, controls, directly or indirectly, the Company or owns, directly or indirectly, all or substantially all of the Company's assets or otherwise succeeds to the business of the Company (the Company or such person, the "Successor Entity")) directly or indirectly, at least a majority of the combined voting power of the Successor Entity's outstanding voting securities immediately after the transaction, and;
 - (B) After which no person or group (as such terms are used in Sections 13(d) and 14(d)(2) of the Exchange Act) beneficially owns (within the meaning of Rule 13d-3 under the Exchange Act) voting securities representing 50% or more of the combined voting power of the Successor Entity; provided, however, that no person or group shall be treated for purposes of this clause (iii)(B) as beneficially owning 50% or more of combined voting power of the Successor Entity solely as a result of the voting power held in the Company prior to the consummation of the transaction; or

iv. The Company's stockholders approve a liquidation or dissolution of the Company and all material contingencies to such liquidation or dissolution have been satisfied or waived.

(d) "Charter" means the corporate charter of the Corporation, as the same may be amended from time to time.

(e) "Disinterested Director" means a director of the Company who is not and was not a party to the Proceeding in respect of which indemnification or advance of Expenses is sought by Indemnitee.

(f) "Expenses" shall mean any and all reasonable expenses, including, without limitation, reasonable attorneys fees, disbursements and retainers, accounting and witness fees, travel and deposition costs, transcript costs, fees of experts, expenses of investigations and court costs, customarily incurred in connection with investigating, prosecuting, defending, being a witness in or participating in (including on appeal), or preparing to prosecute or defend, to be a witness or other participant, in a Proceeding.

(g) "Indemnifiable Event" shall mean any actual or asserted event or occurrence related to the fact that Indemnitee is or was a director, officer, employee, agent or fiduciary of the Company, or is or was serving at the request of the Company as a director, officer, partner, employee, trustee, manager, member, agent or fiduciary of another corporation, partnership, limited liability company, association, joint venture, trust, employee benefit plan or other entity or enterprise, or by reason of any action or inaction on the part of Indemnitee while serving in such capacity, in each case whether before or after the date of this Agreement.

(h) "Independent Counsel" means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past five years has been, retained to represent: (i) the Company or Indemnitee in any matter material to either such party, or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Company or Indemnitee in an action to determine Indemnitee's rights under this Agreement. If a Change of Control has not occurred, Independent Counsel shall be selected by the Board of Directors, with the approval of Indemnitee, which approval will not be unreasonably withheld. If a Change of Control has occurred, Independent Counsel shall be selected by Indemnitee, with the approval of the Board of Directors, which approval will not be unreasonably withheld, and by such approval, the Board of Directors shall be deemed to have joined in such selection.

(i) "Proceeding" includes any threatened, pending or completed action, suit, arbitration, alternate dispute resolution mechanism, investigation, administrative hearing or any other proceeding (including any appeals in any of the foregoing), whether civil, criminal, administrative or investigative, except one initiated by an Indemnitee pursuant to Section 6 of this Agreement to enforce Indemnitee's rights under this Agreement.

(j) References herein to “fines” shall include, without limitation, excise taxes assessed on Indemnitee with respect to any employee benefit plan.

2. Indemnification.

2.1 Indemnification with Respect to Proceedings Other Than Proceedings by or in the Right of the Company. In the event that Indemnitee was, is or becomes a party to or witness or other participant in, or is threatened to be made a party to, or witness or other participant in, any Proceeding (other than a Proceeding by or in the right of the Company) by reason of (or arising in whole or in part from) an Indemnifiable Event, the Company shall indemnify the Indemnitee, to the fullest extent permitted by applicable law, from and against all Expenses, judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by Indemnitee, or on behalf of Indemnitee, in connection with such Proceeding, provided that, in the case of amounts paid in settlement, any settlement of such Proceeding is approved in advance by the Company in writing, which approval shall not be unreasonably withheld, delayed or applied in an inconsistent manner.

2.2 Indemnification with Respect to Proceedings by or in the Right of the Company. In the event that Indemnitee was, is or becomes a party to, or witness or other participant in, any Proceeding brought by or in the right of the Company to procure a judgment in favor of the Company by reason of (or arising in whole or in part from) an Indemnifiable Event, the Company shall indemnify Indemnitee, to the fullest extent permitted by applicable law, from and against all Expenses and amounts paid in settlement actually and reasonably incurred by Indemnitee, or on behalf of Indemnitee, in connection with such Proceeding.

2.3 Partial Indemnification. If Indemnitee is entitled under any provision of this Agreement to indemnification by the Company for some portion of the Expenses, judgments, penalties, fines and amounts paid in settlement of a Proceeding which Indemnitee was, is or becomes a party to, or witness or other participant in, or is threatened to be made a party to, or witness or other participant in, by reason of an Indemnifiable Event, but not, however, for all of the total amount of such Expenses, judgments, fines, penalties and amounts paid in settlement, the Company will nevertheless indemnify Indemnitee for the portion thereof to which Indemnitee is entitled.

2.4 Indemnification for Expenses of a Party Who is Wholly or Partly Successful. Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of an Indemnifiable Event, made a party to and is successful, on the merits or otherwise, in the defense of, any Proceeding, Indemnitee shall be indemnified against all Expenses actually and reasonably incurred by Indemnitee, or on behalf of Indemnitee, in connection therewith. Without limiting any other rights of Indemnitee in this Agreement, if Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnitee against all Expenses actually and reasonably incurred by him or on his behalf in connection with each successfully resolved claim, issue or matter. For purposes of this Section and without limitation, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

3. Advance of Expenses. The Company shall advance all Expenses reasonably incurred by or on behalf of Indemnitee in connection with any Proceeding to which Indemnitee is, or is threatened to be made, a party or with respect to which Indemnitee is, or is threatened to be made, a witness or other participant, by reason of (or arising in whole or in part from) an Indemnifiable Event, whether prior to or after final disposition of such Proceeding, to the fullest extent permitted by applicable law and without requiring a preliminary determination as to Indemnitee's ultimate entitlement to indemnification, within ten days after the receipt by the Company of a statement or statements from Indemnitee requesting such advance or advances from time to time. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee and, if required by applicable law, shall include or be preceded or accompanied by (a) a written affirmation by the Indemnitee of the Indemnitee's good faith belief that the standard of conduct necessary for indemnification by the Company as authorized by law and by this Agreement has been met and (b) a written undertaking by or on behalf of Indemnitee to repay any Expenses advanced if it shall ultimately be determined that such standard of conduct has not been met. Any such undertaking which may be required under this Section 3 shall be an unlimited general obligation by or on behalf of Indemnitee and shall be accepted without reference to Indemnitee's financial ability to make the repayment, need not be secured, and shall not require the payment of interest on any such advances.

4. Procedure for Determination of Entitlement to Indemnification.

4.1 Request for Indemnification. To obtain indemnification under this Agreement, Indemnitee shall submit to the Company a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification. Promptly upon receipt of such a request for indemnification, the Company shall cause its Board of Directors to be so advised in writing that Indemnitee has requested indemnification.

4.2 Determination of Right to Indemnification. Upon written request by Indemnitee for indemnification pursuant to the first sentence of Section 4.1 hereof, a determination, if required by applicable law, with respect to Indemnitee's entitlement thereto shall promptly be made in the specific case: (i) if a Change in Control shall have occurred, by Independent Counsel in a written opinion to the Board of Directors, a copy of which shall be delivered to Indemnitee; or (ii) if a Change in Control shall not have occurred, (A) by the Board of Directors by a majority vote of a quorum consisting of Disinterested Directors, or (B) if a quorum of the Board of Directors consisting of Disinterested Directors is not obtainable or, even if obtainable, such quorum of Disinterested Directors so directs, by Independent Counsel in a written opinion to the Board of Directors, a copy of which shall be delivered to Indemnitee or (C) if so directed by a majority of the members of the Board of Directors, by the stockholders of the Company. If it is determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within ten days after such determination. Indemnitee shall cooperate with the person making such determination with respect to Indemnitee's entitlement to

indemnification, including providing to such person upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnatee and reasonably necessary to such determination. Any costs or expenses (including reasonable attorneys' fees and disbursements) incurred by Indemnatee in so cooperating with the person making such determination, in response to a request by such person, shall be borne by the Company (irrespective of the determination as to Indemnatee's entitlement to indemnification).

5. Presumptions and Effect of Certain Proceedings.

(a) In making a determination with respect to entitlement to indemnification hereunder, (i) the person making such determination shall presume that Indemnatee is entitled to indemnification under this Agreement if Indemnatee has submitted a request for indemnification in accordance with Section 4.1 of this Agreement, and (ii) the Company shall have the burden of proof to overcome that presumption in connection with the making of any determination contrary to that presumption.

(b) The termination of any proceeding by judgment, order, settlement, conviction, a plea of *nolo contendere* or its equivalent, or an entry of an order of probation prior to judgment, does not create a presumption that the Indemnatee did not meet the requisite standard of conduct required under applicable law for indemnification.

6. Remedies of Indemnatee.

(a) In the event that (i) a determination is made pursuant to Section 4.2 that Indemnatee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 3, (iii) no determination of entitlement to indemnification shall have been made pursuant to Section 4.2 within sixty days after receipt by the Company of the request for indemnification, (iv) payment of indemnification is not made pursuant to Section 2.4 within ten days after receipt by the Company of a written request therefor, or (v) payment of indemnification is not made within ten days after a determination has been made that Indemnatee is entitled to indemnification, Indemnatee shall be entitled to an adjudication in an appropriate court of the State of Maryland, or in any other court of competent jurisdiction, of his entitlement to such indemnification or advancement of Expenses. Neither the failure of the Board of Directors or a committee thereof, or the stockholders of the Company, or Independent Counsel to have made a determination pursuant to Section 4.2 that Indemnatee is entitled to indemnification, nor an actual determination by the Board of Directors or a committee thereof, or the stockholders, of the Company, or Independent Counsel, that Indemnatee is not entitled to indemnification shall be a defense to any judicial adjudication sought by Indemnatee or create a presumption that the Indemnatee is not entitled to indemnification or advancement of Expenses.

(b) In any judicial proceeding commenced pursuant to this Section 6, the Company shall have the burden of proving that Indemnatee is not entitled to indemnification or advancement of Expenses, as the case may be.

(c) If a determination shall have been made pursuant to Section 4.2 of this Agreement that Indemnitee is entitled to indemnification, the Company shall be bound by such determination in any judicial proceeding commenced pursuant to this Section 6, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) a prohibition of such indemnification under applicable law.

(d) In the event that Indemnitee, pursuant to this Section 6, seeks a judicial adjudication to establish or enforce Indemnitee's rights under, or to recover damages for breach of, this Agreement, Indemnitee shall be entitled to recover from the Company, and shall be indemnified by the Company against, any and all expenses (of the types described in the definition of Expenses in Section 1) actually and reasonably incurred by Indemnitee in connection with such judicial adjudication, regardless of the outcome of such judicial adjudication unless the court in such judicial adjudication determines that the material assertions made by Indemnitee in such judicial adjudication were not made in good faith or were frivolous.

7. Indemnification Hereunder Not Exclusive. The indemnification provided by this Agreement shall not be deemed exclusive of, and shall be in addition to, any indemnification or other rights to which the Indemnitee may be entitled under the Charter, the Bylaws, any vote of stockholders or Disinterested Directors, applicable law, or otherwise, both as to action in his official capacity and as to action in another capacity on behalf of the Company while holding office; provided, however, that to the extent that the Indemnitee otherwise would have any greater right to indemnification under any provision of the Charter or Bylaws as in effect on the date hereof, the Indemnitee shall be deemed to have such greater right hereunder; and provided, further, that to the extent that any change is made to the Charter and/or Bylaws which permits any greater right to indemnification than that provided under this Agreement, the Indemnitee shall be entitled to have such greater right. No modification or amendment of this Agreement or of any provision hereof shall limit or restrict any right of Indemnitee under this Agreement in respect of any Indemnifiable Event prior to such modification or amendment.

8. Liability Insurance. To the extent that the Company maintains liability insurance for directors, officers, employees, or agents of the Company or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which such person serves at the request of the Company, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, officer, employee or agent under such policy or policies.

9. Subrogation. In the event of any payment under this Agreement, the Company shall be subrogated to the extent of such payment to all of the related rights of recovery of Indemnitee against other person or entities, and Indemnitee shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

10. No Duplication of Payment. The Company shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder if and to the extent that Indemnitee has otherwise actually received payment of such amount under any insurance policy, contract, agreement, any provision of the Charter or Bylaws, or otherwise.

11. Exclusions. Notwithstanding any other provision of this Agreement to the contrary, the Company shall not be liable for, and the Indemnitee shall not be entitled to, indemnification or advance of Expenses under this Agreement with respect to: (i) any settlement or judgment for insider trading or for disgorgement of profits pursuant to Section 16(b) of the Securities Exchange Act of 1934; or (ii) any Proceeding initiated or brought by Indemnitee, and not by way of defense (other than an action or proceeding under Section 6 of this Agreement), unless the bringing of such Proceeding has been approved by the Board of Directors.

12. Duration of Agreement. This Agreement shall continue until and terminate ten years after the date that Indemnitee shall have ceased to serve as a director, officer, employee, or agent of the Company or of any other corporation, partnership, limited liability company, association, joint venture, trust, employee benefit plan or other entity or enterprise which Indemnitee served at the request of the Company; provided, that the rights of Indemnitee hereunder shall continue until the final termination of any Proceeding then pending in respect of which Indemnitee is granted rights of indemnification or advancement of Expenses hereunder and of any proceeding commenced by Indemnitee pursuant to Section 6 relating thereto.

13. Successors and Assigns. This Agreement shall be binding upon the Company and its successors and assigns and shall inure to the benefit of Indemnitee and his or her spouse, assigns, heirs, executors, administrators and other legal representatives. The Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and assets of the Company, by written agreement, expressly to assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform if no such succession had taken place.

14. Severability. If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (i) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (ii) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any section of this Agreement containing any such provision held to be invalid, illegal or unenforceable that is not itself invalid, illegal or unenforceable) shall be construed so as to give effect to the intent manifested thereby.

15. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement. Only one such counterpart signed by the party against whom enforceability is sought needs to be produced to evidence the existence of this Agreement.

16. Headings. The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

17. Modification and Waiver. No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

18. Notice by Indemnitee; Company Participation.

(a) Indemnitee shall promptly notify the Company in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating to any Proceeding or matter which may be subject to indemnification or advance of Expenses covered hereunder.

(b) With respect to any Proceeding which may be subject to indemnification or advance of Expenses under this Agreement, unless Indemnitee waives its indemnification rights under this Agreement with respect to such Proceeding, the Company will be entitled to participate in the Proceeding at its own expense and, except as otherwise provided below, if it so elects, the Company may assume the defense of the Proceeding, with counsel satisfactory to the Indemnitee. After notice from the Company to the Indemnitee of its election to assume the defense of a Proceeding, during the Company's good faith active defense, the Company will not be liable to the Indemnitee under this Agreement for any Expenses subsequently incurred by the Indemnitee in connection with the defense of the Proceeding, other than reasonable costs of investigation or as otherwise provided below. The Company shall not settle any such Proceeding in any manner which would impose any penalty or limitation on the Indemnitee without the Indemnitee's written consent. The Indemnitee shall have the right to employ separate counsel in any such Proceeding, but the fees the expenses of such counsel incurred after notice from the Company of its assumption of the defense of the Proceeding shall be at the expense of the Indemnitee, unless (i) the employment of counsel by Indemnitee has been authorized by the Company, (ii) the Indemnitee shall have reasonably concluded that there may be conflict of interest between the Company and the Indemnitee in the conduct of the defense of the Proceeding, or (iii) the Company shall not in fact have employed counsel to assume the defense of a Proceeding, in each of which cases the fees and expenses of Indemnitee's counsel shall be Expenses for which Indemnitee may receive indemnification or advances under this Agreement. The Company shall not be entitled to assume the defense of any Proceeding bought by or on behalf of the Company or as to which the Indemnitee has reasonably concluded there may be a conflict of interest between the Company and the Indemnitee.

19. Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given when hand-delivered or dispatched by electronic mail or facsimile transmission (with receipt thereof orally confirmed) or three calendar days after having been mailed by United States registered or certified mail, return receipt requested, postage prepaid or one business day after having been sent for next day delivery by a nationally recognized courier service, addressed as follows:

(a) If to Indemnitee, to:

(b) If to the Company to:

Kilroy Realty Corporation
12200 W. Olympic Boulevard
Suite 200
Los Angeles, CA 90064
Attn: _____

or to such other address as may have been furnished to Indemnitee by the Company or to the Company by Indemnitee, as the case may be.

20. Affiliated Entities. If Indemnitee is or was serving as a director, officer, partner, employee, trustee, manager, member, agent or fiduciary of any entity or enterprise (including any employee benefit plan) affiliated with or related to the Company, he or she will be deemed to have done so, or be doing so, at the request of the Company.

