KILROY REALTY CORP
Form S-4
August 31, 2010
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As filed with the Securities and Exchange Commission on August 30, 2010

Registration No.

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM S-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

KILROY REALTY, L.P.

(Exact name of registrants as specified in their charters)

Delaware	6798	95-4612685
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification No.)

12200 W. Olympic Boulevard, Suite 200

Los Angeles, California 90064

(310) 481-8400

(Address, including zip code, and telephone number, including area code, of registrants principal executive offices)

Tyler H. Rose

Executive Vice President and Chief Financial Officer

12200 W. Olympic Boulevard, Suite 200

Los Angeles, CA 90064

(310) 481-8400

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copy to:

J. Scott Hodgkins, Esq.

Latham & Watkins LLP

355 South Grand Avenue

Los Angeles, CA 90071

(213) 485-1234

Approximate date of commencement of proposed sale of the securities to the public: As soon as practicable after the effective date of this registration statement.

If the securities being registered on this Form are being offered in connection with the formation of a holding company and there is compliance with General Instruction G, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Amount to be registered	Proposed maximum offering price per unit(1)	Proposed maximum aggregate offering price	Amount of registration fee
6.625% Senior Notes due 2020	$250,000,000	100%	$250,000,000	$17,825
Guarantees of 6.625% Senior Notes due 2020	(2)	(2)	(2)	(2)

(1) Estimated solely for purposes of calculating the registration fee pursuant to Rule 457(f).
(2) No separate consideration will be received with respect to these guarantees and, therefore, no registration fee is attributed to them.

The Registrants hereby amend this registration statement on such date or dates as may be necessary to delay its effective date until the Registrants shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until this registration statement shall become effective on such date as the SEC, acting pursuant to said Section 8(a), may determine.

TABLE OF ADDITIONAL REGISTRANT GUARANTOR

Exact Name of Registrant Guarantor as Specified in its Charter	State or Other Jurisdiction of Incorporation or Organization	Primary Standard Industry Classification Code Number	I.R.S. Employer Identification Number	Address, including Zip Code and Telephone Number, including Area Code, of Registrant s Principal Executive Offices
Kilroy Realty Corporation	Maryland	6798	95-4598246	12200 W. Olympic Boulevard, Suite 200 Los Angeles, California 90064 (310) 481-8400

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED August 30, 2010

PROSPECTUS

KILROY REALTY, L.P.

OFFER TO EXCHANGE

$250,000,000 aggregate principal amount of its

6.625% Senior Notes due 2020

which have been registered under the Securities Act,

for any and all of its outstanding 6.625% Senior Notes due 2020

Guaranteed by Kilroy Realty Corporation.

The exchange offer expires at 5:00 p.m., New York City time, on , 2010, unless extended.

We will exchange all outstanding private notes that are validly tendered and not validly withdrawn for an equal principal amount of a new series of notes which are registered under the Securities Act.

The exchange offer is not subject to any conditions other than that it not violate applicable law or any applicable interpretation of the staff of the Securities and Exchange Commission.

You may withdraw tenders of outstanding private notes at any time before the exchange offer expires.

The exchange of notes will not be a taxable event for U.S. federal income tax purposes.

We will not receive any proceeds from the exchange offer.

The terms of the new series of notes are substantially identical to the outstanding private notes, except for transfer restrictions and registration rights relating to the outstanding private notes.

The outstanding private notes are, and the new series of notes will be, fully and unconditionally guaranteed by Kilroy Realty Corporation, a Maryland corporation, our sole general partner, which has no material assets other than its investment in us.

You may tender outstanding private notes only in denominations of $1,000 and integral multiples thereof.

Our affiliates may not participate in the exchange offer.

No public market exists for the outstanding private notes. We do not intend to list the exchange notes on any securities exchange and, therefore, no active public market is anticipated for the exchange notes.

Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer must acknowledge that it will deliver a prospectus in connection with any resale of such exchange notes. The letter of transmittal delivered with this prospectus states that by so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act of 1933, as amended. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of exchange notes received in exchange for outstanding private notes where such outstanding private notes were acquired by such broker-dealer as a result of market-making activities or other trading activities.

Please refer to Risk Factors beginning on page 17 of this prospectus for a description of the risks you should consider when evaluating this investment.

We are not making this exchange offer in any state where it is not permitted.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is , 2010.

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You should rely only on the information contained in or incorporated by reference in this prospectus. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. You should assume that the information contained in this prospectus, as well as information that we have previously filed with the Securities and Exchange Commission and incorporated by reference, is accurate only as of the date of the applicable document. Our business, financial condition, results of operations and prospects may have changed since those dates.

This prospectus incorporates important business and financial information about us that is not included in or delivered with this prospectus, and such information is available without charge to holders of the notes upon written or oral request to Investor Relations, Kilroy Realty Corporation, 12200 West Olympic Boulevard, Suite 200, Los Angeles, California 90064 (telephone: (310) 481-8400). To obtain timely delivery, note holders must request the information no later than five business days prior to the expiration of the exchange offer contemplated by this prospectus, or ,   2010.