21. Services to the Company. Indemnitee will serve, or continue to serve, at the will of the Company, as an officer or director of the Company and/or one or more affiliates of the Company for so long as Indemnitee is duly elected or appointed or until Indemnitee tenders his or her resignation; however, this Agreement shall not impose any obligations on Indemnitee or the Company to continue Indemnitee's service to or on behalf of the Company beyond any period otherwise required by law or by other agreements or commitments of the parties, if any.

22. Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Maryland.

23. Entire Agreement. This Agreement constitutes the entire understanding and agreement of the parties with respect to the subject matter hereof and supersedes all prior written or oral negotiations, understandings or agreements between the parties with respect to the subject matter hereof; provided however that this Agreement is not intended to, and does not, supersede any indemnification or other rights to which the Indemnitee may be entitled under the Charter, the Bylaws or applicable law, or pursuant to any employment agreement between Indemnitee and the Company.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

KILROY REALTY CORPORATION

By: _____
Name:
Title:

By: _____
Name:
Title:

INDEMNITEE:

Name:

SEPARATION AGREEMENT AND RELEASE

This **SEPARATION AGREEMENT AND RELEASE** ("**Agreement**") is entered into on this 16th day of December, 2009, by and between Richard E. Moran Jr. (the "**Executive**"), Kilroy Realty, L.P. and Kilroy Realty Corporation (the "**Company**"). In consideration of the mutual covenants contained herein, the sufficiency of which is hereby acknowledged, the parties agree as follows:

1. **Separation from Employment.** Executive and the Company mutually agree that Executive's employment with the Company and its affiliates, including Kilroy Realty, L.P., shall terminate effective as of December 31, 2009 (the "**Separation Date**") pursuant to Section 6(c) of the Employment Agreement, as amended, by and between the Company and the Executive, which became effective as of January 1, 2007 (the "**Employment Agreement**"). Effective as of December 15, 2009, Executive and the Company mutually agree that Executive shall no longer serve as an officer or director of the Company or any of its affiliates, including Kilroy Realty, L.P., but shall continue in employment with the Company through December 31, 2009.

2. **Separation Benefits.** Subject to compliance with Section 3 of this Agreement and the condition set forth in Section 4 of this Agreement, Executive shall be entitled to receive and the Company shall pay and provide Executive with the following compensation and benefits, less any tax or other legally required withholdings:

(i) Executive's Compensation Accrued at Termination (as defined in the Employment Agreement), including any accrued vacation, payable as part of the Company's regularly scheduled pay period concurrent with or next following the Separation Date;

(ii) in lieu of a Partial Year Bonus (as defined in the Employment Agreement), a bonus under the Company's 2009 annual bonus program based on actual performance of the Company for 2009, which bonus shall be paid to Executive in cash no later than January 31, 2010, subject to any deferrals previously elected by Executive; provided that any bonus that would have otherwise been payable in stock shall be deferred in accordance with Executive's existing stock deferral election;

(iii) \$5,650,488 as Executive's severance payment under Section 6(c)(iii) of the Employment Agreement payable six months and one day following the Separation Date;

(iv) \$250,000 in payment of Executive's Long-Term Incentive Award, as a performance based awards under Section 6(c)(v) of the Employment Agreement, payable within 50 days of the Separation Date;

(v) full vesting in 92,799 restricted stock units and 15,996 shares of restricted stock pursuant to Section 6(iv) of the Employment Agreement;

(vi) \$240,000 as an additional past service, loyalty and cooperation bonus payable within 50 days of the Separation Date;

(vii) health insurance coverage (i.e., medical, dental and vision) pursuant to Federal COBRA/Cal-COBRA for Executive and his spouse and eligible dependent children under the Company's group health plans in which Executive was participating on the Separation Date or if the applicable health insurance plan is terminated after the Separation Date, in the applicable health insurance plan in which senior executives of the Company participate following the termination of such plan. Executive agrees that he and his spouse and eligible dependent children, as applicable, shall elect Federal COBRA/Cal-COBRA continuation coverage within the time period permitted by Federal COBRA/Cal-COBRA and, subject to such election, the Company agrees to pay the cost of the premiums for such Federal COBRA/Cal-COBRA continuation coverage. Following the applicable Federal COBRA/Cal-COBRA continuation coverage period, Executive shall be entitled to a monthly payment of \$4,166.67 paid during each month remaining in the thirty-six (36) month period immediately following the Separation Date. For example, if Executive remains covered under Federal COBRA/Cal-COBRA for twenty-nine (29) months following the Separation Date, then the Company will provide Executive with a monthly payment of \$4,166.67 during each of the seven (7) months immediately following the end of the Federal COBRA/Cal-COBRA continuation period. Following the Federal COBRA/Cal-COBRA continuation period, Executive may be eligible to participate in HIPAA plans or conversion plans in order to obtain health insurance coverage;

(viii) to assist Executive and his spouse with potential unreimbursed medical expenses and medical insurance premiums during the period beginning on January 1, 2010 and ending on December 31, 2014 (the "**Medical Reimbursement Period**"), reimbursement for expenses (the "**Medical Expenses**") referred to in Section 105(b) of the Internal Revenue Code of 1986, as amended, incurred by Executive or his spouse during the Medical Reimbursement Period that are not otherwise paid for by, or eligible for reimbursement under, insurance coverage, whether private or governmental insurance, and, with respect to months where Executive is eligible to receive a payment of \$4,166.67 pursuant to clause (vii), only with respect to Medical Expenses incurred in excess of \$4,166.67 for the particular month. Notwithstanding the foregoing, the reimbursement for Medical Expenses pursuant to this clause (viii) shall not exceed an overall maximum reimbursement amount of \$250,000. In addition, as a condition to reimbursement under this clause (viii), Executive agrees to, and agrees to cause his spouse to, fully and timely apply for all available government medical insurance programs and to use commercially reasonable efforts to obtain private medical insurance coverage, in each case, to cover Medical Expenses, and to seek payment or reimbursement for Medical Expenses from both private and governmental insurance, as applicable, during the Medical Reimbursement Period; provided, that Executive and his spouse shall remain eligible for reimbursement under this clause (viii) if Executive or his spouse, as applicable, is unable to obtain medical insurance coverage during the Medical Reimbursement Period after making such applications and using such commercially reasonable efforts to obtain such coverage; and

(ix) reimburse Executive for expenses incurred by Executive in calendar year 2010 for tax and financial planning services up to a maximum of \$39,145 provided, that such reimbursement by the Company shall be made no later than March 15, 2011; provided, further, that Executive shall have provided a reasonably detailed reimbursement request with respect to such services to the Company no later than February 1, 2011 in order to receive such reimbursement.

Executive agrees that the payments and benefits to be received under Sections 2(i)-(ix) are in full satisfaction of all amounts to which he may be entitled under the Employment Agreement. For the avoidance of doubt, all of Executive's deferred compensation, including any dividend equivalents that have been deferred, will be settled in accordance with the plans and programs governing the deferred compensation. Any amount that Executive is entitled to be reimbursed under this Agreement will be reimbursed to Executive as promptly as practical and in any event not later than the end of the calendar year following the calendar year in which the expenses are incurred; provided that Executive shall have provided a reasonably detailed reimbursement request to the Company no later than thirty (30) days prior to the last date the reimbursement is due. The amount of the expenses eligible for reimbursement during any calendar year will not affect the amount of expenses for reimbursement in any other calendar year, except as provided in Section 2(viii), and the right to reimbursement or in-kind benefits are not subject to liquidation or exchange for another benefit.

3. Cooperation. At the request of the Company, Executive agrees to cooperate to the fullest extent possible with respect to legal and operational matters involving the Company and its affiliates about which Executive has or may have personal knowledge, including reasonable cooperation in the professional transition of those matters for which he was responsible and involved in during his employment with the Company and any such matters which may arise after the Separation Date.

4. Release. For and in consideration of the payments and benefits payable and provided to the Executive under Section 2(ii)-(vii) above (the "**Separation Benefits**"), and for other good and valuable consideration, the Executive hereby agrees, for the Executive, the Executive's spouse and child or children (if any), the Executive's heirs, beneficiaries, devisees, executors, administrators, attorneys, personal representatives, successors and assigns, to forever release, discharge and covenant not to sue the Company, or any of its divisions, affiliates (including Kilroy Realty LP, Kilroy Realty Corporation, Kilroy Realty Finance, Inc., Kilroy Services LLC, Kilroy Realty TRS, Inc., Kilroy Industries, The John B. and Nelly Llanos Kilroy Foundation, John B. Kilroy, Jr., or John B. Kilroy, Jr.'s spouse or immediate family members, John B. Kilroy, Sr., or his spouse or immediate family members), subsidiaries, parents, branches, predecessors, successors, assigns, and, with respect to such entities and individuals, their officers, directors, trustees, employees, agents, shareholders, administrators, general or limited partners, representatives, attorneys, insurers and fiduciaries, past, present and future (the "**Released Parties**") from any and all claims of any kind arising out of, or related to, his employment with the Company, its affiliates and subsidiaries (collectively, with the Company, the "**Affiliated Entities**") or the Executive's separation from employment with the Affiliated Entities, which the Executive now has or may have against the Released Parties, whether known or unknown to the Executive, by reason of facts which have occurred on or prior to the

Separation Date. Such released claims include, without limitation, any and all claims relating to the foregoing under federal, state or local laws pertaining to employment, including, without limitation, the Age Discrimination in Employment Act, Title VII of the Civil Rights Act of 1964, as amended, 42 U.S.C. Section 2000e et. seq., the Fair Labor Standards Act, as amended, 29 U.S.C. Section 201 et. seq., the Americans with Disabilities Act, as amended, 42 U.S.C. Section 12101 et. seq. the Reconstruction Era Civil Rights Act, as amended, 42 U.S.C. Section 1981 et. seq., the Rehabilitation Act of 1973, as amended, 29 U.S.C. Section 701 et. seq., the Family and Medical Leave Act of 1993, 29 U.S.C. Section 2601 et. seq., the California Fair Employment and Housing Act, the California Family Rights Act; the California Labor Code, the California Occupational Safety and Health Act, Section 17200 of the California Business and Professions Code and any and all state or local laws regarding employment discrimination and/or federal, state or local laws of any type or description regarding employment, including but not limited to any claims arising from or derivative of the Executive's employment with the Affiliated Entities, as well as any and all such claims under state contract or tort law.

The Executive has read this Agreement carefully, acknowledges that the Executive has been given at least 21 days to consider all of its terms and has been advised to consult with any attorney and any other advisors of the Executive's choice prior to executing this Agreement, and the Executive fully understands that by signing below the Executive is voluntarily giving up any right which the Executive may have to sue or bring any other claims against the Released Parties, including any rights and claims under the Age Discrimination in Employment Act. The Executive also understands that the Executive has a period of seven days after signing this Agreement within which to revoke Executive's release of claims under the Age Discrimination in Employment Act, and that neither the Company nor any other person is obligated to make any payments or provide any of the Separation Benefits to the Executive pursuant to the Agreement until eight days have passed since the Executive's signing of this Agreement without the Executive's signature having been revoked other than any accrued obligations or other benefits payable pursuant to the terms of the Company's normal payroll practices or employee benefit plans. Executive's right to revoke is limited solely to the Age Discrimination in Employment Act and shall not be construed as a general right to revoke this Agreement or any other provisions thereof. If Executive revokes his release of claims under the Age Discrimination in Employment Act, all remaining terms in this Agreement shall continue to have full force and effect and the Agreement shall continue to be enforceable as if the Age Discrimination in Employment Act release was severed, but neither the Company nor any other person shall be obligated to make any payments or provide any of the Separation Benefits to the Executive pursuant to the Agreement other than \$100 as consideration for the remaining claims released hereunder. Finally, the Executive has not been forced or pressured in any manner whatsoever to sign this Agreement, and the Executive agrees to all of its terms voluntarily.

EXECUTIVE ACKNOWLEDGES THAT HE IS FAMILIAR WITH THE PROVISIONS OF CALIFORNIA CIVIL CODE SECTION 1542, WHICH PROVIDES AS FOLLOWS:

A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.

BEING AWARE OF SAID CODE SECTION, EXECUTIVE EXPRESSLY WAIVES ANY RIGHTS HE MAY HAVE THEREUNDER, AS WELL AS UNDER ANY OTHER STATUTES OR COMMON LAW PRINCIPLES OF SIMILAR EFFECT.

Notwithstanding anything else herein to the contrary, this Agreement shall not affect: (i) the Company's obligations under any compensation or employee benefit plan, program or arrangement (including, without limitation, obligations to the Executive under the Employment Agreement, any stock option, stock award or agreements or obligations under any pension, deferred compensation or retention plan) provided by the Affiliated Entities where the Executive's compensation or benefits are intended to continue or the Executive is to be provided with compensation or benefits, in accordance with the express written terms of such plan, program or arrangement, beyond the Separation Date; (ii) rights to indemnification the Executive may have under the Employment Agreement, any other separate agreement entered into with the Company, any directors and officers liability insurance, the Company's By-laws or Articles of Incorporation or California Labor Code Section 2802; (iii) rights Executive may have as a shareholder, unit holder or prior member of the operating partnership; (iv) claims for unemployment compensation or any state disability insurance benefits pursuant to the terms of applicable state law; (v) without waiver of the releases set forth in this Agreement, Executive's right to bring to the attention of the Equal Employment Opportunity Commission or the California Department of Fair Employment and Housing claims of discrimination, though Executive acknowledges that he shall not be entitled to recover any damages individually as a result of an action resulting from an action that arises, directly or indirectly, from such notification; or (vi) any claims that can not be waived by law.

5. Miscellaneous. This Agreement is final and binding and may not be changed or modified except in a writing signed by both parties. Section 12 of the Employment Agreement shall apply to this Release.

[signature page to follow]

IN WITNESS WHEREOF, the parties have executed the Agreement on December 16, 2009.

EXECUTIVE:

/s/ Richard E. Moran Jr.

Name: Richard E. Moran Jr.

KILROY REALTY CORPORATION:

/s/ Tyler H. Rose

Name: Tyler H. Rose

Title: Senior Vice President and Treasurer

KILROY REALTY CORPORATION:

/s/ Heidi R. Roth

Name: Heidi R. Roth

Title: Senior Vice President and Controller

KILROY REALTY, L.P.:

/s/ Tyler H. Rose

Name: Tyler H. Rose

Title: Senior Vice President and Treasurer

KILROY REALTY, L.P.:

/s/ Heidi R. Roth

Name: Heidi R. Roth

Title: Senior Vice President and Controller

RECORDING REQUESTED BY
Northwestern Mutual Life

When Recorded Mail to:

The Northwestern Mutual Life
Insurance Company
Sandra T. Clark - Room N16WC
720 E. Wisconsin Avenue
Milwaukee, WI 53202

Loan No. 338314

DEED OF TRUST and SECURITY AGREEMENT

California

Loan No. 338314

RECORDING REQUESTED BY

WHEN RECORDED MAIL TO

The Northwestern Mutual Life Ins. Co.
720 East Wisconsin Avenue - Rm N16WC
Milwaukee, WI 53202
Attn: Sandra T. Clark

SPACE ABOVE THIS LINE FOR RECORDER'S USE

DEED OF TRUST and SECURITY AGREEMENT

THIS DEED OF TRUST and SECURITY AGREEMENT is made as of the 26th day of January, 2010 between KILROY REALTY, L.P., a Delaware limited partnership, whose mailing address is 12200 W. Olympic Boulevard, Suite 200, Los Angeles, CA 90064, herein (said Grantor/Trustor, whether one or more in number) called "Grantor", and THE NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY, a Wisconsin corporation, whose mailing address is 720 E. Wisconsin Avenue, Milwaukee, WI 53202, herein called "Trustee", and THE NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY, a Wisconsin corporation, whose mailing address is 720 E. Wisconsin Avenue, Milwaukee, WI 53202, herein called "Beneficiary":

WITNESSETH, That Grantor, in consideration of the indebtedness herein mentioned, does hereby irrevocably bargain, sell, grant, transfer, assign and convey unto Trustee, in trust, with power of sale and right of entry and possession, the following property (herein referred to as the "Property"):

- A. The land in the City of San Diego, County of San Diego, State of California, described in Exhibits "A-1" through "A-3" attached hereto and incorporated herein (the "San Diego Land");
- B. The land in the City of El Segundo, County of Los Angeles, State of California, described in Exhibit "A-4" attached hereto and incorporated herein (the "El Segundo Land");

the San Diego Land and the El Segundo Land are hereinafter referred to collectively as the "Land";

-
- C. All easements, appurtenances, tenements and hereditaments belonging to or benefiting the Land, including but not limited to all waters, water rights, water courses, all ways, trees, rights, liberties and privileges;
 - D. All improvements to the Land, including, but not limited to, all buildings, structures and improvements now existing or hereafter erected on the Land; all fixtures and equipment of every description belonging to Grantor which are or may be placed or used upon the Land or attached to the buildings, structures or improvements, including, but not limited to, all engines, boilers, elevators and machinery, all heating apparatus, electrical equipment, air-conditioning and ventilating equipment, water and gas fixtures, and all furniture and easily removable equipment; all of which, to the extent permitted by applicable law, shall be deemed an accession to the freehold and a part of the realty as between the parties hereto; and
 - E. Grantor's interest in all articles of personal property of every kind and nature whatsoever, including, but not limited to all carpeting, draperies, easily removable equipment and fixtures, furniture, dehumidification equipment, etc., now or hereafter located upon the Land or in or on the buildings and improvements and now owned or hereafter acquired by Grantor.