Each broker-dealer that receives exchange notes for its own account pursuant to the exchange offer will acknowledge by participating in this exchange offer, as a condition to participating in this exchange offer, that it will deliver a prospectus in connection with any resale of such exchange notes. By so acknowledging and by delivering a prospectus, a broker-dealer will not be deemed to admit that it is an underwriter within the meaning of the Securities Act of 1933, as amended, or the Securities Act. This prospectus, as it may be amended or supplemented from time to time, may be used by a broker-dealer in connection with resales of exchange notes received in exchange for outstanding private notes where such outstanding private notes were acquired by such broker-dealer as a result of market-making activities or other trading activities. We have agreed that, starting on the expiration date of the exchange offer and ending on the close of business one year after such expiration date, subject to extension in limited circumstances, we will make this prospectus available to any broker-dealer for use in connection with any such resale. See Plan of Distribution.

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PROSPECTUS SUMMARY

This summary highlights some of the information contained elsewhere in this prospectus. Because this is only a summary, it does not contain all information that may be important to you or that you should consider before participating in this exchange offer. For a more complete understanding of the exchange offer and the exchange notes, we encourage you to read this entire prospectus, including the information under the caption Risk Factors, and the documents incorporated by reference. Kilroy Realty, L.P., or the operating partnership, is a Delaware limited partnership. Kilroy Realty Corporation, or the Company or guarantor, is the sole general partner of the operating partnership. Unless otherwise expressly stated or the context otherwise requires, in this prospectus, we, us and our refer collectively to the Company, the operating partnership and the Company s other subsidiaries, references to Company common stock or similar references refer to the common stock, par value $0.01 per share, of the Company and references to common units or similar references refer to the common units of the operating partnership.

Explanatory Note

This prospectus includes combined disclosure for Kilroy Realty Corporation and Kilroy Realty, L.P.

Kilroy Realty Corporation is a real estate investment trust, or REIT, and the general partner of Kilroy Realty, L.P. As of June 30, 2010, Kilroy Realty Corporation owned an approximate 96.7% common general partnership interest in Kilroy Realty, L.P. The remaining approximate 3.3% common limited partnership interests are owned by non-affiliated investors and certain directors and officers of Kilroy Realty Corporation. As the sole general partner of Kilroy Realty, L.P., Kilroy Realty Corporation exercises exclusive and complete discretion over Kilroy Realty, L.P. s day-to-day management and control and can cause it to enter into certain major transactions including acquisitions, dispositions, and refinancings and cause changes in its line of business, capital structure, and distribution policies.

There are a few differences between Kilroy Realty Corporation and Kilroy Realty, L.P. which are reflected in the disclosure in this prospectus. We believe it is important to understand the differences between Kilroy Realty Corporation and Kilroy Realty, L.P. in the context of how Kilroy Realty Corporation and Kilroy Realty, L.P. operate as an interrelated, consolidated company. Kilroy Realty Corporation is a real estate investment trust, whose only material asset is its ownership of partnership interests of Kilroy Realty, L.P. As a result, Kilroy Realty Corporation does not conduct business itself, other than acting as the sole general partner of Kilroy Realty, L.P., issuing public equity from time to time and guaranteeing certain debt of Kilroy Realty, L.P. Kilroy Realty Corporation itself is not directly obligated under any indebtedness, but guarantees some of the debt of Kilroy Realty, L.P., as disclosed in this prospectus. Kilroy Realty, L.P. owns substantially all the assets of the Company either directly or through its subsidiaries, conducts the operations of the business and is structured as a limited partnership with no publicly traded equity. Except for net proceeds from public equity issuances by Kilroy Realty Corporation, which are contributed to Kilroy Realty, L.P. in exchange for partnership units, Kilroy Realty, L.P. generates the capital required by the Company s business through Kilroy Realty, L.P. s operations, by Kilroy Realty, L.P. s direct or indirect incurrence of indebtedness or through the issuance of partnership units.

Noncontrolling interests and stockholders equity and partners capital are the main areas of difference between the consolidated financial statements of Kilroy Realty Corporation and those of Kilroy Realty, L.P. The common limited partnership interests in Kilroy Realty, L.P. are accounted for as partners capital in Kilroy Realty, L.P. s financial statements and as noncontrolling interests in Kilroy Realty Corporation s financial statements. Kilroy Realty, L.P. s financial statements also reflect the noncontrolling interest in Kilroy Realty Finance Partnership, L.P. This noncontrolling interest represents Kilroy Realty Corporation s 1% general partnership interest in Kilroy Realty Finance Partnership, L.P. through Kilroy Realty Finance, Inc., a wholly-owned subsidiary of Kilroy Realty Corporation. The differences between stockholders equity, partners capital and noncontrolling interests result from the differences in the equity issued at Kilroy Realty Corporation and the Kilroy Realty, L.P. levels and in Kilroy Realty Corporation s noncontrolling interest in Kilroy Realty Finance Partnership, L.P.

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Our Company

Overview

We own, operate, develop and acquire primarily Class A suburban office and industrial real estate in key submarkets in California, particularly Southern California, which we believe have strategic advantages and strong barriers to entry. Class A real estate encompasses attractive and efficient buildings of high quality that are attractive to tenants, are well-designed and constructed with above-average material, workmanship and finishes and are well-maintained and managed.

As of June 30, 2010, our stabilized portfolio of operating properties was comprised of 100 office buildings and 41 industrial buildings, which encompassed an aggregate of approximately 10.1 million and 3.7 million rentable square feet, respectively. As of June 30, 2010, the office properties were approximately 85.7% leased to 354 tenants and the industrial properties were approximately 83.3% leased to 56 tenants. All of our properties are located in California and the majority are located in Southern California. Our stabilized portfolio excludes undeveloped land, development and redevelopment properties under construction, lease-up properties and one industrial property that we are in the process of reentitling for residential use. We define lease-up properties as properties we have recently developed or redeveloped that have not yet reached 95% occupancy and are within one year following cessation of major construction activities. During the six months ended June 30, 2010, we acquired five new operating properties, which encompass approximately 1.4 million rentable square feet.

The Company is a Maryland corporation organized to qualify as a REIT under the Internal Revenue Code of 1986, as amended, or the Code, which owns its interests in all of its properties through the operating partnership, the issuer of the outstanding 6.625% Senior Notes due 2020, and the exchange notes offered hereby, and Kilroy Realty Finance Partnership, L.P., or the finance partnership, both of which are Delaware limited partnerships. We conduct substantially all of our activities through the operating partnership in which, as of June 30, 2010, the Company owned an approximate 96.7% general partnership interest. The remaining 3.3% common limited partnership interests in the operating partnership as of June 30, 2010 were owned by certain of our executive officers and directors, certain of their affiliates and other outside investors. Kilroy Realty Finance, Inc., one of the Company s 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 in the finance partnership. We conduct substantially all of our development activities through Kilroy Services, LLC, a wholly-owned subsidiary of the operating partnership. With the exception of the operating partnership, all of our subsidiaries are wholly owned.

Our principal executive offices are located at 12200 West Olympic Boulevard, Suite 200, Los Angeles, California 90064. Our telephone number is (310) 481-8400. Our website is located at www.kilroyrealty.com. Information on or accessible through our website is not a part of or incorporated by reference in this prospectus.

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THE EXCHANGE OFFER

The exchange offer	We are offering to exchange the 6.625% Senior Notes due 2020 offered by this prospectus, referred to as the exchange notes, for the outstanding 6.625% Senior Notes due 2020, referred to as the private notes, that are properly tendered and accepted. You may tender outstanding private notes only in denominations of $1,000 and integral multiples thereof. We will issue the exchange notes on or promptly after the exchange offer expires. As of the date of this prospectus, $250,000,000 aggregate principal amount of private notes is outstanding.
Expiration date	The exchange offer will expire at 5:00 p.m., New York City time, on , 2010 (the 21st business day following commencement of the exchange offer), unless extended, in which case the expiration date will mean the latest date and time to which we extend the exchange offer.
Conditions to the exchange offer	The exchange offer is not subject to any condition other than that it not violate applicable law or any applicable interpretation of the staff of the SEC. The exchange offer is not conditioned upon any minimum principal amount of private notes being tendered for exchange.

We intend to conduct the exchange offer in accordance with the provisions of the registration rights agreement with respect to the private notes and the applicable requirements of the Securities Act, the Securities Exchange Act of 1934, as amended, or the Exchange Act, and the rules and regulations of the SEC.

Procedures for tendering private notes	If you wish to tender your private notes for the exchange notes pursuant to the exchange offer, you must complete and sign a letter of transmittal in accordance with the instructions contained in the letter and forward it by mail, facsimile or hand delivery, together with any other documents required by the letter of transmittal, to the exchange agent (as defined below), either with the private notes to be tendered or in compliance with the specified procedures for guaranteed delivery of notes. Certain brokers, dealers, commercial banks, trust companies and other nominees may also effect tenders by book-entry transfer. Holders of private notes registered in the name of a broker, dealer, commercial bank, trust company or other nominee are urged to contact such person promptly if they wish to tender private notes pursuant to the exchange offer. See The Exchange Offer Procedures for Tendering.

Letters of transmittal and certificates representing private notes should not be sent to us. Such documents should only be sent to the exchange agent. Questions regarding how to tender private notes and requests for information should be directed to the exchange agent. See The Exchange Offer Exchange Agent. You do not have any appraisal or dissenters rights under the indenture in connection with the exchange offer.

Acceptance of the private notes and delivery of the exchange notes	Subject to the satisfaction or waiver of the conditions to the exchange offer, we will accept for exchange any and all private notes which are validly tendered in the exchange offer and not withdrawn before 5:00 p.m., New York City time, on the expiration date.

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Withdrawal rights	You may withdraw the tender of your private notes at any time before 5:00 p.m., New York City time, on the expiration date, by complying with the procedures for withdrawal described in this prospectus under the heading The Exchange Offer Withdrawal of Tenders.
U.S. federal tax consequences	The exchange of notes will not be a taxable event for U.S. federal income tax purposes. For a discussion of material federal tax considerations relating to the exchange of notes, see Certain U.S. Federal Income Tax Consequences.
Exchange agent	U.S. Bank National Association, the registrar and paying agent for the notes under the indenture governing the notes, is serving as the exchange agent for the notes.
Consequences of failure to exchange	If you do not exchange your private notes for the exchange notes, you will continue to be subject to the restrictions on transfer provided in the private notes and in the indenture governing the private notes. In general, the private notes may not be offered or sold, unless registered under the Securities Act, except pursuant to an exemption from, or in a transaction not subject to, the Securities Act and applicable state securities laws. We do not currently plan to register the resale of the private notes under the Securities Act.
Registration rights agreement	You are entitled to exchange your private notes for the exchange notes with substantially identical terms. This exchange offer satisfies this right. After the exchange offer is completed, you will no longer be entitled to any exchange or registration rights with respect to your private notes.