Except in the ordinary course of business, Grantor agrees not to sell, transfer, assign or remove anything described in C, D and E above now or hereafter located on the Land without prior written consent from Beneficiary, not to be unreasonably withheld, conditioned or delayed, unless (i) such action does not constitute a sale or removal of any buildings or structures or the sale or transfer of waters or water rights and (ii) such action results in the substitution or replacement with similar items of equal value, or in the case of removal, such action is a temporary removal for maintenance and repair.

Each separate parcel of Land described on Exhibits "A-1" through "A-4", together with the improvements and other portions of the Property located on such parcel of Land are each an "Initial Project" and collectively the "Initial Projects".

"Project" means any Initial Project or any Substitute Project (as defined in the section hereof entitled "**Substitution of Security**") which at a given point in time is subject to this instrument or a separate lien instrument for the benefit of Beneficiary and securing the Note (as hereinafter defined).

The term "Property" shall include the Projects which at any given point in time are subject to this or a separate lien instrument in favor of Beneficiary and securing the Note.

Without limiting the foregoing grants, Grantor hereby pledges to Beneficiary, and grants to Beneficiary a security interest in, all of Grantor's present and hereafter acquired right, title and interest in and to the Property and any and all

- F. Cash and other funds now or at any time hereafter deposited by or for Grantor on account of tax, special assessment, replacement or other reserves required to be maintained pursuant to the Loan Documents (as hereinafter defined) with Beneficiary or a third party, or otherwise deposited with, or in the possession of, Beneficiary pursuant to the Loan Documents; and
- G. surveys, soils reports, environmental reports, guaranties, warranties, architect's contracts, construction contracts, drawings and specifications, applications, permits, surety bonds and other contracts relating to the acquisition, design, development, construction and operation of the Property; and
- H. accounts, chattel paper, deposit accounts, instruments, equipment, inventory, documents, general intangibles, letter-of-credit rights, investment property and all other personal property of Grantor, in each case, to the extent associated with or arising from the ownership, development, operation, use or disposition of any portion of the property; and
- I. present and future rights to condemnation awards, insurance proceeds or other proceeds at any time payable to or received by Grantor on account of the Property or any of the foregoing personal property.

All personal property hereinabove described is hereinafter referred to as the "Personal Property".

If any of the Property is of a nature that a security interest therein can be perfected under the Uniform Commercial Code, this instrument shall constitute a security agreement and financing statement if permitted by applicable law and Grantor authorizes Beneficiary to file a financing statement describing such Property and, at Beneficiary's request, agrees to join with Beneficiary in the execution of any financing statements and to execute any other instruments that may be necessary or desirable, in Beneficiary's determination, for the perfection or renewal of such security interest under the Uniform Commercial Code.

TO HAVE AND TO HOLD the same unto Trustee for the purpose of securing:

(a) Payment to the order of Beneficiary of the indebtedness evidenced by a promissory note of even date herewith (and any restatement, extension or renewal thereof and any amendment thereto) executed by Grantor for the principal sum of SEVENTY-ONE MILLION DOLLARS, with final maturity no later than February 1, 1017 and with interest as therein expressed (which promissory note, as such instrument may be amended, restated, renewed and extended, is hereinafter referred to as the "Note"), it being recognized that the funds may not have been fully advanced as of the date hereof but may be advanced in the future in accordance with the terms of a written contract; and

(b) Payment of all sums that may become due Beneficiary under the provisions of, and the performance of each agreement of Grantor contained in, the Loan Documents; and

(c) Payment of such additional sums, with interest thereon, as may hereafter be loaned by Beneficiary to Grantor when evidenced by a promissory note or notes of Grantors, which are identified by recital as being secured by this deed of trust, and such note or notes shall be included in the word "Note" wherever it appears in the context of this deed of trust, and the indebtedness evidenced by such additional note or notes shall have the same priority as the indebtedness secured hereby.

"Loan Documents" means this instrument, the Note, that certain Loan Application dated November 30, 2009 from Grantor to Beneficiary and that certain acceptance letter issued by Beneficiary dated December 14, 2009 (together, the "Commitment"), that certain Absolute Assignment of Leases and Rents of even date herewith between Grantor and Beneficiary (the "Absolute Assignment"), that certain Certification of Borrower of even date herewith, that certain Limited Partnership Supplement dated contemporaneously herewith, any other supplements and authorizations required by Beneficiary and any other agreement entered into or document executed by Grantor and delivered to Beneficiary in connection with the indebtedness evidenced by the Note, except for that certain Environmental Indemnity Agreement of even date herewith given by Kilroy Realty Corporation, a Maryland corporation (the "Principal"), and Grantor to Beneficiary (the "Environmental Indemnity Agreement"), as any of the foregoing may be amended from time to time.

Fixture Filing. This Deed of Trust constitutes a financing statement, filed as a fixture filing in the real estate records of the County of the State in which the real estate described in Exhibit "A -1" through Exhibit "A-4" is located, with respect to any and all fixtures included within the term "Property" and "fixtures" under this Deed of Trust and to any goods or other personal property that are now or hereafter become a part of the Property as fixtures.

TO PROTECT THE SECURITY OF THIS DEED OF TRUST, GRANTOR COVENANTS AND AGREES:

Payment of Debt. Grantor agrees to pay the indebtedness hereby secured (the "Indebtedness") promptly and in full compliance with the terms of the Loan Documents.

Ownership. Grantor represents that it owns the Property and has good and lawful right to convey the same and that the Property is free and clear from any and all encumbrances whatsoever, other than the following (collectively, the "Permitted Encumbrances"): (i) encumbrances set for the in the title reports issued in connection with the Loans and accepted by Beneficiary, (ii) encumbrances on Personal Property securing purchase money obligations and capital leases entered into in the ordinary course of business; (iii) encumbrances with respect to obligations that are not delinquent or that relate to contested liens as specifically permitted pursuant to the section entitled **Other Liens**; (iv) encumbrances created by the interests of lessees under leases specifically permitted under the Absolute Assignment; and (v) encumbrances created pursuant to the Loan Documents. Grantor does hereby forever warrant and shall forever defend the title and possession thereof against the claims of any and all persons whomsoever other than Permitted Encumbrances.

Maintenance of Property and Compliance with Laws. Grantor agrees to keep the buildings and other improvements now or hereafter erected on the Land in good condition and repair; not to commit or suffer any waste; to comply in all material respects with all laws, rules and regulations affecting the Property; and to permit Beneficiary to enter at all reasonable times during normal business hours upon reasonable advance notice for the purpose of inspection and of conducting, in a reasonable and proper manner, such tests as Beneficiary determines in its reasonable discretion to be necessary in order to monitor Grantor's compliance with applicable laws and regulations regarding hazardous materials affecting the Property.

Tenants Using Chlorinated Solvents. Grantor agrees not to lease any of the Property, without the prior written consent of Beneficiary, to (i) dry cleaning operations that perform dry cleaning on site with chlorinated solvents or (ii) any other tenants that to the knowledge of Grantor (after commercially reasonable inquiry) use chlorinated solvents in the operation of their businesses.

Business Restriction Representation and Warranty. Grantor represents and warrants that Grantor, Principal, all persons and entities owning (directly or indirectly) , to the best knowledge of Grantor, at least a 10% ownership interest in Principal, and all persons and entities executing any separate indemnity agreement in favor of Beneficiary in connection with the Indebtedness (but in any event excluding persons or entities whose sole ownership is by way of holding publicly traded stock): (i) are not, and shall not become, a person or

entity with whom Beneficiary is restricted from doing business with under regulations of the Office of Foreign Assets Control ("OFAC") of the Department of the Treasury (including, but not limited to, those named on OFAC's Specially Designated Nationals and Blocked Persons list) or under any statute, executive order (including, but not limited to, the September 24, 2001 Executive Order Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism), or other governmental action; (ii) are not, and shall not become, a person or entity with whom Beneficiary is restricted from doing business with under the International Money Laundering Abatement and Financial Anti-Terrorism Act of 2001 or the regulations or orders thereunder; and (iii) are not knowingly engaged in, and shall not knowingly engage in, any dealings or transaction or be otherwise associated with such persons or entities described in (i) and (ii) above.

Insurance. Grantor agrees to obtain and maintain insurance with respect to the Property, such types of insurance, in such amounts and by such companies as Beneficiary may from time to time reasonably approve. Beneficiary acknowledges that the types and amounts of insurance coverage maintained by Grantor as of the date hereof, and the companies providing such insurance, are satisfactory to Beneficiary. All such policies shall include a standard mortgagee endorsement in favor of Beneficiary and name Beneficiary and Beneficiary's wholly owned subsidiaries and agents as loss payee or as an additional insured thereunder, and Grantor shall keep certificates of insurance (Acord 28 or 27 for all property insurance and Acord 25 for all liability insurance) evidencing all insurance coverages required hereunder on deposit with Beneficiary, which certificates shall provide at least thirty (30) days notice of cancellation to Beneficiary and shall list Beneficiary as the certificate holder; if Grantor requests Beneficiary to accept a different form of certificate of insurance, Beneficiary shall not unreasonably withhold its consent, provided, a copy of a standard mortgagee endorsement in favor of Beneficiary stating that the insurer shall provide at least thirty (30) days notice of cancellation to Beneficiary accompanies such certificate. Insurance loss proceeds from all property insurance policies, whether or not required by Beneficiary (less expenses of collection) shall, at Beneficiary's option, be applied on the Indebtedness, whether due or not, or to the restoration of the Damaged Project (the "Damaged Project"), or be released to Grantor, but such application or release shall not cure or waive any default under any of the Loan Documents. If Beneficiary elects to apply the insurance loss proceeds on the Indebtedness, no prepayment fee shall be due thereon.

Notwithstanding the foregoing provision, Beneficiary agrees that if the insurance loss proceeds are less than the unpaid principal balance of the Note and if the casualty occurs prior to the last year of the term of the Note, then the insurance loss proceeds (less expenses of collection) shall be applied to restoration of the Damaged Project to its condition prior to the casualty, subject to satisfaction of the following conditions:

- (a) There is no existing Event of Default at the time of casualty.

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- (b) The casualty insurer has not denied liability for payment of insurance loss proceeds to Grantor as a result of any act, neglect, use or occupancy of the Damaged Project by Grantor or any tenant of the Damaged Project.
 - (c) Beneficiary shall be reasonably satisfied that all insurance loss proceeds so held, together with supplemental funds to be made available by Grantor, shall be sufficient to complete the restoration of the Damaged Project. Any remaining insurance loss proceeds may, at the option of Beneficiary, be applied on the Indebtedness (and such application shall be without any requirement for a prepayment fee), whether or not due, or be released to Grantor.
 - (d) If required by Beneficiary, Beneficiary shall be furnished a satisfactory report addressed to Beneficiary from an environmental engineer or other qualified professional reasonably satisfactory to Beneficiary to the effect that no adverse environmental impact to the Damaged Project resulted from the casualty.
 - (e) Beneficiary shall release casualty insurance proceeds as restoration of the Damaged Project progresses provided that Beneficiary is furnished reasonably satisfactory evidence of the costs of restoration and if, at the time of such release, there shall exist no Monetary Default (as hereinafter defined) under the Loan Documents and no Non-Monetary Default with respect to which Beneficiary shall have given Grantor notice pursuant to the **Notice of Default** provision herein. If a Monetary Default shall occur or Beneficiary shall give Grantor notice of a Non-Monetary Default, Beneficiary shall have no further obligation to release insurance loss proceeds hereunder unless such default is cured within the cure period set forth in the **Notice of Default** provision contained herein. If the estimated cost of restoration exceeds \$250,000.00, (i) the drawings and specifications for the restoration shall be approved by Beneficiary (such approval not to be unreasonably withheld, delayed or conditioned) in writing prior to commencement of the restoration, and (ii) Beneficiary shall receive an administration fee equal to one-half of one percent (0.5%) of the cost of restoration.
 - (f) Prior to each release of funds, Grantor shall obtain for the benefit of Beneficiary an endorsement to Beneficiary's title insurance policy insuring Beneficiary's lien as a first and valid lien on the Damaged Project subject only to liens and encumbrances theretofore approved by Beneficiary.

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- (g) Grantor shall pay all costs and expenses incurred by Beneficiary, including, but not limited to, reasonable outside legal fees, title insurance costs, third-party disbursement fees, third-party engineering reports and inspections deemed necessary by Beneficiary.
 - (h) All reciprocal easement and operating agreements, if any, benefiting the Damaged Project shall remain in full force and effect between the parties thereto on and after restoration of the Damaged Project.
 - (i) Beneficiary shall be reasonably satisfied that Projected Debt Service Coverage of at least 1.10 will be produced from the leasing of not more than 450,787 square feet of space to former tenants or approved new tenants with leases reasonably satisfactory to Beneficiary (but subject to Beneficiary's sole judgment with respect to items (i) through (vi) in the definition of Relevant Leases) for terms of at least three (3) years to commence not later than sixty (60) days following completion of such restoration ("Approved Leases").

The term "Relevant Leases" means all leases for the Property or any portion of the Property that grant the tenant thereunder: (i) the right or option to acquire the Property or any portion thereof; (ii) the right or option to expand the leased premises on predetermined terms and conditions; (iii) a right or option of first refusal or first offer regarding the sale or lease of the Property or any portion thereof; (iv) the right or option to require the landlord under the lease to construct or pay for tenant improvements at any time after the initial advance of funds; (v) the right or option to terminate the lease early or reduce or abate the rent paid under the lease for a reason other than a casualty or condemnation; (vi) any rights with respect to any property owned by Grantor other than the Property; or (vii) representations, warranties, or indemnification rights greater than those representations, warranties and indemnification rights set forth in the Property's standard form lease (unless the lease contains a provision that all representations, warranties and indemnification rights of the tenant set forth in the lease are inapplicable to any successor owner that is a purchaser by foreclosure or deed in lieu of foreclosure).

- (j) All leases in effect at the time of the casualty with tenants who have entered into a non-disturbance and attornment agreement or similar agreement with Beneficiary shall remain in full force and Beneficiary shall be reasonably satisfied that restoration can be completed within a time frame such that each tenant thereunder shall be obligated, or each such tenant shall have elected, to continue the lease term at full rental (subject only to abatement, if any, during any period in which the Damaged Project or a portion thereof shall not be used and occupied by such tenant as a result of the casualty).

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- (k) Without limiting the Earthquake provisions contained herein, if the casualty has resulted in whole or part from an earthquake: (a) Grantor shall have supplied Beneficiary with a "Seismic Risk Estimate" (in accordance with the Earthquake provisions herein) which show that the Damaged Project will meet "Minimum Seismic Criteria" (as defined in the Earthquake provisions herein) upon completion of repair and retrofit work which can be completed within one year of the earthquake, (b) prior to commencement of the restoration, Grantor shall have committed in writing to Beneficiary that Grantor will do such repair and retrofit work as shall be necessary to cause the Damaged Project to in fact meet Minimum Seismic Criteria following completion of restoration, and (c) Beneficiary must at all times during the restoration be reasonably satisfied that the Damaged Project will meet Minimum Seismic Criteria following completion of the restoration, Grantor hereby agreeing to supply Beneficiary with such evidence thereof as Beneficiary shall request from time to time.

"Projected Debt Service Coverage" means a number calculated by dividing Projected Operating Income Available for Debt Service for the first fiscal year following restoration of the Damaged Project by the debt service during the same fiscal year under all indebtedness secured by any portion of the Damaged Project. For purposes of the preceding sentence, "debt service" means the greater of (x) debt service due under all such indebtedness during the first fiscal year following completion of the restoration of the Damaged Project or (y) debt service that would be due and payable during such fiscal year if all such indebtedness were amortized over 30 years (whether or not amortization is actually required) and if interest on such indebtedness were due as it accrues at the face rate shown on the notes therefor (whether or not interest payments based on such face rates are required).