We explain the exchange offer in greater detail beginning on page 32.

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THE EXCHANGE NOTES

The following summary contains basic information about the exchange notes and is not intended to be complete. It does not contain all the information that may be important to you. For a more complete understanding of the exchange notes, please refer to the section entitled Description of Notes.

The form and terms of the exchange notes are the same as the form and terms of the private notes, except that the exchange notes will be registered under the Securities Act and, therefore, the exchange notes will not be subject to the transfer restrictions, registration rights and provisions providing for an increase in the interest rate applicable to the private notes. The exchange notes will evidence the same debt as the private notes, and both the private notes and the exchange notes are governed by the same indenture.

Issuer of exchange notes — Kilroy Realty, L.P.

Guarantor — Kilroy Realty Corporation

Exchange notes offered — $250,000,000 aggregate principal amount of 6.625% Senior Notes due 2020.

Ranking of exchange notes — The exchange notes will be the operating partnership s senior unsecured obligations and will rank equally in right of payment with all of its other existing and future senior unsecured indebtedness. The exchange notes will be effectively subordinated in right of payment to:

- all of the operating partnership s existing and future mortgage indebtedness and other secured indebtedness (to the extent of the value of the collateral securing such indebtedness); and
- all existing and future equity not owned by the operating partnership, if any, and indebtedness and other liabilities, whether secured or unsecured, of the operating partnership s subsidiaries.

Interest — The notes will bear interest at the rate of 6.625% per year, accruing from May 24, 2010. Interest on the notes will be payable semiannually in arrears on June 1 and December 1 of each year, beginning December 1, 2010.

Company guarantee — The exchange notes will be fully and unconditionally guaranteed by the Company. The Company guarantee will be a senior unsecured obligation of the Company and will rank equally in right of payment with all of its other existing and future senior unsecured indebtedness, guarantees and other obligations. The Company s guarantee will be effectively subordinated in right of payment to:

- all existing and future secured indebtedness of the Company (to the extent of the value of the collateral securing such indebtedness);

all existing and future equity not owned by the Company of its consolidated subsidiaries (including the operating partnership) and of any subsidiary or other entity the Company accounts for using the equity method of accounting; and

all existing and future unsecured and secured indebtedness and other liabilities of the Company s consolidated subsidiaries (including the operating partnership) and of any subsidiary or other entity the Company accounts for using the equity method of accounting.

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	The Company has no material assets other than its investment in the operating partnership.
Maturity	The exchange notes will mature on June 1, 2020 unless earlier redeemed
Redemption	The operating partnership may, at its option, redeem the exchange notes at any time in whole or from time to time in part at the redemption prices described in Description of Notes Redemption of the Notes at the Option of the Operating Partnership.
Certain covenants	The indenture governing the exchange notes will contain covenants that will, among other things, limit the ability of the operating partnership and its subsidiaries to incur secured and unsecured indebtedness. These covenants are subject to significant exceptions and, in addition, the operating partnership and its subsidiaries may be able to incur substantial amounts of additional secured and unsecured debt without violating these covenants. For additional information, see Description of Notes Certain Covenants.
Absence of a public market for the exchange notes	The exchange notes are a new issue of securities with no established trading market. We do not intend to apply for listing of the exchange notes on any securities exchange.
Use of proceeds	The exchange offer satisfies an obligation under the registration rights agreement. We will not receive any cash proceeds from the exchange offer.
Trustee	U.S. Bank National Association will be the trustee under the indenture relating to the exchange notes.
Book-entry	The exchange notes will be issued in book-entry form and will be represented by permanent global certificates deposited with, or on behalf of, The Depository Trust Company, or DTC, and registered in the name of a nominee of DTC. Beneficial interests in any of the exchange notes will be shown on, and transfers will be effected only through, records maintained by DTC or its nominee, and any such interest may not be exchanged for certificated securities, except in limited circumstances.
Additional issuances	We may, without the consent of holders of the exchange notes, issue additional exchange notes from time to time in the future, provided that such additional exchange notes must be treated as part of the same issue for U.S. federal income tax purposes as the exchange notes offered hereby.
Governing law	The indenture, the exchange notes and the guarantees endorsed on the exchange notes will be governed by the laws of the State of New York.
Risk factors	You should read carefully Risk Factors included and incorporated by reference in this prospectus for certain considerations relevant to an investment in the exchange notes.

SUMMARY HISTORICAL FINANCIAL DATA

The following tables set forth summary historical consolidated financial and operating data for Kilroy Realty, L.P. and Kilroy Realty Corporation and their respective subsidiaries. You should read the following summary historical financial data in conjunction with the consolidated historical financial statements and notes thereto of Kilroy Realty, L.P. and its subsidiaries, included elsewhere in this prospectus, and Kilroy Realty Corporation and its subsidiaries, incorporated by reference into this prospectus, and Management s Discussion and Analysis of Financial Condition and Results of Operations, included elsewhere in this prospectus.

Kilroy Realty, L.P.

The consolidated balance sheet data as of December 31, 2009 and 2008 and the consolidated statement of operations data for the years ended December 31, 2009, 2008 and 2007 have been derived from the historical consolidated financial statements of Kilroy Realty, L.P. audited by Deloitte & Touche LLP, an independent registered public accounting firm, whose report with respect thereto is included elsewhere in this prospectus. The consolidated balance sheet data as of December 31, 2007, 2006 and 2005 and the consolidated statement of operations data for each of the years ended December 31, 2006 and 2005 have been derived from the unaudited historical consolidated financial statements of Kilroy Realty, L.P., not included in this prospectus. The consolidated balance sheet data as of June 30, 2010 and the consolidated statement of operations data for the six months ended June 30, 2010 and 2009 have been derived from the unaudited historical consolidated financial statements of Kilroy Realty, L.P., which are included elsewhere in this prospectus and include all adjustments of a normal and recurring nature that management considers necessary for a fair presentation of such information. Kilroy Realty, L.P. s consolidated results of operations and financial condition as of and for the six months ended June 30, 2010 do not purport to be indicative of its financial condition or results of operations as of or for the year ending December 31, 2010.

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Kilroy Realty, L.P. Consolidated

(in thousands, except unit and per unit, square footage and occupancy data)

	Six Months Ended June 30, 2010	2009
Statements of Operation Data:		
Rental income	$ 125,694	$ 125,662
Tenant reimbursements	12,201	15,055
Other property income	1,340	2,844
Total revenues	139,235	143,561
Property expenses	26,563	24,912
Real estate taxes	12,518	12,272
Provision for bad debts	14	152
Ground leases	312	829
General and administrative expenses	13,823	14,361
Acquisition-related expenses	1,270	
Depreciation and amortization	44,660	44,640
Total expenses	99,160	97,166
Interest income and other net investment gains	366	573
Interest expense	(25,044)	(24,115)
Loss on early extinguishment of debt	(4,564)	
Total other (expenses) income	(29,242)	(23,542)
Income from continuing operations	10,833	22,853
Discontinued operations:		
Loss from discontinued operations		(224)
Net gain on dispositions of discontinued operations		2,485
Total income from discontinued operations		2,261
Net income	10,833	25,114
Net income attributable to noncontrolling interests in consolidated subsidiaries	(96)	(133)
Net income attributable to Kilroy Realty, L.P.	10,737	24,981
Preferred distributions	(7,598)	(7,598)
Net income available to common unitholders	$ 3,139	$ 17,383

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Kilroy Realty, L.P. Consolidated

(in thousands, except unit and per unit, square footage and occupancy data)

	Year Ended December 31,				
	2009	**2008**	**2007**	**2006**	**2005**
Statements of Operation 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 interests in consolidated subsidiaries	(201)	(237)	(324)	(238)	(465)
Net income attributable to Kilroy Realty, L.P.	37,814	46,674	122,993	93,204	42,091
Preferred distributions	(15,196)	(15,196)	(15,196)	(15,196)	(15,196)
Net income available to common unitholders	$ 22,618	$ 31,478	$ 107,797	$ 78,008	$ 26,895

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	Six Months Ended June 30,		Year Ended December 31,				
	2010	2009	2009	2008	2007	2006	2005
Unit Data:							
Weighted average common units outstanding basic	48,397,625	36,143,799	40,436,196	34,531,779	34,615,769	33,842,375	32,460,353
Weighted average common units outstanding diluted	48,400,981	36,170,122	40,463,221	34,606,060	34,644,738	33,890,941	32,512,217
Income (loss) from continuing operations available to common unitholders per common unit basic	$ 0.05	$ 0.41	$ 0.47	$ 0.87	$ 0.81	$ 0.95	$ (0.34)
Income (loss) from continuing operations available to common unitholders per common unit diluted	$ 0.05	$ 0.41	$ 0.47	$ 0.87	$ 0.81	$ 0.95	$ (0.34)
Net income available to common unitholders per unit basic	$ 0.05	$ 0.47	$ 0.53	$ 0.90	$ 3.09	$ 2.30	$ 0.83
Net income available to common unitholders per unit diluted	$ 0.05	$ 0.47	$ 0.53	$ 0.90	$ 3.09	$ 2.30	$ 0.83
Distributions declared per common unit	$ 0.70	$ 0.93	$ 1.63	$ 2.32	$ 2.22	$ 2.12	$ 2.04

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Kilroy Realty, L.P. Consolidated