"Projected Operating Income Available for Debt Service" means projected gross annual rent from the Approved Leases for the first full fiscal year following completion of the restoration of the Damaged Project less:

- (A) The operating expenses of the Damaged Project for the last fiscal year preceding the casualty and
- (B) the following:
 - (i) a replacement reserve for capital improvements, future tenant improvements, leasing commissions and structural items based on \$2.87 per square foot per annum;

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- (ii) the amount, if any, by which actual gross income during such fiscal period exceeds that which would be earned from the rental of 87% of the gross leasable area in the Damaged Project;
 - (iii) the amount, if any, by which the actual management fee is less than 3.20% of gross annual rent from Approved Leases less the adjustment pursuant to clause (ii) during such fiscal period;
 - (iv) the amount, if any, by which the actual real estate taxes are less than \$2.13 per square foot per annum; and
 - (v) the amount, if any, by which total operating expenses, excluding management fees, real estate taxes and replacement reserves, to the extent the foregoing were included as part of the operating expense in item (A) above, are less than \$7.83 per square foot per annum.

All projections referenced above shall be calculated in a manner reasonably satisfactory to Beneficiary.

Condemnation. Grantor hereby assigns to Beneficiary (i) any award and any other proceeds resulting from damage to, or the taking of, all or any portion of the Property, and (ii) the proceeds from any sale or transfer in lieu thereof (collectively, "Condemnation Proceeds") in connection with condemnation proceedings or the exercise of any power of eminent domain or the threat thereof (hereinafter, a "Taking"); if the Condemnation Proceeds are less than the unpaid principal balance of the Note and such damage or Taking occurs prior to the last year of the term of the Note, such Condemnation Proceeds (less expenses of collection) shall be applied to restoration of the Property to its condition, or the functional equivalent of its condition prior to the Taking, subject to the conditions set forth above as items (a) through (k) in the section entitled "**Insurance**" and subject to the further condition that restoration or replacement of the improvements on the Land to their functional and economic utility prior to the Taking be possible. Any portion of such award and proceeds not applied to restoration shall, at Beneficiary's option, be applied on the Indebtedness, whether due or not (and if so applied shall be applied without any prepayment fee), or be released to Grantor, but such application or release shall not cure or waive any default under any of the Loan Documents.

Taxes and Special Assessments. Grantor agrees to pay before delinquency all taxes and special assessments of any kind that have been or may be levied or assessed against the Property, this instrument, the Note or the Indebtedness, or upon the interest of Trustee or Beneficiary in the Property, this instrument, the Note or the Indebtedness, and to procure and deliver to Beneficiary within 30 days after Beneficiary shall have given a written request to Grantor, the official receipt of the proper officer showing timely payment of all

such taxes and assessments, or other evidence of such payment satisfactory to Beneficiary; provided, however, that Grantor shall not be required to pay any such taxes or special assessments if the amount, applicability or validity thereof shall currently be contested in good faith by appropriate proceedings and funds sufficient to satisfy the contested amount have been deposited in an escrow satisfactory to Beneficiary.

Personal Property. With respect to the Personal Property, Grantor hereby represents, warrants and covenants as follows:

(a) Except for the Permitted Encumbrances, Grantor is, and as to portions of the Personal Property to be acquired after the date hereof will be, the sole owner of the Personal Property, free from any lien, security interest, encumbrance or adverse claim thereon of any kind whatsoever. Grantor shall notify Beneficiary of, and shall indemnify and defend Beneficiary and the Personal Property against, all claims and demands of all persons at any time claiming the Personal Property or any part thereof or any interest therein except for the Permitted Encumbrances.

(b) Except as permitted above, Grantor shall not lease, sell, convey or in any manner transfer the Personal Property without the prior consent of Beneficiary.

(c) Grantor is a limited partnership formed and existing under the laws of the State of Delaware. Until the Indebtedness is paid in full, Grantor (i) shall not change its legal name without providing Beneficiary with thirty (30) days prior written notice; and (ii) shall not change its state of organization without providing Beneficiary thirty (30) days prior written notice; and (iii) shall preserve its existence and shall not, in one transaction or a series of transactions, merge into or consolidate with any other entity, except as may be permitted under the section hereof entitled “**Prohibition on Transfer/One-Time Transfer**”.

(d) At the request of Beneficiary, Grantor shall join Beneficiary in executing one or more financing statements and continuations and amendments thereof pursuant to the Uniform Commercial Code in form reasonably satisfactory to Beneficiary, and Grantor shall pay the cost of filing the same in all public offices wherever filing is deemed by Beneficiary to be necessary or desirable. Grantor shall also, at Grantor’s expense, take any and all other action requested by Beneficiary to perfect Beneficiary’s security interest under the Uniform Commercial Code with respect to the Personal Property, including, without limitation, exercising Grantor’s commercially reasonable efforts to obtain any consents, agreements or acknowledgments required of third parties to perfect Beneficiary’s security interest in Personal Property consisting of deposit accounts, letter-of-credit rights, investment property, and electronic chattel paper.

Other Liens. Grantor agrees to keep the Property and any Personal Property free from all other liens either prior or subsequent to the lien created by this instrument (other than Permitted Encumbrances). The (i) creation of any other lien other than a Permitted Encumbrance on any portion of the Property or on any Personal Property, whether or not prior to the lien created hereby, (ii) assignment or pledge by Grantor of its revocable license to collect, use and enjoy rents and profits from the Property, or (iii) granting or permitting of a security interest in or other encumbrance on the direct or indirect ownership interests in Grantor (excluding direct or indirect owners whose sole ownership interest is, directly or indirectly, as limited partner or as owner of publicly traded shares of stock in either (i) Grantor or (ii) Principal or any surviving entity after a merger with Principal), shall constitute a default under the terms of this instrument; except that upon written notice to Beneficiary, Grantor may proceed to contest in good faith and by appropriate proceedings any mechanics liens, tax liens or judgment liens with respect to the Property or any Personal Property described herein, provided funds sufficient to satisfy the contested amount have been deposited in an escrow account reasonably satisfactory to Beneficiary.

Indemnification, Duty to Defend and Costs, Fees and Expenses. In addition to any other indemnities contained in the Loan Documents, Grantor shall indemnify, defend and hold Beneficiary harmless from and against any and all losses, liabilities, claims, demands, damages, costs and expenses (including, but not limited to, costs of title evidence and endorsements to Beneficiary's title insurance policy with respect to the Property and reasonable attorney fees and other costs of defense) of this trust which may be imposed upon, incurred by or asserted against Beneficiary, whether or not any legal proceeding is commenced with regard thereto, in connection with: (i) the enforcement of any of Beneficiary's or Trustee's rights or powers under the Loan Documents; (ii) the interpretation of any of the terms and conditions of the Loan Documents, (iii) the protection of Beneficiary's interest in the Property; or (iv) any accident, injury to or death of persons or loss of or damage to property occurring in, on or about the Property or on any sidewalk, curb, parking area, space or street located adjacent thereto. If any claim or demand is made or asserted against Beneficiary by reason of any event as to which Grantor is obligated to indemnify or defend Beneficiary, then, upon demand by Beneficiary, Grantor, at Grantor's sole cost and expense, shall defend such claim, action or proceeding in Beneficiary's name, if necessary, by such attorneys as Beneficiary shall approve in its reasonable discretion. Notwithstanding the foregoing, Beneficiary may, in Beneficiary's sole discretion, engage its own attorneys to defend it or assist in its defense and Grantor shall pay the reasonable fees and disbursements of such attorneys.

Failure of Grantor to Act. If Grantor fails to make any payment or do any act as herein provided, Beneficiary or Trustee may, without obligation to do so, without notice to or demand upon Grantor and without releasing Grantor from any obligation hereof: (i) make or do the same in such manner and to such extent as Beneficiary may deem necessary to protect the security hereof, Beneficiary or Trustee being authorized to enter upon the Property for such purpose; (ii) appear in and defend any action or proceeding purporting to affect the security hereof, or the rights or powers of Beneficiary or Trustee; (iii) pay, purchase, contest or compromise any encumbrance, charge or lien which in the judgment of

Beneficiary appears to be prior or superior hereto; and (iv) in exercising any such powers, pay necessary expenses, employ counsel and pay its reasonable fees. Sums so expended and all losses, liabilities, claims, damages, costs and expenses required to be reimbursed by Grantor to Beneficiary hereunder shall be payable by Grantor immediately upon demand with interest from date of expenditure or demand, as the case may be, at the Default Rate (as defined in the Note). All sums so expended or demanded by Beneficiary and the interest thereon shall be included in the Indebtedness and secured by the lien of this instrument.

Event of Default. Any default by Grantor in making any required payment of the Indebtedness or any default in any provision, covenant, agreement, warranty or certification contained in any of the Loan Documents shall, except as provided in the two immediately succeeding paragraphs, constitute an "Event of Default".

Notice of Default. A default in any payment required in the Note or any other Loan Document, whether or not payable to Beneficiary, (a "Monetary Default") shall not constitute an Event of Default unless Beneficiary shall have given a written notice of such Monetary Default to Grantor and Grantor shall not have cured such Monetary Default by payment of all amounts in default (including payment of interest at the Default Rate, as defined in the Note, from the date of default to the date of cure on amounts owed to Beneficiary) within five (5) business days after the date on which Beneficiary shall have given such notice to Grantor.

Any other default under the Note or under any other Loan Document (a "Non-Monetary Default") shall not constitute an Event of Default unless Beneficiary shall have given a written notice of such Non-Monetary Default to Grantor and Grantor shall not have cured such Non-Monetary Default within thirty (30) days after the date on which Beneficiary shall have given such notice of default to Grantor (or, if the Non-Monetary Default is not curable within such 30-day period, Grantor shall not have (i) diligently undertaken and continued to pursue the curing of such Non-Monetary Default and (ii) to the extent required by Beneficiary, deposited an amount sufficient to cure such Non-Monetary Default in an escrow account satisfactory to Beneficiary).

In no event shall the notice and cure period provisions recited above constitute a grace period for the purposes of commencing interest at the Default Rate (as defined in the Note).

Substitution of Trustee. Beneficiary and its successors and assigns may for any reason and at any time appoint a new or substitute Trustee by written appointment delivered to such new or substitute Trustee without notice to Grantor, without notice to, or the resignation or withdrawal by, the existing Trustee and without recordation of such written appointment unless notice or recordation is required by the laws of the jurisdiction in which the Property is located. Upon delivery of such appointment, the new or substitute Trustee shall be vested with the same title and with the same powers and duties granted to the original Trustee.

Appointment of Receiver. Upon commencement of any proceeding to enforce any right under this instrument, including foreclosure thereof, Beneficiary (without limitation or restriction by any present or future law, without regard to the solvency or insolvency at that time of any party liable for the payment of the Indebtedness, without regard to the then value of the Property, whether or not there exists a threat of imminent harm, waste or loss to the Property and whether or not the same shall then be occupied by the owner of the equity of redemption as a homestead) shall have the absolute right to the appointment of a receiver of the Property and of the revenues, rents, profits and other income therefrom, and said receiver shall have (in addition to such other powers as the court making such appointment may confer) full power to collect all such income and, after paying all necessary expenses of such receivership and of operation, maintenance and repair of said Property, to apply the balance to the payment of any of the Indebtedness then due.

Foreclosure. Upon the occurrence of an Event of Default, the entire unpaid Indebtedness shall, at the option of Beneficiary, become immediately due and payable for all purposes without any notice or demand, except as required by law (ALL OTHER NOTICE OF THE EXERCISE OF SUCH OPTION, OR OF THE INTENT TO EXERCISE SUCH OPTION, BEING HEREBY EXPRESSLY WAIVED), and Beneficiary may, in addition to exercising any rights it may have with respect to the Personal Property under the Uniform Commercial Code of the jurisdiction in which the Property is located, institute proceedings in any court of competent jurisdiction to foreclose this instrument as a mortgage, or to enforce any of the covenants hereof, or Trustee or Beneficiary may, to the extent permitted by applicable law, either personally or by agent or attorney in fact, enter upon and take possession of the Property and may manage, rent or lease the Property or any portion thereof upon such terms as Beneficiary may deem expedient, and collect, receive and receipt for all rentals and other income therefrom and apply the sums so received as hereinafter provided in case of sale. Trustee is hereby further authorized and empowered, either after or without such entry, to sell and dispose of the Property en masse or in separate parcels (as Trustee may think best), and all the right, title and interest of Grantor therein, by advertisement or in any manner provided by applicable law, (GRANTOR HEREBY EXPRESSLY WAIVES ANY RIGHT TO A HEARING PRIOR TO SUCH SALE), and to issue, execute and deliver a deed of conveyance, all as then may be provided by applicable law; and Trustee, to the extent permitted by applicable law, shall, out of the proceeds or avails of such sale, after first paying and retaining all reasonable fees, charges, costs of advertising the Property and of making said sale, and attorneys' fees as herein provided, pay to Beneficiary or the legal holder of the Indebtedness the amount thereof, including all sums advanced or expended by Beneficiary or the legal holder of the Indebtedness, with interest from date of advance or expenditure at the Default Rate (as defined in the Note), rendering the excess, if any, as provided by law; such sale or sales and said deed or deeds so made shall be a perpetual bar, both in law and equity, against Grantor, the heirs, successors and assigns of Grantor, and all

other persons claiming the Property aforesaid, or any part thereof, by, from, through or under Grantor. The legal holder of the Indebtedness may purchase the Property or any part thereof, and it shall not be obligatory upon any purchaser at any such sale to see to the application of the purchase money.

Prohibition on Transfer/One-Time Transfer. The present ownership and management of the Property is a material consideration to Beneficiary in making the loan secured by this instrument, and Grantor shall not (i) convey title to all or any part of the Property, (ii) enter into any contract to convey (land contract/installment sales contract/contract for deed) title to all or any part of the Property which gives a purchaser possession of, or income from, the Property prior to a transfer of title to all or any part of the Property ("Contract to Convey") or (iii) cause or permit a Change in the Proportionate Ownership (as hereinafter defined) of Grantor. Any such conveyance, entering into a Contract to Convey or Change in the Proportionate Ownership of Grantor shall constitute a default under the terms of this instrument.

"Change in the Proportionate Ownership" means, in the case of a corporation, a change in, or the existence of a lien on, the direct or indirect ownership of the stock of such corporation; in the case of a trust, a change in, or the existence of a lien on, the direct or indirect ownership of the beneficial interests of such trust; in the case of a limited liability company, a change in, or the existence of a lien on, the direct or indirect ownership of the limited liability company interests of such limited liability company; in the case of a partnership, a change in, or the existence of a lien on, the direct or indirect ownership of the partnership interests of such partnership, excluding in each case any change in, or the existence of a lien on any publicly traded shares or limited partnership interests in (i) Principal or any surviving entity after a merger with Principal as long as Principal or such surviving entity is a publicly traded entity (the "Surviving Principal") or (ii) Grantor or any surviving entity after a merger with Grantor so long as the general partner of Grantor or such surviving entity is Surviving Principal or, in the event the surviving entity is not a partnership, then so long as the surviving entity is controlled by Surviving Principal (control meaning unqualified voting control over such entity) or is a publicly traded entity.

Notwithstanding the foregoing, Beneficiary's consent shall not be required for a Change in the Proportionate Ownership of Grantor provided the Principal continues to own, directly or indirectly, greater than a 75% lien-free interest in Grantor.

Notwithstanding the above, provided there is then no default in the terms and conditions of any Loan Document, upon prior written request from Grantor, Beneficiary shall not withhold its consent to a one-time transfer of all but not less than all of the property to a single entity or individual, provided:

- (i) The Property shall have achieved Debt Service Coverage (as hereinafter defined) of at least 1.40 for the last full fiscal year and there are no junior liens on the Property;
Subparagraph (J) of the definition of Net Income Available for Debt Service shall be modified, for this section only, to the following:
 - (J) The greater of (i) the amount, if any, by which the projected real estate taxes, based on the purchase price of the property and calculated in accordance with Proposition 13, exceed the actual real estate taxes, or (ii) the amount, if any, by which the actual real estate taxes are less than \$2.13 per sq. ft. per annum; and
- (ii) The transferee or an owner of the transferee (the "Creditworthy Party") has a net worth determined in accordance with generally accepted accounting principles of at least \$500,000,000.00; with cash and cash equivalents of at least \$25,000,000.00 after funding the equity needed to close the purchase and a minimum overall real estate portfolio debt service coverage ratio of 1.50 for the prior 12 month period. In the event that transferee shall satisfy the financial requirements set forth in this subsection (ii), all references to Creditworthy Party in subsections (iii) through (vi) hereafter shall be deemed deleted;
- (iii) The transferee or the Creditworthy Party is experienced in the ownership and management of at least 5,000,000 million square feet of institutional quality office buildings;
- (iv) The transferee, the Creditworthy Party, and all persons and entities owning (directly or indirectly) an ownership interest in the transferee or the Creditworthy Party are not (and have never been) (a) subject to any bankruptcy, reorganization or insolvency proceedings or any criminal charges or proceedings or (b) a litigant, plaintiff or defendant in any suit brought against or by Lender;
- (v) Pursuant to written documents prepared by and reasonably satisfactory to Beneficiary and transferee, the transferee assumes and the Creditworthy Party guarantees all the obligations and liabilities of Grantor under the Loan Documents, whether arising prior to or after the date of the transfer of the Property, and Beneficiary receives a satisfactory enforceability opinion with respect thereto from counsel approved by Beneficiary;

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- (vi) The Creditworthy Party executes Beneficiary's form of Guarantee of Recourse Obligations in substantially the same form as that executed by the Principal, the Creditworthy Party and the transferee execute Beneficiary's then current form of Environmental Indemnity Agreement, and Beneficiary receives a satisfactory enforceability opinion with respect to the foregoing from counsel approved by Beneficiary;
 - (vii) An environmental report, which meets Beneficiary's then current requirements and is updated to no earlier than ninety (90) days prior to the date of transfer, is provided to Beneficiary at least thirty (30) days prior to the date of transfer and is satisfactory to Beneficiary at the time of transfer;
 - (viii) Grantor and Principal (a) shall remain liable under the Environmental Indemnity Agreement dated of even date herewith, except for acts or occurrences after the date of transfer of the Property; and (b) shall, except as provided in (a) above, be released from all obligations and liabilities under the Loan Documents;
 - (ix) Beneficiary receives an endorsement to its policy of title insurance, satisfactory to Beneficiary, insuring Beneficiary's lien on the Property as a first and valid lien on the Property subject only to liens and encumbrances theretofore approved by Beneficiary;
 - (x) Pursuant to written documentation prepared by and satisfactory to Beneficiary, the transferee (a) acknowledges that, in furtherance and not in limitation of clause (v) above, it shall be bound by the representation and warranty contained in the covenant entitled "**Business Restriction Representation and Warranty**" set forth in this instrument and (b) certifies that such representation and warranty is true and correct as of the date of transfer and shall remain true and correct at all times during the term of the Note; and
 - (xi) The outstanding balance of the Note at the time of the transfer is not more than 70% of the gross purchase price of the Property in consideration for the transfer.

If Grantor shall make a one-time transfer pursuant to the above conditions, or if Beneficiary shall consent to another transfer by Grantor, unless otherwise agreed by Beneficiary and Grantor, Beneficiary shall be paid a fee equal to one percent (1.0%) of the then outstanding balance of the Note at the time of the transfer. The fee shall be paid on or before the closing date of such one-time transfer. At the time of such transfer, no modification of the interest rate or repayment terms of the Note will be required.

No subsequent transfers of the Property shall be allowed, and no Change in the Proportionate Ownership of transferee shall be allowed without Beneficiary's prior written consent. Notwithstanding the foregoing, Beneficiary and Grantor agree that the underlying ownership structure of a particular transferee may cause Beneficiary to determine that the definition of Change in the Proportionate Ownership of such transferee does not adequately address Beneficiary's underlying ownership concerns for such transferee, and accordingly, Beneficiary reserves the right to amend the definition of Change in the Proportionate Ownership as it applies to a particular transferee.

"Debt Service Coverage" means a number calculated by dividing Net Income Available for Debt Service for a fiscal period by the debt service during the same fiscal period under all indebtedness (including the Indebtedness) secured by any portion of the Property. For purposes of the preceding sentence, "debt service" means the actual debt service due under all indebtedness secured by any portion of the Property based upon an amortization schedule which is the shorter of the actual amortization schedule or 30 years (whether or not amortization is actually required) and, if an accrual loan, as if interest and principal on such indebtedness were due monthly.

"Net Income Available for Debt Service" means net income (prior to giving effect to any capital gains or losses and any extraordinary items) from the Property, determined in accordance with generally accepted accounting principles, for a fiscal period, plus (to the extent deducted in determining net income from the Property):

- A) interest on indebtedness secured by any portion of the Property for such fiscal period;
- B) depreciation, if any, of fixed assets at or constituting the Property for such fiscal period;
- C) amortization, if any, of standard tenant finish expenditures at the Property [but specifically excluding the amortization of tenant finish expenditures by Grantor in excess of \$32.10 per square foot for new tenants and \$10.46 per square foot for renewal tenants (i.e., above standard tenant finishes)]; and
- D) amortization of costs incurred in connection with any indebtedness secured by any portion of the Property and leasing commissions which have been prepaid;

less:

- E) an amount (positive or negative) to offset any rent averaging adjustment resulting from adherence to FASB-13;

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- F) the amortization of free rent and any other tenant concessions and promotional items not deducted in the calculation of net income above;
 - G) a replacement reserve for capital improvements, future tenant improvements, leasing commissions and structural items based on not less than \$2.87 per square foot per annum;
 - H) the amount, if any, by which actual gross income during such fiscal period exceeds that which would be earned from the rental of 87% of the gross leasable area in the Property;
 - I) the amount, if any, by which the actual management fee is less than 3.20% of gross revenue during such fiscal period;
 - J) the amount, if any, by which the actual real estate taxes are less than \$2.13 per square foot per annum; and
 - K) the amount, if any, by which total operating expenses, excluding management fees, real estate taxes and replacement reserves, are less than \$7.83 per square foot per annum.

All adjustments to net income referenced above shall be calculated in a manner reasonably satisfactory to Beneficiary.

Financial Statements. Grantor agrees to furnish to Beneficiary:

(A) the following financial statements for each Project within sixty (60) days after the close of each fiscal year of Grantor (the "Property Financial Statements Due Date"):

- (i) an unaudited statement of operations for such fiscal year with a detailed line item break-down of all sources of income and expenses, including capital expenses broken down between, leasing commissions, tenant improvements, and building improvements;
- (ii) a current rent roll identifying location, leased area, lease begin and end dates, current contract rent, rent increases and increase dates, percentage rent, expense reimbursements, and any other recovery items;
- (iii) an operating budget for the current fiscal year; and

(B) the following financial statements that Beneficiary may, in Beneficiary's sole discretion, require from time to time within thirty (30) days after receipt of a written request from Beneficiary (the "Requested Financial Statements Due Date")

- (i) an unaudited balance sheet for Grantor as of the last day of Grantor's most recently closed fiscal year, provided such statement is routinely produced by Grantor;
- (ii) an unaudited balance sheet for Principal as of the last day of Principal's most recently closed fiscal year;
- (iii) an unaudited statement of cash flows for Grantor as of the last day of Grantor's most recently closed fiscal year, provided such statement is routinely produced by Grantor;
- (iv) an unaudited statement of cash flows for Principal as of the last day of Principal's most recently closed fiscal year; and

(C) to the extent that Grantor can obtain such financial statements through the exercise of commercially reasonable efforts, the following financial statements for Fish & Richardson P.C., a Massachusetts corporation ("Fish & Richardson"), that Beneficiary may, in Beneficiary's reasonable discretion, require from time to time within thirty (30) days after receipt of a written request from Beneficiary (the "Tenant Financial Statements Due Date"):

- (i) an unaudited balance sheet as of the last day of Fish & Richardson's most recently closed fiscal year; and
- (ii) an unaudited statement of cash flows as of the last day of Fish & Richardson's most recently closed fiscal year.

Furthermore, Grantor shall furnish to Beneficiary within thirty (30) days after receipt of a written request from Beneficiary such reasonable financial and management information in the possession of, or reasonably accessible to, Grantor which Beneficiary determines to be useful in Beneficiary's monitoring of the value and condition of the Property, Grantor, or Principal.

The Property Financial Statements Due Date, the Requested Financial Statements Due Date, and the Tenant Financial Statements Due Date are each sometimes hereinafter referred to as a "Financial Statements Due Date".

Notwithstanding the foregoing, in no event shall a Financial Statements Due Date for a particular financial statement be prior to the sixtieth (60th) day following the close of the fiscal year covered by such financial statement.

All unaudited financial statements other than Property operating budgets shall contain a certification by an officer of Grantor stating that they have been prepared in accordance with generally accepted accounting principles and that they fairly state the financial position or results of operations of Grantor. The expense of preparing all of the financial statements required in (A) and (B) above, shall be borne by Grantor. The expense of preparing all of the financial statements required in (C) above, shall be borne by Grantor or Fish & Richardson.

Grantor acknowledges that Beneficiary requires the financial statements and information required herein to record accurately the value of each Project for financial and regulatory reporting. Beneficiary acknowledges that Grantor has provided to Beneficiary a representative sample of the financial statements required herein, and that Beneficiary has approved the format and level of detail of such sample.

In addition to all other remedies available to Beneficiary hereunder, at law and in equity, if any financial statement, additional information or proof of payment of property taxes and assessments is not furnished to Beneficiary as required in this section entitled “ **Financial Statements**” and in the section entitled “**Taxes and Special Assessments**”, within thirty (30) days after Beneficiary shall have given written notice to Grantor that it has not been received as required,

(x) interest on the unpaid principal balance of the Indebtedness shall as of the applicable Financial Statements Due Date or the date such additional information or proof of payment of property taxes and assessments was due, accrue and become payable at a rate equal to the sum of the Interest Rate (as defined in the Note) plus one percent (1%) per annum (the “Increased Rate”); and

(y) Beneficiary may elect to obtain an independent appraisal and audit of the Property at Grantor’s expense, and Grantor agrees that it will, upon request, promptly make Grantor’s books and records regarding the Property available to Beneficiary and the person(s) performing the appraisal and audit (which obligation Grantor agrees can be specifically enforced by Beneficiary).

The amount of the payments due under the Note during the time in which the Increased Rate shall be in effect shall be changed to an amount which is sufficient to amortize the then unpaid principal balance at the Increased Rate during the then remaining portion of a period of thirty (30) years commencing with the Amortization Period Commencement Date (as defined in the Note). Interest shall continue to accrue and be due and payable monthly at the Increased Rate until the financial statements, additional information and proof of payment of property taxes and assessments (as requested by Beneficiary) shall be furnished to Beneficiary as required. Commencing on the date on which the financial statements, additional information and proof of payment of property

taxes and assessments are received by Beneficiary, interest on the unpaid principal balance shall again accrue at the Interest Rate and the payments due during the remainder of the term of the Note shall be changed to an amount which is sufficient to amortize the then unpaid principal balance at the Interest Rate during the then remaining portion of a period of thirty (30) years commencing with the Amortization Period Commencement Date. Notwithstanding the foregoing, Beneficiary shall have the right to conduct an independent audit at its own expense at any time, provided that no more than one such independent audit may be conducted in any fiscal year.

Project Release. Notwithstanding anything contained herein to the contrary, provided there is then no default under any of the Loan Documents, following the second anniversary of the initial advance of funds and prior to the last sixty (60) days of the term of the Note, and upon not less than thirty (30) days prior written notice, Grantor may release no more than two (2) Projects (each, a "Released Project") from the lien of this instrument, subject to the following:

- (A) Payment to Beneficiary of a \$25,000.00 service fee for the release.
- (B) Payment to Beneficiary toward the unpaid principal balance of the Note of an amount equal to 110% of the original Allocated Loan Amount for the first Project released and 115% of the original Allocated Loan Amount for the second Project released plus a prepayment fee on such principal prepaid calculated in the manner set forth in the Note.
- (C) The Released Project shall consist of not less than one Project.
- (D) For purposes of this section, neither of the Projects located in El Segundo, Los Angeles County shall be released individually. In the event that the Projects located in El Segundo are released, that shall constitute two (2) releases and Grantor shall have no further right to release any portion of the Property under this section.
- (E) Grantor furnishing Beneficiary, at Grantor's sole cost, a boundary survey acceptable to Beneficiary delineating the acreage to be released. The location, sequence and timing of the acreage to be released shall be subject to Beneficiary's approval.
- (F) Beneficiary shall be reasonably satisfied that the remaining portions of the Property shall not be deprived of public access to roads or to the use of any utilities, water, sanitary and storm sewers.
- (G) Beneficiary shall be reasonably satisfied that the remaining portions of the Property shall be adequate to meet zoning requirements for its proposed use.

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- (H) Grantor furnishing Beneficiary, at Grantor's sole cost, a partial release title endorsement in a form satisfactory to Beneficiary insuring that the remaining portion of the Property constitutes a legal parcel.
 - (I) Grantor furnishing Beneficiary, at Grantor's sole cost, satisfactory evidence shall be provided concerning compliance with the Subdivision Map Act, including a title insurance endorsement insuring that remaining portions of the Property constitute legal parcels.
 - (J) After each Project release, the remaining Projects shall be reasonably similar in each of the following respects to that at the time of original underwriting, as determined by Beneficiary in its reasonable discretion: (i) appraised value; (ii) stability of cash flow; (iii) tenant credit and quality and (iv) Debt Service Coverage.

For purposes of this section and the following section entitled "**Substitution of Security**" the term "Debt Service Coverage" shall be as defined in the section hereof entitled "**Prohibition on Transfer/One-Time Transfer**".

"Allocated Loan Amount" means, with respect to a Project, the Allocated Loan Percentage for such Project, expressed as a decimal, multiplied by the outstanding principal balance of the Loan at a given time. The Allocated Loan Amount for each Initial Project is set forth on the attached Exhibit "B".

"Allocated Loan Percentage" means, with respect to each Initial Project, the percentage set forth on the attached Exhibit "B", and with respect to a Substitute Project (as hereinafter defined), shall be reasonably determined by Beneficiary at the time of a Substitution (as hereinafter defined). The Allocated Loan Percentage for all Projects shall be reasonably redetermined by Beneficiary following a casualty at a Project, the condemnation of all or a part of a Project or the release of a Project from this instrument pursuant to this section (which is not done in connection with a Substitution as provided in the following section entitled "**Substitution of Security**") so that at all times the sum of the Allocated Loan Percentages for all Projects equals 100%.

Substitution of Security. Upon Grantor's prior written request and provided that there is no default in the terms and conditions of any of the Loan Documents, subject to subsection (N) below, on no more than two (2) occasions, a single Project (subject to subsection (E) below) shall be released from the lien of this instrument and replaced with substitute project (the "Substitute Project") subject to the following:

- (A) Payment to Beneficiary of a nonrefundable \$25,000.00 service fee for each substitution to be submitted with the written request for release and substitution.

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- (B) Payment of a release fee for each substitution equal to the lower of \$100,000.00 or one percent (1.0 %) of the original Allocated Loan Amount for the Project to be released, adjusted to reflect amortization of principal that has occurred since the initial advance of funds.
- (C) Beneficiary intends to hire outside counsel to review title and survey for each Substitute Project and the cost of such counsel shall be paid by Grantor, whether or not the substitution occurs.
- (D) Except as provided in (E), each Project to be released (the "Release Project") shall consist of one entire Project.
- (E) (i) Neither of the Initial Projects located in El Segundo shall be released individually in connection with a substitution under this section (i.e., both must be released simultaneously); (ii) the Substitute Project for both of the Initial Projects located in El Segundo may consist of one or two entire Projects, provided however, that in either case, the one or two Substitute Projects must, in the aggregate, meet the requirements of (I) and (J) below when compared to the two Initial Projects located in El Segundo in the aggregate; and (iii) any substitution pursuant to this subsection (E) shall constitute two substitutions (without limitation, neither of the two Initial Projects located in El Segundo may be released if there has been a previous substitution under this section.)
- (F) Each Substitute Project is 100% owned by Grantor, title to the Substitute Project shall be satisfactory to Beneficiary's legal counsel, and the requirements set forth in the condition entitled Title Insurance contained in the Commitment shall be met with respect to the Substitute Property prior to closing on the release and substitution.
- (G) At least thirty (30) days prior to closing on the release and substitution, Grantor shall furnish four copies of a recently certified as-built survey, complying with the requirements set for the in the condition entitled Survey contained in the Commitment with respect to the Substitute Project.
- (H) The physical and environmental condition of each Substitute Project shall be satisfactory to Beneficiary in its sole and absolute discretion. Grantor shall prepay the estimated cost (to be reasonably determined by Beneficiary) of the Consultant's Report and Environmental Report, as such

terms are defined in the Commitment. Said reports shall be satisfactory to Beneficiary with respect to each Substitute Project based on the requirements set forth in the conditions entitled Consultant Services and Environmental Engineer's Report contained in the Commitment.

- (I) Subject to (E) above, each Substitute Project shall be at least equal to the Release Project in each of the following respects, as determined by Beneficiary in its reasonable discretion: (i) appraised value; (ii) stability of cash flow; (iii) tenant credit, quality, and diversification; and (iv) location quality and diversification.
- (J) After giving effect to the release and substitution, the Property shall have a Debt Service Coverage of at least equal to that which it had prior to the release and substitution.
- (K) Each Substitute Project shall meet all of the conditions to closing set forth herein with respect to the Release Project.
- (L) Grantor shall deliver such amendments and reaffirmations of the Loan Documents executed by Grantor or Principal as Beneficiary may reasonably require to effectuate the substitution of each Substitute Project for each Release Project.
- (M) Grantor shall receive an update to the legal opinion(s) required under the condition entitled Legal Opinions contained in the Commitment with respect to each Substitute Project and the amendments and reaffirmations referenced in subsection (L) above.
- (N) Subject to (E) above, the release and substitution right set forth herein is a two-time right, and after Beneficiary has released two Released Projects and (subject to (E) above) substituted two Release Projects with two Substitute Projects as provided herein, Borrower shall have no further right to release any portion of the Property under this section.
- (O) No substitutions or releases of collateral shall have been completed in the prior twelve (12) month period.