	June 30,		December 31,				
	2010	2009	2009	2008	2007	2006	2005
Balance Sheet Data:							
Total real estate held for investment, before accumulated depreciation and amortization	$ 2,953,609	$	$ 2,520,083	$ 2,475,596	$ 2,370,004	$ 2,040,761	$ 1,953,971
Total assets	2,556,509		2,084,281	2,102,918	2,069,810	1,799,352	1,674,474
Total debt	1,155,118		972,016	1,142,348	1,072,659	879,198	842,282
Total liabilities	1,330,805		1,126,805	1,314,394	1,229,138	1,011,790	1,031,106
Series A preferred units(1)	73,638		73,638	73,638	73,638	73,638	73,638
Total series E and F preferred units	121,582		121,582	121,582	121,582	121,582	121,582
Total capital(2)	1,152,066		883,838	714,886	767,034	713,924	569,730
Other Data:							
Cash flows provided by (used in):							
Operating activities	57,388	60,902	124,965	144,481	147,500	61,570	116,002
Investing activities	(414,108)	(23,598)	(50,474)	(93,825)	(244,802)	(136,193)	(75,682)
Financing activities	376,265	(33,509)	(74,161)	(52,835)	97,086	82,690	(41,292)
Office Properties:							
Rentable square footage	10,088,803	8,651,040	8,708,466	8,650,126	8,088,769	7,835,040	7,948,152
Occupancy	85.7%	83.5%	80.6%	86.2%	93.7%	95.8%	92.5%
Industrial Properties:							
Rentable square footage	3,654,463	3,654,463	3,654,463	3,718,663	3,869,969	3,869,969	4,587,491
Occupancy	83.3%	90.2%	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 (i) the partnership interests represented by the Series E Preferred Units and the Series F Preferred Units, (ii) the common partnership interests, and (iii) the noncontrolling interests in consolidated subsidiaries, but excludes the partnership interests represented by the Series A Preferred Units.

	Six Months Ended June 30,	Year Ended December 31,				
	2010	2009	2008	2007	2006	2005
Other Data:						
Ratio of earnings to fixed charges	1.25x	1,53x	1.49x	1.46x	1.70x	0.96x

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Kilroy Realty Corporation

The consolidated balance sheet data as of December 31, 2009 and 2008 and the consolidated statement of operations data for the years ended December 31, 2009, 2008 and 2007 have been derived from the historical consolidated financial statements of Kilroy Realty Corporation audited by Deloitte & Touche LLP, an independent registered public accounting firm, whose report with respect thereto is incorporated by reference in this prospectus. The consolidated balance sheet data as of December 31, 2007, 2006 and 2005 and the consolidated statement of operations data for each of the years ended December 31, 2006 and 2005 have been derived from the historical consolidated financial statements of Kilroy Realty Corporation, not included in or incorporated by reference in this prospectus. The consolidated balance sheet data as of June 30, 2010 and the consolidated statement of operations data for the six months ended June 30, 2010 and 2009 have been derived from the unaudited historical consolidated financial statements of Kilroy Realty Corporation, which are incorporated by reference in this prospectus and include all adjustments of a normal and recurring nature that management considers necessary for a fair presentation of such information. Kilroy Realty Corporation s consolidated results of operations and financial condition as of and for the six months ended June 30, 2010 do not purport to be indicative of its financial condition or results of operations as of or for the year ending December 31, 2010. Interest expense has been reclassified to be presented under Other (Expenses) Income in the consolidated statements of operations for the six months ended June 30, 2009 to conform to the presentation for the six months ended June 30, 2010. Interest expense had previously been presented under Expenses.

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Kilroy Realty Corporation Consolidated

(in thousands, except share and per share, square footage and occupancy data)

	Six Months Ended June 30,	
	2010	**2009**
Statements of Operation Data:		
Rental income	$ 125,694	$ 125,662
Tenant reimbursements	12,201	15,055
Other property income	1,340	2,844
Total revenues	139,235	143,561
Property expenses	26,563	24,912
Real estate taxes	12,518	12,272
Provision for bad debts	14	152
Ground leases	312	829
General and administrative expenses	13,823	14,361
Acquisition-related expenses	1,270	
Depreciation and amortization	44,660	44,640
Total expenses	99,160	97,166
Interest income and other net investment gains	366	573
Interest expense	(25,044)	(24,115)
Loss on early extinguishment of debt	(4,564)	
Total other (expenses) income	(29,242)	(23,542)
Income from continuing operations	10,833	22,853
Discontinued operations:		
Loss from discontinued operations		(224)
Net gain on dispositions of discontinued operations		2,485
Total income from discontinued operations		2,261
Net income	10,833	25,114
Net income attributable to noncontrolling common units of the operating partnership	(132)	(824)
Net income attributable to Kilroy Realty Corporation	10,701	24,290
Preferred distributions	(7,598)	(7,598)
Net income available to common stockholders	$ 3,103	$ 16,692

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Kilroy Realty Corporation Consolidated

(in thousands, except share and per share, square footage and occupancy data)

	Year Ended December 31,				
	2009	2008	2007	2006	2005
Statements of Operation 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	(15,196)	(15,196)	(15,196)	(15,196)	(15,196)
Net income available to common stockholders	$ 21,794	$ 29,829	$ 101,164	$ 72,256	$ 24,211