Property Management. The management company for the Property shall be reasonably satisfactory to Beneficiary. Any change in the management company (other than a change that results in Grantor managing the Project(s) owned by Grantor) without the prior written consent of Beneficiary (such consent not to be unreasonably withheld, delayed or conditioned) shall constitute a default under this instrument. Anything to the contrary notwithstanding, Kilroy Realty, L.P. is an acceptable management company.

Earthquake. If the Property is damaged by an earthquake during the term of the Indebtedness:

- (A) Beneficiary may require a new seismic analysis to be performed at Grantor's expense, and
- (B) Grantor shall perform repair and retrofit work, satisfactory to Beneficiary, which results in (i) the complete repair of the Property and (ii) a subsequent seismic analysis verifying that the Property meets "Minimum Seismic Criteria" (as defined below). Such work shall be commenced and completed as soon as possible and in any event within one year of the earthquake.

Without limiting the Grantor's obligation to cause the Property to satisfy Minimum Seismic Criteria, during any period of time in which the Property does not satisfy Minimum Seismic Criteria, Grantor shall provide Beneficiary with evidence of, and maintain, "Earthquake Insurance" (as defined below). Earthquake Insurance shall be provided on a replacement cost, agreed amount basis, with no co-insurance provision, and shall include loss of rents insurance equal to twelve (12) months rent or business income insurance for 100% of the annual gross earnings from business derived from the Property, with a deductible satisfactory to Beneficiary.

As used herein, "Minimum Seismic Criteria" means that both (i) the Specified Loss Percentage for the Property is less than or equal to 30%, and (ii) the Loan Amount plus Specified Loss is less than or equal to 90% of the market value of the Property as determined by Beneficiary in its sole discretion.

As used herein, "Earthquake Insurance" means a policy satisfactory to Beneficiary with a deductible of no greater than 5% of the "Replacement Cost" (as defined below) and in an amount calculated as follows: (i) the Loan Amount plus (ii) the Specified Loss minus (iii) 90% of the market value of the Property as determined by Beneficiary in its sole discretion.

As used herein, "Replacement Cost" means the estimated total cost, determined by Beneficiary in its sole discretion, to construct all of the improvements as if the Property were completely unimproved (not including the cost of site work, utilities and foundation).

As used herein, "Loan Amount" shall mean the total principal amount advanced under the Note.

As used herein, "Specified Loss" means the Specified Loss Percentage multiplied by the Replacement Cost.

As used herein, "Specified Loss Percentage" means an estimate produced by Beneficiary's selected software of the earthquake damage to the Property, expressed as a percentage of Replacement Cost.

Deposits by Grantor. To assure the timely payment of real estate taxes and special assessments (including personal property taxes, if appropriate), following the occurrence of an Event of Default, Beneficiary shall thenceforth have the option to require Grantor to deposit funds with Beneficiary or in an account satisfactory to Beneficiary, in monthly or other longer periodic installments in amounts estimated by Beneficiary from time to time sufficient as necessary to make timely payments of such real estate taxes and special assessments as they become due. If at any time the funds so held by Beneficiary, or in such other account, shall be insufficient to pay any of said expenses, Grantor shall, upon receipt of notice thereof, promptly deposit such additional funds as may be necessary to remove the deficiency. All funds so deposited shall be irrevocably appropriated to Beneficiary to be applied to the payment of such real estate taxes and special assessments and, at the option of Beneficiary after an Event of Default, the Indebtedness.

Notices. Any notices, demands, requests and consents permitted or required hereunder or under any other Loan Document shall be in writing, may be delivered personally or sent by certified mail with postage prepaid or by reputable courier service with charges prepaid. Any notice or demand sent to Grantor by certified mail or reputable courier service shall be addressed to Grantor at 12200 W. Olympic Boulevard, Suite 200, Los Angeles, CA 90064, Attention: Corporate Finance, or such other address in the United States of America as Grantor shall designate in a notice to Beneficiary given in the manner described herein. Any notice sent to Beneficiary by certified mail or reputable courier service shall be addressed to The Northwestern Mutual Life Insurance Company to the attention of the Real Estate Investment Department at 720 East Wisconsin Avenue, Milwaukee, WI 53202, or at such other addresses as Beneficiary shall designate in a notice given in the manner described herein. Any notice given to Beneficiary shall refer to the Loan No. set forth above. Any notice or demand hereunder shall be deemed given when received. Any notice or demand which is rejected, the acceptance of delivery of which is refused or which is incapable of being delivered during normal business hours at the address specified herein or such other address designated pursuant hereto shall be deemed received as of the date of attempted delivery.

Modification of Terms. Without affecting the liability of Grantor or any other person (except any person expressly released in writing) for payment of the Indebtedness or for performance of any obligation contained herein and without affecting the rights of Beneficiary with respect to any security not expressly released in writing, Beneficiary may, at any time and from time to time, either before or after the maturity of the Note, without notice or consent: (i) release any person liable for payment of all or any part of the

Indebtedness or for performance of any obligation; (ii) make any agreement extending the time or otherwise altering the terms of payment of all or any part of the Indebtedness, or modifying or waiving any obligation, or subordinating, modifying or otherwise dealing with the lien or charge hereof; (iii) exercise or refrain from exercising or waive any right Beneficiary may have; (iv) accept additional security of any kind; (v) release or otherwise deal with any property, real or personal, securing the Indebtedness, including all or any part of the Property.

Exercise of Options. Whenever, by the terms of this instrument, of the Note or any of the other Loan Documents, Beneficiary is given any option, such option may be exercised when the right accrues, or at any time thereafter, and no acceptance by Beneficiary of payment of Indebtedness in default shall constitute a waiver of any default then existing and continuing or thereafter occurring.

Nature and Succession of Agreements. Each of the provisions, covenants and agreements contained herein shall inure to the benefit of, and be binding on, the heirs, executors, administrators, successors, grantees, and assigns of the parties hereto, respectively, and the term "Beneficiary" shall include the owner and holder of the Note. The liability of Grantor hereunder shall be joint and several.

Legal Enforceability. No provision of this instrument, the Note or any other Loan Documents shall require the payment of interest or other obligation in excess of the maximum permitted by law. If any such excess payment is provided for in any Loan Documents or shall be adjudicated to be so provided, the provisions of this paragraph shall govern and Grantor shall not be obligated to pay the amount of such interest or other obligation to the extent that it is in excess of the amount permitted by law.

Limitation of Liability. Notwithstanding any provision contained herein to the contrary, the personal liability of Grantor shall be limited as provided in the Note.

Miscellaneous. Time is of the essence in each of the Loan Documents. The remedies of Beneficiary as provided herein or in any other Loan Document or at law or in equity shall be cumulative and concurrent, and may be pursued singly, successively, or together at the sole discretion of Beneficiary, and may be exercised as often as occasion therefor shall occur; and neither the failure to exercise any such right or remedy nor any acceptance by Beneficiary of payment of Indebtedness in default shall in any event be construed as a waiver or release of any right or remedy. Neither this instrument nor any other Loan Document may be modified or terminated orally but only by agreement or discharge in writing and signed by Grantor and Beneficiary. If any of the provisions of any Loan Document or the application thereof to any persons or circumstances shall to any extent be invalid or unenforceable, the remainder of such Loan Document and each of the other Loan Documents, and the application of such provision or provisions to persons or circumstances other than those as to whom or which it is held invalid or unenforceable, shall not be affected thereby, and every provision of each of the Loan Documents shall be valid and enforceable to the fullest extent permitted by law.

STATE OF)
)ss.
COUNTY OF LOS ANGELES)

On January 25, 2010, before me, James K. Doyle, a Notary Public, personally appeared Tyler Rose and Michelle Ngo, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature /S/ JAMES K. DOYLE

James K. Doyle
Name (typed or printed)
My Commission expires: 1/16/2011

(Place Notary Seal Above)

STATE OF)
)ss.
COUNTY OF LOS ANGELES)

On January 25, 2010, before me, James K. Doyle, a Notary Public, personally appeared Tyler Rose and Michelle Ngo, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature _____ /S/ JAMES K. DOYLE

James K. Doyle
Name (typed or printed)
My Commission expires: 1/16/2011

(Place Notary Seal Above)

This instrument was prepared by Brenda Stugelmeyer, Attorney, for The Northwestern Mutual Life Insurance Company, 720 East Wisconsin Avenue, Milwaukee, WI 53202.

EXHIBIT “A-1”

(Description of Property – 12390 El Camino Real, San Diego, CA)

PARCEL A:

PARCEL 1 OF PARCEL MAP NO. 18868 IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY ON DECEMBER 21, 2001 AS FILE NO. 2001-0943964.

PARCEL B:

RECIPROCAL EASEMENTS AS SET FORTH IN THAT CERTAIN “GRANT OF EASEMENTS AGREEMENT” EXECUTED BY AND BETWEEN PARDEE CONSTRUCTION COMPANY AND KILROY REALTY L.P. RECORDED DECEMBER 29, 1998 AS FILE NO. 1998-0853950 OF OFFICIAL RECORDS, SUBJECT TO THE TERMS AND CONDITIONS CONTAINED THEREIN.

PARCEL C:

RECIPROCAL EASEMENTS AS SET FORTH IN A DOCUMENT ENTITLED “GRANT OF RECIPROCAL PARKING AND ACCESS EASEMENTS: EXECUTED BY AND BETWEEN KILROY REALTY L.P., A DELAWARE LIMITED PARTNERSHIP AND KILROY REALTY PARTNERS, L.P., A DELAWARE LIMITED PARTNERSHIP, DOING BUSINESS IN THE STATE OF CALIFORNIA AS KILROY REALTY PARTNERS, L., L.P., RECORDED SEPTEMBER 6, 2001 AS FILE NO. 2001-0639390 OF OFFICIAL RECORDS, SUBJECT TO THE TERMS AND CONDITIONS AS CONTAINED THEREIN.

ASSESSOR’S PARCEL NUMBER: 307-110-42

EXHIBIT “A-2”

(Description of Property – 12340 El Camino Real, San Diego, CA)

PARCEL A:

PARCEL 2 OF PARCEL MAP NO. 18868 IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY ON DECEMBER 21, 2001 AS FILE NO. 2001-0943964.

PARCEL B:

RECIPROCAL EASEMENTS AS SET FORTH IN THAT CERTAIN “GRANT OF EASEMENTS AGREEMENT” EXECUTED BY AND BETWEEN PARDEE CONSTRUCTION COMPANY AND KILROY REALTY L.P. RECORDED DECEMBER 29, 1998 AS FILE NO. 1998-0853950 OF OFFICIAL RECORDS, SUBJECT TO THE TERMS AND CONDITIONS CONTAINED THEREIN.

PARCEL C:

RECIPROCAL EASEMENTS AS SET FORTH IN A DOCUMENT ENTITLED “GRANT OF RECIPROCAL PARKING AND ACCESS EASEMENTS: EXECUTED BY AND BETWEEN KILROY REALTY L.P., A DELAWARE LIMITED PARTNERSHIP AND KILROY REALTY PARTNERS, L.P., A DELAWARE LIMITED PARTNERSHIP, DOING BUSINESS IN THE STATE OF CALIFORNIA AS KILROY REALTY PARTNERS, L., L.P., RECORDED SEPTEMBER 6, 2001 AS FILE NO. 2001-0639390 OF OFFICIAL RECORDS, SUBJECT TO THE TERMS AND CONDITIONS AS CONTAINED THEREIN.

ASSESSOR’S PARCEL NUMBER: 307-110-43

EXHIBIT “A-3”

(Description of Property – 4690 Executive, San Diego, CA)

PARCEL A:

PARCEL 1 OF PARCEL MAP NO. 18159, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY ON DECEMBER 4, 1998.

PARCEL B:

AN EASEMENT FOR ACCESS OVER PARCEL 2 OF PARCEL MAP NO. 18159, IN THE CITY OF SAN DIEGO, COUNTY OF SAN DIEGO, STATE OF CALIFORNIA, ACCORDING TO MAP THEREOF FILED IN THE OFFICE OF THE COUNTY RECORDER OF SAN DIEGO COUNTY ON DECEMBER 4, 1998 AS DESCRIBED IN THE RECIPROCAL GRANT OF EASEMENTS RECORDED JULY 23, 1999 AS INSTRUMENT NO. 1999-0511150 OF OFFICIAL RECORDS.

ASSESSOR’S PARCEL NUMBER: 345-012-11

EXHIBIT "A-4"

(Description of Los Angeles County Property

909 and 999 Sepulveda, El Segundo, CA)

THAT PORTION OF LOT 1 OF MAP OF C.C. HUNT'S SUBDIVISION IN SECTION 12, TOWNSHIP 3 SOUTH, RANGE 15 WEST, IN THE RANCHO SAUSAL REDONDO, IN THE CITY OF EL SEGUNDO, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP RECORDED IN BOOK 36 PAGE 36 OF MISCELLANEOUS RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY, DESCRIBED AS FOLLOWS:

BEGINNING AT THE NORTHEASTERLY CORNER OF SAID LOT 1; THENCE ALONG THE NORTHERLY LINE OF SAID LOT, NORTH 89 DEGREES 59 MINUTES 08 SECONDS WEST 62.39 FEET TO THE TRUE POINT OF BEGINNING; THENCE ALONG THE WESTERLY LINE OF THE LAND DESIGNATED AS PARCEL 1 IN THE FINAL DECREE OF CONDEMNATION, CASE NO. 357580, A CERTIFIED COPY THEREOF BEING RECORDED IN BOOK 13174 PAGE 92, OFFICIAL RECORDS OF SAID COUNTY, SOUTH 42 DEGREES 49 MINUTES 10 SECONDS EAST 54.55 FEET AND SOUTH 4 DEGREES 21 MINUTES 15 SECONDS WEST 592.00 FEET TO A POINT IN THE SOUTHERLY LINE OF SAID LOT 1, DISTANT ALONG SAID SOUTHERLY LINE NORTH 89 DEGREES 59 MINUTES 03 SECONDS WEST 70.00 FEET FROM THE SOUTHEASTERLY CORNER OF SAID LOT; THENCE ALONG SAID LAST MENTIONED SOUTHERLY LINE NORTH 89 DEGREES 59 MINUTES 03 SECONDS WEST 255.88 FEET TO A POINT IN THE SOUTHERLY LINE OF SAID LOT 1, THAT IS DISTANT THEREON SOUTH 89 DEGREES 59 MINUTES 03 SECONDS EAST 700.00 FEET FROM THE SOUTHERLY PROLONGATION OF THE MOST EASTERLY LINE OF TRACT 15455, AS PER MAP RECORDED IN BOOK 336 PAGES 42 AND 43 OF MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY; THENCE PARALLEL WITH THE MOST EASTERLY LINE OF SAID TRACT 15455, AND ITS PROLONGATION, NORTH 0 DEGREES 00 MINUTES 48 SECONDS EAST 630.38 FEET TO THE NORTHERLY LINE OF SAID LOT 1; THENCE ALONG SAID LAST MENTIONED NORTHERLY LINE SOUTH 89 DEGREES 59 MINUTES 08 SECONDS EAST 263.61 FEET TO THE POINT OF BEGINNING.

ASSESSOR'S PARCEL NO. 4139-009-017

Exhibit “B”

Initial Project Allocated Loan Amounts & Percentages

<u>Property Address</u>	<u>Allocated Loan Amount</u>	<u>% of Loan</u>
909 Sepulveda	\$ 27,170,000	38.3%
999 Sepulveda	\$ 11,840,000	16.7%
12340 El Camino	\$ 14,690,000	20.7%
12390 El Camino	\$ 11,750,000	16.5%
4690 Executive	\$ 5,550,000	7.8%
TOTAL	\$ 71,000,000	100.0%

PROMISSORY NOTE

\$71,000,000.00

Dated as of January 26, 2010

For value received, the undersigned, herein called "Borrower," promises to pay to the order of THE NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY, a Wisconsin corporation, who, together with any subsequent holder of this note (hereinafter, the "Note"), is hereinafter referred to as "Lender", at 720 E. Wisconsin Avenue, Milwaukee, WI 53202 or at such other place as Lender shall designate in writing, in coin or currency which, at the time or times of payment, is legal tender for public and private debts in the United States, the principal sum of SEVENTY-ONE MILLION DOLLARS or so much thereof as shall have been advanced from time to time plus interest on the outstanding principal balance from and after the date advanced at the rate and payable as follows:

Interest shall accrue from the date of advance until payment in full at the rate of six and fifty-one hundredths percent (6.51%) per annum (the "Interest Rate").

Accrued interest only on the amount advanced shall be paid on the first day of the month following the date of advance ("Amortization Period Commencement Date"). On the first day of the following month and on the first day of each month thereafter until maturity, installments of principal and interest shall be paid in the amount of \$449,236.00.