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	Six Months Ended June 30,		Year Ended December 31,				
	2010	2009	2009	2008	2007	2006	2005
Share Data:							
Weighted average common shares outstanding basic	46,674,494	34,404,608	38,705,101	32,466,591	32,379,997	31,244,062	28,710,726
Weighted average common shares outstanding diluted	46,677,850	34,430,931	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	$ 0.05	$ 0.41	$ 0.47	$ 0.88	$ 0.82	$ 0.96	$ (0.33)
Income (loss) from continuing operations available to common stockholders per common share diluted	$ 0.05	$ 0.41	$ 0.47	$ 0.88	$ 0.82	$ 0.96	$ (0.33)
Net income available to common stockholders per common share basic	$ 0.05	$ 0.48	$ 0.53	$ 0.91	$ 3.09	$ 2.30	$ 0.84
Net income available to common stockholders per common share diluted	$ 0.05	$ 0.47	$ 0.53	$ 0.91	$ 3.09	$ 2.30	$ 0.84
Distributions declared per common share	$ 0.70	$ 0.93	$ 1.63	$ 2.32	$ 2.22	$ 2.12	$ 2.04

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Kilroy Realty Corporation Consolidated

	June 30,		December 31,				
	2010	2009	2009	2008	2007	2006	2005
Balance Sheet Data:							
Total real estate held for investment, before accumulated depreciation and amortization	$ 2,953,609	$	$ 2,520,083	$ 2,475,596	$ 2,370,004	$ 2,040,761	$ 1,953,971
Total assets	2,556,509		2,084,281	2,102,918	2,069,810	1,799,352	1,674,474
Total debt	1,155,118		972,016	1,142,348	1,072,659	879,198	842,282
Total liabilities	1,330,805		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	73,638
Total preferred stock	121,582		121,582	121,582	121,582	121,582	121,582
Total equity[2]	1,152,066		883,838	714,886	767,034	713,924	569,730
Other Data:							
Cash flows provided by (used in):							
Operating activities	57,388	60,902	124,965	144,481	147,500	61,570	116,002
Investing activities	(414,108)	(23,598)	(50,474)	(93,825)	(244,802)	(136,193)	(75,682)
Financing activities	376,265	(33,509)	(74,161)	(52,835)	97,086	82,690	(41,292)
Office Properties:							
Rentable square footage	10,088,803	8,651,040	8,708,466	8,650,126	8,088,769	7,835,040	7,948,152
Occupancy	85.7%	83.5%	80.6%	86.2%	93.7%	95.8%	92.5%
Industrial Properties:							
Rentable square footage	3,654,463	3,654,463	3,654,463	3,718,663	3,869,969	3,869,969	4,587,491
Occupancy	83.3%	90.2%	88.2%	96.3%	94.7%	95.8%	99.3%

(1) Represents the redemption value, less issuance costs of our issued and outstanding 1,5000,000 Series A Preferred Units.

(2) Includes the noncontrolling interest of the common units of the operating partnership.

Other Data:	Six Months Ended June 30, 2010	Year Ended December 31, 2009	2008	2007	2006	2005
Ratio of earnings to fixed charges	1.14x	1.39x	1.37x	1.34x	1.55x	0.86x

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RISK FACTORS

You should carefully consider the risks described below as well as other information and data included in this prospectus before making a decision to exchange your private notes for the exchange notes in the exchange offer. If any of the events described in the risk factors below occur, our business, financial condition, operating results and prospects could be materially adversely affected, which in turn could adversely affect our ability to repay the notes. The risk factors set forth below are generally applicable to the private notes as well as the exchange notes.

Risks Related to our Business and Operations

Global market and economic conditions may adversely affect our liquidity and financial condition and those of our tenants.

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 and those of our tenants may be adversely affected by the impact of California economic conditions and California s budget deficit.

All but one of our properties and all of our undeveloped land are 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 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.

As of June 30, 2010, all of our undeveloped land and properties representing 5.4 million rentable square feet, or 56.4% of our Net Operating Income for the six months ended June 30, 2010, 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 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.

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.

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 upon significant tenants and the loss of a significant tenant could adversely affect our financial condition, revenues and results of operations.

As of the date of this prospectus, our fifteen largest tenants represented approximately 40.0% 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 5.5% of our total annualized base rental revenues as of June 30, 2010. See further discussion on the composition of our tenants by industry and our largest tenants under Business and 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 and the six months ended June 30, 2010, we derived approximately 98.7% and 99.0%, respectively, 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.

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.

We may be unable to renew leases or re-lease available space.

As of June 30, 2010, we had office and industrial space available for lease representing approximately 14.9% of the total square footage of our properties. In addition, leases representing approximately 7.1% and 9.0% of the leased rentable square footage of our properties are scheduled to expire during the remainder of 2010 and in

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. As of June 30, 2010, we believe that the weighted average cash rental rates for our overall portfolio, including recently acquired properties, are approximately 10% above the current average quoted market rental rates, and weighted average cash rental rates for leases scheduled to expire during the remainder of 2010 are up to 5% above the current average quoted market rental rates, and leases scheduled to expire during 2011 are approximately 15% above the current average quoted market rental rate, 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 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.

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 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. 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 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 distributions necessary to maintain the Company s REIT qualification. Our level of debt and the limitations imposed by our debt agreements may have substantial consequences to us, including the following:

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- 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 could be adversely affected. In addition, foreclosures could create taxable income without accompanying cash proceeds, which could require the Company to pay income or excise tax notwithstanding its tax status as a REIT under the Internal Revenue Code of 1986, as amended, or the Code or require the operating partnership s unitholders to pay income tax. As of June 30, 2010, we had approximately $1.2 billion aggregate principal amount of indebtedness, $64.1 million of which is contractually due prior to December 31, 2010. Our total debt and preferred equity represented 46.3% 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 the Company s common stock and equity) at June 30, 2010. For the calculation of our market capitalization and additional information on debt maturities see 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 may be adversely affected.