Interest will be calculated assuming each month contains thirty (30) days and each calendar year contains three hundred sixty (360) days. In the event of a partial month, however, interest for such partial month will be calculated based on the actual number of days the principal balance of this Note is outstanding in the month and the actual number of days in the calendar year.

Payments shall be made directly to Lender by electronic transfer of funds using the Automated Clearing House System. All installments shall be applied first in payment of interest, calculated monthly on the unpaid principal balance, and the remainder of each installment shall be applied in payment of principal. The entire unpaid principal balance plus accrued interest thereon shall be due and payable on February 1, 2017 (the "Maturity Date").

Provided Lender has no further obligation to advance principal under this Note to Borrower, Borrower shall have the right, upon not less than ten (10) business days prior written notice, beginning on the date of advance of paying this Note in full with a prepayment fee. Borrower's failure to prepay within twenty (20) business days of the date

of Borrower's written notice of prepayment shall be deemed a withdrawal of Borrower's notice of prepayment, and Borrower shall be required to submit another written notice of prepayment pursuant to the terms and conditions set forth in this Note if Borrower thereafter elects to prepay this Note. This prepayment fee represents consideration to Lender for loss of yield and reinvestment costs. The prepayment fee shall be the greater of Yield Maintenance or one percent (1.0%) of the outstanding principal balance of this Note.

"Yield Maintenance" means the amount, if any, by which

- (i) the present value of the Then Remaining Payments (as hereinafter defined) calculated using a periodic discount rate (corresponding to the payment frequency under this Note) which, when compounded for such number of payment periods in a year, equals the linearly interpolated per annum effective yield of the two (2) Most Recently Auctioned United States Treasury Obligations (as hereinafter defined) having maturity dates most nearly equivalent to the Average Life Date (as hereinafter defined) as reported by The Wall Street Journal ("WSJ") dated one (1) business day prior to the date of prepayment (except that the WSJ Weekend Edition shall be used in lieu of the Monday WSJ provided the previous business day's Treasury yields are published therein); exceeds
- (ii) the outstanding principal balance of this Note (exclusive of all accrued interest).

If such United States Treasury obligation yields shall not be reported as of such time or the yields reported as of such time shall not be ascertainable, then the periodic discount rate shall be equal to the linearly interpolated per annum effective yield of the two (2) Treasury Constant Maturity Series yields having maturity dates most nearly equivalent to the remaining Average Life of the remaining principal balance of the Indebtedness (as hereinafter defined) reported, for the latest day for which such yields shall have been so reported, as of one (1) business day preceding the prepayment date, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded United States Treasury obligations.

"Average Life" means the weighted-average time for the return of the then-remaining principal balance of the Indebtedness as of the date of prepayment.

"Average Life Date" means the date which is the Average Life from the date of prepayment.

"Most Recently Auctioned United States Treasury Obligations" means the U.S. Treasury bonds, notes and bills with maturities of 30 years, 10 years, 5 years, 2 years and 1 year which, as of the date the prepayment fee is calculated, were most recently auctioned by the United States Treasury.

“Then Remaining Payments” means payments in such amounts and at such times as would have been payable subsequent to the date of such prepayment in accordance with the terms of this Note.

Upon the occurrence of an Event of Default (as defined in the Lien Instrument) followed by the acceleration of the whole indebtedness evidenced by this Note, the payment of such indebtedness will constitute an evasion of the prepayment terms hereunder and be deemed to be a voluntary prepayment hereof and such payment will, therefore, to the extent not prohibited by law, include the prepayment fee required under the prepayment in full right recited above.

In the event of a partial prepayment of this Note for any reason contemplated in the Loan Documents (as defined in the Lien Instrument), the prepayment fee, if required, shall be an amount equal to the prepayment fee if this Note were prepaid in full, multiplied by a fraction, the numerator of which shall be the principal amount prepaid and the denominator of which shall be the outstanding principal balance of this Note immediately preceding the partial prepayment date.

Notwithstanding the above, this Note may be prepaid in full at any time, without a prepayment fee, during the last sixty (60) days of the term of this Note.

By signing immediately below, Borrower hereby acknowledges the provisions of this Note relating to prepayments of the indebtedness evidenced by this Note and the application of these provisions to prepayments on acceleration of the indebtedness hereunder. Specifically, but without limiting the generality of the foregoing, Borrower has separately signed below in compliance with the provisions of California Civil Code Section 2954.10, to the extent applicable to Borrower. Borrower hereby acknowledges that this waiver is supported by evidence of a course of conduct by Lender of individual weight given to the consideration in the loan transaction evidenced by this Note for the waiver and agreement of Borrower contained herein.

(remainder of page intentionally left blank)

Acknowledgment by Borrower of Prepayment Provisions.

SIGNATURE OF BORROWER:

KILROY REALTY, L.P.,
a Delaware limited partnership

By: Kilroy Realty Corporation,
a Maryland corporation, its general partner

By: /S/ TYLER H. ROSE
Name: Tyler H. Rose
Title: Executive Vice President and Chief Financial Officer

By: /S/ MICHELLE NGO
Name: Michelle Ngo
Title: Vice President and Treasurer

Borrower acknowledges and agrees that the Interest Rate hereunder shall be increased if certain financial statements and other reports are not furnished to Lender, all as described in more detail in the provision of the Lien Instrument entitled “ **Financial Statements**”.

This Note is secured by:

(i) certain property (the "San Diego Property") in the City of San Diego, County of San Diego, State of California, and certain property (the "El Segundo Property") in the City of El Segundo, County of Los Angeles, State of California described in a Deed of Trust and Security Agreement of even date herewith (the "Lien Instrument") executed by KILROY REALTY, L.P., a Delaware limited partnership, to THE NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY, as Trustee for THE NORTHWESTERN MUTUAL LIFE INSURANCE COMPANY.

The El Segundo Property and the San Diego Property shall collectively be referred to as the "Property".

Upon the occurrence of an Event of Default (as defined in the Lien Instrument), the whole unpaid principal hereof and accrued interest shall, at the option of Lender, to be exercised at any time thereafter, become due and payable at once without notice, notice of the exercise of, and the intent to exercise, such option being hereby expressly waived.

All parties at any time liable, whether primarily or secondarily, for payment of indebtedness evidenced hereby, for themselves, their heirs, legal representatives, successors and assigns, respectively, expressly waive presentment for payment, notice of dishonor, protest, notice of protest, and diligence in collection; consent to the extension by Lender of the time of said payments or any part thereof; further consent that the real or collateral security or any part thereof may be released by Lender, without in any way modifying, altering, releasing, affecting, or limiting their respective liability or the lien of the Lien Instrument; and agree to pay reasonable attorneys' fees and expenses of collection in case this Note is placed in the hands of an attorney for collection or suit is brought hereon and any attorneys' fees and expenses incurred by Lender to enforce or preserve its rights under any of the Loan Documents in any bankruptcy or insolvency proceeding.

All amounts due Lender including principal and, to the extent permitted by applicable law, interest not paid when due (without regard to any notice and/or cure provisions contained in any of the Loan Documents), other than principal becoming due by reason of acceleration by Lender of the unpaid balance of this Note, shall bear interest from the due date thereof until paid at the Default Rate. "Default Rate" means the lower of a rate equal to the interest rate in effect at the time of the default as herein provided plus 5% per annum or the maximum rate permitted by law.

No provision of this Note shall require the payment or permit the collection of interest, including any fees paid which are construed under applicable law to be interest, in excess of the maximum permitted by law. If any such excess interest is collected or herein provided for, or shall be adjudicated to have been collected or be so provided for herein, the provisions of this paragraph shall govern, and Borrower shall not be obligated to pay the amount of such interest to the extent that it is in excess of the amount permitted by law. Any such excess collected shall, at the option of Lender, unless otherwise required by applicable law, be immediately refunded to Borrower or credited on the principal of this Note immediately upon Lender's awareness of the collection of such excess.

Nothing herein contained shall limit the rights of Lender under California Code of Civil Procedure Section 726.5 or under any other statute, case or other law which gives Lender the right to waive its lien against environmentally impaired property and pursue the rights of an unsecured creditor or otherwise obtain a money judgment against Borrower.

Notwithstanding any provision contained herein or in the Lien Instrument to the contrary, if Lender shall take action to enforce the collection of the indebtedness evidenced hereby or secured by the Lien Instrument (collectively, the "Indebtedness"), its recourse shall, except as provided below, be limited to the Property or the proceeds from the sale of the Property and the proceeds realized by Lender in exercising its rights and remedies (i) under the Absolute Assignment (as defined in the Lien Instrument), (ii) under the Guarantee of Recourse Obligations of even date herewith executed by Kilroy Realty Corporation, a Maryland corporation, for the benefit of Lender and under other separate guarantees, if any, and (iii) in any other collateral securing the Indebtedness. If such proceeds are insufficient to pay the Indebtedness, Lender will never institute any action, suit, claim or demand in law or in equity against Borrower for or on account of such deficiency; provided, however, that the provisions contained in this paragraph

- (i) shall not in any way affect or impair the validity or enforceability of the Indebtedness or the Lien Instrument; and
- (ii) shall not prevent Lender from seeking and obtaining a judgment against Borrower, and Borrower shall be personally liable, for the Recourse Obligations.

"Recourse Obligations" means

- (a) rents and other income from the Property received by Borrower or those acting on behalf of Borrower from and after the date of any default under the Loan Documents remaining uncured prior to the Conveyance Date (as hereinafter defined), which rents and other income have not been applied to the payment of principal and interest on or other obligations owed to the Lender with respect to the Loan Documents or to reasonable operating expenses of the Property;
- (b) amounts necessary to repair any damage to the Property caused by the willful misconduct or gross negligence of Borrower or those acting on behalf of Borrower;

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- (c) insurance loss proceeds and Condemnation Proceeds (as defined in the Lien Instrument) released to Borrower but not applied in accordance with any agreement between Borrower and Lender as to their application;
- (d) the amount of insurance loss proceeds which would have been available with respect to a casualty on the Property, but were not available due to the default by Borrower in carrying all insurance required in accordance with any agreement between Borrower and Lender;
- (e) damages suffered by Lender as a result of fraud or misrepresentation in connection with the Indebtedness by Borrower or any other person or entity acting on behalf of Borrower;
- (f) amounts in excess of any rents or other revenues collected by Lender from operation of the Property from and after acceleration of the Indebtedness until the Conveyance Date, which amounts are necessary to pay real estate taxes, special assessments and insurance premiums with respect to the Property (to the extent not previously deposited with Lender by Borrower pursuant to the provisions of the Lien Instrument following the caption entitled “**Deposits by Grantor**”), and amounts required to fulfill Borrower’s obligations as lessor under any leases of the Property, in each case, either paid by Lender and not reimbursed prior to, or remaining due or delinquent on the Conveyance Date;
- (g) all security deposits under leases of the Property or any portion of the Property collected by Borrower, any agent of Borrower or any predecessor of Borrower, and not refunded to the tenants thereunder in accordance with their respective leases, applied in accordance with such leases or law or delivered to Lender, and all advance rents collected by Borrower, any agent of Borrower or any predecessor of Borrower and not applied in accordance with the leases of the Property or delivered to Lender;
- (h) all outstanding amounts due under the Indebtedness, including principal, interest, and other charges if there shall be a violation of any of the provisions of the Lien Instrument following the caption entitled “**Prohibition on Transfer/One-Time Transfer**”, and
- (i) in the event Borrower elects not to carry Earthquake Insurance on the parking garage located on the El Segundo Land, as defined in the Lien Instrument, as required in the provision of the Lien Instrument entitled “**Earthquake**”, an amount equal to any damage to such parking garage resulting from an earthquake, less any insurance loss proceeds related to any damage to such parking garage applied in repayment of the Indebtedness in accordance with the Deed of Trust or toward restoration of such parking garage;
- (j) reasonable attorneys’ fees and expenses incurred to the extent suit is brought to collect any of the amounts described in subparagraphs (a) through (i) above.

“Conveyance Date” means the first to occur of: (i) the later of (a) the date on which title vests in the purchaser at the foreclosure sale of the Property pursuant to the Lien Instrument or (b) the date on which Borrower’s statutory right of redemption shall expire or be waived, (ii) a Valid Tender Date or (iii) the date of the conveyance of the Property to Lender in lieu of foreclosure.

“Review Period” means the period of time from the date of the Tender until the earlier of (i) sixty (60) days thereafter or (ii) the date of acceptance of the Tender by Lender or Lender’s designee.

“Tender” means the tender by Borrower of (i) true, complete and accurate copies of all leases of the Property with an instrument assigning them to Lender or Lender’s designee and (ii) a special warranty or bargain and sale deed conveying good and marketable title to the Property to Lender or Lender’s designee, subject to no liens or encumbrances subordinate to the lien securing the Indebtedness not previously approved in writing by Lender.

“Valid Tender” means (i) a Tender and (ii) the passage of the Review Period, during which period, Borrower shall not create any consensual liens on the Property and Borrower shall not be or become a debtor in any bankruptcy proceeding or the subject of any other insolvency proceeding (other than a bankruptcy or other insolvency proceeding commenced by Lender or any of its affiliates).

“Valid Tender Date” means the date on which a Tender is made which, with the passage of time, becomes a Valid Tender.

Lender or Lender’s designee shall have the Review Period to accept or reject a Tender to enable Lender or Lender’s designee to review title to, and obtain an environmental assessment of, the Property, and, at Lender’s or Lender’s designee’s option, the deed and lease assignment shall be deposited into an escrow during the Review Period.

If Lender or Lender’s designee shall not accept such Tender within the Review Period, the Tender shall be deemed to be rejected, but a Valid Tender shall remain a Valid Tender despite such rejection.

This Note, the interpretation hereof and the rights, obligations, duties and liabilities hereunder shall be governed and controlled by the laws of the State of California.

KILROY REALTY, L.P.,
a Delaware limited partnership

By: Kilroy Realty Corporation,
a Maryland corporation, general partner

By: /S/ TYLER H. ROSE
Name: Tyler H. Rose
Title: Executive Vice President and Chief Financial Officer

By: /S/ MICHELLE NGO
Name: Michelle Ngo
Title: Vice President and Treasurer

GUARANTEE OF RECOURSE OBLIGATIONS
(Single Guarantor)

In consideration of the benefits which the undersigned (herein called "Guarantor") will receive as a result of The Northwestern Mutual Life Insurance Company ("Lender") making the above-numbered loan to Kilroy Realty, L.P., a Delaware limited partnership, ("Borrower"), evidenced by a Promissory Note (the "Note") of even date herewith in the original principal amount of \$71,000,000.00 and secured by a Deed of Trust and Security Agreement (the "Lien Instrument") covering property in the City of El Segundo, County of Los Angeles, State of California, and property in the City of San Diego, County of San Diego, State of California (the "Property"), and as an inducement required by Lender to fund said loan, Guarantor has agreed to guarantee:

- (A) The Recourse Obligations (as such term is defined in paragraph 9 hereof); and
- (B) Following the occurrence of a Triggering Event (as such term is defined in paragraph 9 hereof), the payment of the Note and all amounts at any time owed to Lender under the other Loan Documents (as hereinafter defined) and the performance of all terms, covenants and conditions in the Loan Documents.

1. Therefore, for value received, Guarantor hereby, unconditionally and irrevocably, guarantees to Lender and its successors and assigns the full, prompt and faithful payment of all of the Recourse Obligations, (i) notwithstanding any invalidity of, or defect or deficiency in any Loan Documents, (ii) notwithstanding the fact that Borrower may have no personal liability for all or a portion of the Indebtedness (as hereinafter defined) and Lender's recourse against Borrower and Borrower's assets may be limited, and (iii) notwithstanding any act, omission or thing which might otherwise operate as a legal or equitable discharge of Guarantor. Guarantor shall, within five business days from the date notice is given to Guarantor that any of the Recourse Obligations is due and owing, pay such Recourse Obligation.

"Loan Documents" means the Note, the Lien Instrument, that certain Loan Application dated November 30, 2009 from Borrower to Lender and that certain acceptance letter issued by Lender dated December 14, 2009 (together, the "Commitment"), that certain Absolute Assignment of Leases and Rents of even date herewith between Borrower and Lender (the "Absolute Assignment"), that certain Certification of Borrower of even date herewith, that certain Limited Partnership Supplement dated contemporaneously herewith, any other supplements and authorizations required by Lender, and all other instruments and documents (as the same may be amended from time to time) executed by Borrower and delivered to Lender in connection with, or as security for, the indebtedness evidenced by the Note, except any separate environmental indemnity agreement.

2. In addition, for value received, Guarantor hereby, unconditionally and irrevocably, guarantees to Lender and its successors and assigns the full, prompt and faithful payment of the full amount of the principal, interest and any other sums due or to become due under the Loan Documents (the "Indebtedness") upon and following the occurrence of a Triggering Event, it being the intention hereof that, following the occurrence of a Triggering Event, Guarantor shall remain liable until the Indebtedness shall be fully paid, (i) notwithstanding any invalidity of, or defect or deficiency in any Loan Document, (ii) notwithstanding the fact that Borrower may have no personal liability for all or a portion of the Indebtedness and Lender's recourse against Borrower and Borrower's assets may be limited, and (iii) notwithstanding any act, omission or thing which might otherwise operate as a legal or equitable discharge of Guarantor.

Following the occurrence of a Triggering Event, Guarantor shall, within five business days from the date a notice is given to Guarantor that an Event of Default (as defined in the Lien Instrument) has occurred and is continuing, cure such Event of Default. If any Event of Default shall not be cured by Guarantor within said five business day period, Lender may, at its option, accelerate the Indebtedness (if operation of a stay under the federal bankruptcy code or under any other state or federal bankruptcy, insolvency or similar proceeding, prohibits or delays acceleration of the Indebtedness as to Borrower, Guarantor agrees that Guarantor's obligations hereunder shall not be postponed or reduced) and, within five business days from the date a written demand from Lender is given to Guarantor, Guarantor shall cure all Events of Default and pay all of the Indebtedness, whether or not acceleration of the Indebtedness has occurred as to Borrower.

3. Any obligations not paid when due hereunder shall bear interest from the date due until paid at the Default Rate (as defined in the Note). Guarantor hereby waives absolutely and irrevocably, until the Indebtedness shall have been paid in full, any right of subrogation whatsoever to Lender's claims against Borrower and any right of indemnity, reimbursement or contribution from Borrower with respect to any payment made or performance undertaken by Guarantor pursuant hereto. If Borrower shall become a debtor under the federal bankruptcy code or the subject of any other state or federal bankruptcy, insolvency or similar proceeding, neither the operation of a stay nor the discharge of the Indebtedness thereunder shall affect the liability of Guarantor hereunder.

4. Without limiting or lessening the liability of Guarantor under this Guarantee, Lender may, without notice to Guarantor:

(A) Grant extensions of time or any other indulgences on the Indebtedness;

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- (B) Take, give up, modify, vary, exchange, renew or abstain from perfecting or taking advantage of any security for the Indebtedness; and
 - (C) Accept or make compositions or other arrangements with Borrower, realize on any security, and otherwise deal with Borrower, other parties and any security as Lender may deem expedient.

5. This Guarantee shall be a continuing guarantee, shall not be revoked by death, shall inure to the benefit of, and be enforceable by, any subsequent holder of the Note and the Lien Instrument and shall be binding upon, and enforceable against, Guarantor and Guarantor's heirs, legal representatives, successors and assigns.

6. All additional demands, presentments, notices of protest and dishonor, and notices of every kind and nature, including those of any action or no action on the part of Borrower, Lender or Guarantor, are expressly waived by Guarantor. This is a guarantee of payment and not of collection. Guarantor hereby waives the right to require Lender to proceed against Borrower or any other party, or to proceed against or apply any security it may hold, waives the right to require Lender to pursue any other remedy for the benefit of Guarantor and agrees that Lender may proceed against Guarantor without taking any action against any other party and without proceeding against or applying any security it may hold. Lender may, at its election, foreclose upon any security held by it in one or more judicial or non-judicial sales, whether or not every aspect of such sale is commercially reasonable, without affecting or impairing the liability of Guarantor, except to the extent the Indebtedness shall have been paid. Guarantor waives all rights and defenses arising out of an election of remedies by Lender, even though that election of remedies, such as a nonjudicial foreclosure of the Lien Instrument, has destroyed the Guarantor's rights of subrogation and reimbursement against Borrower by the operation of Section 580d of the California Code of Civil Procedure or otherwise. Guarantor waives all rights and defenses that Guarantor may have because Borrower's debt is secured by real property. This means, among other things, that (i) Lender may collect from the Guarantor without first foreclosing on any real or personal collateral pledged by Borrower, and (ii) if Lender forecloses on any real property collateral pledged by Borrower: (A) the amount of the debt may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price, and (B) Lender may collect from Guarantor even if Lender, by foreclosing on the real property collateral, has destroyed any right Guarantor may have to collect from Borrower. This is an unconditional and irrevocable waiver of any rights and defenses Guarantor may have because Borrower's debt is secured by real property. These rights and defenses waived by Guarantor include, but are not limited to, any rights or defenses based upon Sections 580a, 580b, 580d or 726 of the California Code of Civil Procedure. Without limiting the foregoing, Guarantor hereby waives any and all benefits that might otherwise be available to Guarantor under California Civil Code Sections 2809, 2810, 2819, 2839, 2845, 2849, 2850, 2899 and 3433.

7. Guarantor agrees to pay reasonable attorneys' fees and all other actual and reasonable out-of-pocket costs and expenses which may be incurred by Lender in the enforcement of this Guarantee.

8. Any notices, demands, requests and consents permitted or required hereunder or under any other Loan Document shall be in writing, may be delivered personally or sent by certified mail with postage prepaid or by reputable courier service with charges prepaid. Any notice or demand sent to Guarantor by certified mail or reputable courier service shall be addressed to Guarantor at the address set forth opposite Guarantor's name below or such other address in the United States of America as Guarantor shall designate in a notice to Lender given in the manner described herein. Any notice sent to Lender by certified mail or reputable courier service shall be addressed to The Northwestern Mutual Life Insurance Company to the attention of the Real Estate Investment Department at 720 East Wisconsin Avenue, Milwaukee, WI 53202 or at such other addresses as Lender shall designate in a notice given in the manner described herein. Any notice given to Lender shall refer to the Loan No. set forth above. Any notice or demand hereunder shall be deemed given when received. Any notice or demand which is rejected, the acceptance of delivery of which is refused or which is incapable of being delivered during normal business hours at the address specified herein or such other address designated pursuant hereto shall be deemed received as of the date of attempted delivery.

9. The following terms shall be defined as set forth below:

"Recourse Obligations" means the following:

- (A) Rents and other income from the Property received by Borrower or those acting on behalf of Borrower after any default under the Loan Documents remaining uncured prior to the Conveyance Date (as hereinafter defined), which rents and other income have not been applied to the payment of principal and interest on the Note or other obligations owed to the Lender with respect to the Loan Documents or to reasonable operating expenses of the Property;
- (B) Amounts necessary to repair damage to the Property caused by willful misconduct or gross negligence of Borrower or those acting on behalf of Borrower;

-
- (C) Insurance loss proceeds and Condemnation Proceeds (as defined in the Lien Instrument) released to Borrower but not applied in accordance with any agreement between Borrower and Lender as to their application;
 - (D) The amount of insurance loss proceeds which would have been available with respect to a casualty on the Property, but were not available due to the default by Borrower in carrying all insurance required in accordance with any agreement between Borrower and Lender;
 - (E) Damages suffered by Lender as a result of fraud or misrepresentation in connection with the Indebtedness by Borrower or any other person or entity acting on behalf of Borrower;
 - (F) Amounts in excess of any rents or other revenues collected by Lender from operation of the Property from and after acceleration of the Note until the Conveyance Date, which amounts are necessary to pay real estate taxes, special assessments and insurance premiums with respect to the Property (to the extent not previously deposited with Lender pursuant to the provisions of the Lien Instrument following the caption entitled “**Deposits by Grantor**”), and amounts required to fulfill Borrower’s obligations as lessor under any leases of the Property, in each case, either paid by Lender and not reimbursed prior to, or remaining due or delinquent on, the Conveyance Date;
 - (G) All security deposits under leases of the Property or any portion of the Property collected by Borrower, any agent of Borrower or any predecessor of Borrower, and not refunded to the tenants thereunder in accordance with their respective leases, applied in accordance with such leases or law or delivered to Lender, and all advance rents collected by Borrower, any agent of Borrower or any predecessor of Borrower and not applied in accordance with the leases of the Property or delivered to Lender;
 - (H) in the event Borrower elects not to carry Earthquake Insurance on the parking garage located on the El Segundo Land, as defined in the Lien Instrument, as required in the provision of the Lien Instrument entitled “**Earthquake**”, an amount equal to any damage to such parking garage resulting from an earthquake, less any insurance loss proceeds related to any damage to such parking garage applied in repayment of the Indebtedness in accordance with the Deed of Trust or toward restoration of such parking garage
 - (I) Reasonable attorneys’ fees and expenses incurred to the extent suit is brought to collect any of the amounts described in subparagraphs (A) through (H) above.

“Conveyance Date” means the first to occur of: (i) the later of (a) the date on which title vests in the purchaser at the foreclosure sale of the Property pursuant to the Lien Instrument or (b) the date on which Borrower’s statutory right of redemption shall expire or be waived, (ii) a Valid Tender Date or (iii) the date of the conveyance of the Property to Lender in lieu of foreclosure.

“Review Period” means the period of time from the date of the Tender until the earlier of (i) sixty (60) days thereafter or (ii) the date of acceptance of the Tender by Lender or Lender’s designee.

“Tender” means the tender by Borrower of (i) true, complete and accurate copies of all leases of the Property with an instrument assigning them to Lender or Lender’s designee and (ii) a special warranty or bargain and sale deed conveying good and marketable title to the Property to Lender or Lender’s designee, subject to no liens or encumbrances subordinate to the lien securing the Indebtedness not previously approved in writing by Lender.

“Valid Tender” means (i) a Tender and (ii) the passage of the Review Period, during which period, Borrower shall not create any consensual liens on the Property or become a debtor in any bankruptcy proceeding or the subject of any other insolvency proceeding (other than a bankruptcy or other insolvency proceeding commenced by Lender or any of its affiliates).

“Valid Tender Date” means the date on which a Tender is made which, with the passage of time, becomes a Valid Tender.

Lender or Lender’s designee shall have the Review Period to accept or reject a Tender to enable Lender or Lender’s designee to review title to, and obtain an environmental assessment of, the Property, and, at Lender’s or Lender’s designee’s option, the deed and lease assignment shall be deposited into an escrow during the Review Period.

If Lender or Lender’s designee shall not accept such Tender within the Review Period, the Tender shall be deemed to be rejected, but a Valid Tender shall remain a Valid Tender despite such rejection.

“Triggering Event” means any of the following:

- (A) A violation of any provision of the Lien Instrument following the caption entitled “ **Prohibition on Transfer/One-Time Transfer**”;
- (B) The filing by Borrower of a voluntary petition for relief under the federal bankruptcy code;
- (C) The filing of an involuntary petition against Borrower under the federal bankruptcy code which shall remain undismissed for a period of one hundred twenty (120) days; or

(D) Borrower shall become the subject of any liquidation, receivership or other similar proceedings and, if such proceeding is involuntary, shall remain undismissed for a period of one hundred twenty (120) days.

10. This Guarantee shall be governed by and construed in all respects in accordance with the laws of the State of California without regard to any conflict of law principles. With respect to any action, lawsuit or other legal proceeding concerning any dispute arising under or related to this Guarantee, Guarantor hereby irrevocably consents to the jurisdiction of the courts located in the State of California and irrevocably waives any defense of improper venue, forum nonconveniens or lack of personal jurisdiction in any such action, lawsuit or other legal proceeding brought in any court located in the State of California. Nothing contained herein shall affect the rights of Lender to commence an action, lawsuit or other legal proceeding against Guarantor in any other jurisdiction.

Executed as of the 26th day of January, 2010.

Mailing Addresses:
12200 West Olympic Blvd.
Suite 200
Los Angeles, CA 90064

KILROY REALTY CORPORATION,
a Maryland corporation

By: _____ /S/ TYLER H. ROSE
Name: _____ Tyler H. Rose
Title: _____ Executive Vice President and Chief Financial Officer

By: _____ /S/ MICHELLE NGO
Name: _____ Michelle Ngo
Title: _____ Vice President and Treasurer

KILROY REALTY CORPORATION
Statement of Computation of Consolidated Ratio of Earnings to Combined Fixed Charges
and Preferred Dividends
(in thousands, except ratios)

	2009	2008	2007	2006	2005
Earnings:					
Income from continuing operations	\$ 35,754	\$ 45,849	\$ 44,560	\$ 47,741	\$ 4,557
Plus Fixed Charges:					
Interest expense (including amortization of loan costs)	46,119	45,346	40,762	43,541	38,956
Capitalized interest and loan costs	9,683	18,132	19,516	11,309	8,880
Estimate of interest within rental expense	871	871	871	871	871
Distributions on Cumulative Redeemable Preferred units	5,588	5,588	5,588	5,588	5,588
Fixed Charges	62,261	69,937	66,737	61,309	54,295
Plus: Amortization of capitalized interest ⁽¹⁾	4,067	3,669	3,132	2,691	2,403
Less: Capitalized interest and loan costs	(9,683)	(18,132)	(19,516)	(11,309)	(8,880)
Less: Distributions on Cumulative Redeemable Preferred units	(5,588)	(5,588)	(5,588)	(5,588)	(5,588)
Earnings	\$ 86,811	\$ 95,735	\$ 89,325	\$ 94,844	\$ 46,787
Combined Fixed Charges and Preferred Dividends:					
Fixed Charges (from above)	62,261	69,937	66,737	61,309	54,295
Preferred Dividends	9,608	9,608	9,608	9,608	9,608
Combined Fixed Charges and Preferred Dividends	\$ 71,869	\$ 79,545	\$ 76,345	\$ 70,917	\$ 63,903
Consolidated ratio of earnings to combined fixed charges and preferred dividends	1.21x	1.20x	1.17x	1.34x	0.73x
Deficiency					\$ 17,116

(1) Amount represents an estimate of capitalized interest that has been amortized each year based on our established depreciation policy and an analysis of total interest costs and loan costs capitalized since 1997.

We have computed the consolidated ratio of earnings to combined fixed charges and preferred dividends by dividing earnings by combined fixed charges and preferred dividends. Earnings consist of income from continuing operations before the effect of noncontrolling interest plus fixed charges and amortization of capitalized interest, reduced by capitalized interest and loan costs and distributions on cumulative redeemable preferred units. Fixed charges consist of interest costs, whether expensed or capitalized, amortization of loan costs, an estimate of the interest within rental expense, and distributions on cumulative redeemable preferred units. For the year ended December 31, 2009, our earnings were adequate to cover combined fixed charges and preferred dividends.

SUBSIDIARIES OF THE REGISTRANT

<u>NAME OF SUBSIDIARY OR ORGANIZATION</u>	<u>STATE OF INCORPORATION OR FORMATION</u>
Kilroy Realty, L.P.	Delaware
Kilroy Realty Finance, Inc.	Delaware
Kilroy Realty Finance Partnership, L.P.	Delaware
Kilroy Services, LLC	Delaware
Kilroy Realty TRS, Inc.	Delaware
Kilroy Realty Management, L.P.	Delaware
Kilroy RB, LLC	Delaware
Kilroy RB II, LLC	Delaware

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-153584, 333-153583, 333-132393, and 333-144190 on Forms S-3 and Registration Statements Nos. 333-43227, 333-77739, 333-135385, and 333-161954 on Forms S-8 of our reports dated February 11, 2010, relating to the financial statements and financial statement schedules of Kilroy Realty Corporation (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the adoption of new accounting provisions), and the effectiveness of Kilroy Realty Corporation's internal control over financial reporting, appearing in this Annual Report on Form 10-K of Kilroy Realty Corporation for the year ended December 31, 2009.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California
February 11, 2010

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, John B. Kilroy, Jr., certify that:

1. I have reviewed this annual report on Form 10-K of Kilroy Realty Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ JOHN B. KILROY, JR.

John B. Kilroy, Jr.
President and Chief Executive Officer

Date: February 11, 2010

CERTIFICATION OF CHIEF FINANCIAL OFFICER
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Tyler H. Rose, certify that:

1. I have reviewed this annual report on Form 10-K of Kilroy Realty Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)), and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ TYLER H. ROSE

Tyler H. Rose
Executive Vice President and Chief Financial Officer

Date: February 11, 2010

Certification of Chief Executive Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Kilroy Realty Corporation (the “Company”) hereby certifies, to his knowledge, that:

(i) the accompanying Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2009 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ JOHN B. KILROY, JR.

John B. Kilroy, Jr.

President and Chief Executive Officer

Date: February 11, 2010

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350, is not being filed as part of the Report or as a separate disclosure document and is not being incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended, (whether made before or after the date of the Report) irrespective of any general incorporation language contained in such filing. The signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

Certification of Chief Financial Officer

Pursuant to 18 U.S.C. § 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Kilroy Realty Corporation (the “Company”) hereby certifies, to his knowledge, that:

(i) the accompanying Annual Report on Form 10-K of the Company for the fiscal year ended December 31, 2009 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ TYLER H. ROSE

Tyler H. Rose
Executive Vice President and
Chief Financial Officer

Date: February 11, 2010

The foregoing certification is being furnished solely pursuant to 18 U.S.C. § 1350, is not being filed as part of the Report or as a separate disclosure document and is not being incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Securities Act of 1934, as amended, (whether made before or after the date of the Report) irrespective of any general incorporation language contained in such filing. The signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.