Potential casualty losses, such as earthquake losses, may not be covered by insurance and payment of such losses may adversely affect our financial condition and results of operations.

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 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.

All of our properties are located in 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 could be adversely affected.

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.

While we historically have acquired, developed, and redeveloped office properties in 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 June 30, 2010, 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 June 30, 2010, we had approximately 949,100 aggregate rentable square feet, or 6.9% 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.

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 the Company on profits derived 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.

We may invest in securities related to real estate which could adversely affect our ability to satisfy our debt obligations.

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

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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 satisfy our debt obligations.

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 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.

Risks Related to our Organizational Structure

Our growth depends on external sources of capital that are outside of our control and the inability to obtain capital on terms that are acceptable to us, or at all, could adversely affect our financial condition and results of operations.

The Company is required under the Code to distribute at least 90% of its taxable income, determined without regard to the dividends-paid deduction and excluding any net capital gain, and the operating partnership is required to make distributions to the Company to allow it to satisfy these REIT distribution requirements. For distributions with respect to taxable years ending on or before December 31, 2011, recent IRS guidance allows the Company to satisfy up to 90% of this requirement through the distribution of shares of its common stock, if certain conditions are met. Because of these distribution requirements, the operating partnership is required to make distributions to the Company, and 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 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 may be adversely affected.

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 our board of directors and the father of John B. Kilroy, Jr., our President and Chief Executive Officer. Each is a member of our board of directors, and together, as of June 30, 2010, they beneficially owned approximately 3.3% of the total outstanding shares of common stock of the Company. The percentage of outstanding shares of common stock beneficially owned includes 239,477 shares of

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common stock, 172,607 restricted stock units that were vested and held by John B. Kilroy, Jr. at June 30, 2010, and assumes the exchange into shares of the Company s common stock of the 1,335,135 common units of the operating partnership held by Messrs. Kilroy (which are redeemable in exchange for, at the option of the Company, an equal number of shares of the Company s common stock). The beneficial ownership percentage excludes 214,880 nonvested restricted stock units held by John B. Kilroy, Jr. at June 30, 2010.

Pursuant to the charter of the Company, no other stockholder may own, actually or constructively, more than 7.0% of the outstanding common stock of the Company 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 the Company s outstanding common stock, excluding units that are exchangeable into shares of 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 the operating partnership s noteholders or unitholders or the Company s noteholders or stockholders. Also, they may, in the future, have a substantial influence on the outcome of any matters submitted to the operating partnership s unitholders or the Company s stockholders for approval.

We are not limited in our ability to incur debt. which may increase our risk of default under our debt obligations.

Our financing policies and objectives are determined by the 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 June 30, 2010, we had approximately $1.2 billion aggregate principal amount of indebtedness outstanding, which represented 39.6% 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 46.3% as of June 30, 2010. See 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 unitholders of the operating partnership or stockholders of the Company. Increases in the amount of debt outstanding would result in an increase in our debt service, which could adversely affect cash flow. Higher leverage also increases the risk of default on our obligations and limits our ability to obtain additional financing in the future.

Risks Related to this Offering and the Exchange Notes

The effective subordination of the exchange notes may limit our ability to satisfy our obligations under the exchange notes.

The exchange notes will be the operating partnership s senior unsecured obligations and will rank equally in right of payment with all of its other existing and future senior unsecured indebtedness. The exchange notes will be effectively subordinated in right of payment to:

- all of the operating partnership s existing and future mortgage indebtedness and other secured indebtedness (to the extent of the value of the collateral securing such indebtedness); and
- all existing and future equity not owned by the operating partnership, if any, and indebtedness and other liabilities, whether secured or unsecured, of the operating partnership s subsidiaries.

Similarly, the Company s guarantee of the exchange notes will be its senior unsecured obligation and will rank equally in right of payment with all of its other existing and future senior unsecured indebtedness, guarantees and other obligations. The Company s guarantee will be effectively subordinated in right of payment to:

- all existing and future secured indebtedness of the Company s (to the extent of the value of the collateral securing such indebtedness);

- all existing and future equity not owned by the Company of its consolidated subsidiaries (including the operating partnership) and of any subsidiary or other entity the Company accounts for using the equity method of accounting; and

- all existing and future unsecured and secured indebtedness and other liabilities of the Company s consolidated subsidiaries (including the operating partnership) and of any subsidiary or other entity the Company accounts for using the equity method of accounting.

The indenture that will govern the exchange notes will not prohibit us or any of our subsidiaries from issuing equity in the future and, although the indenture will contain covenants that limit the ability of the operating partnership and its subsidiaries to incur secured and unsecured indebtedness, those covenants are subject to significant exceptions and, in addition, the operating partnership and its subsidiaries may be able to incur substantial amounts of additional secured and unsecured indebtedness without violating those covenants.

In the event of the bankruptcy, liquidation, reorganization or other winding up of the operating partnership or the Company, assets that secure any of our respective secured obligations will be available to pay our respective obligations under the exchange notes or the guarantees, as applicable, and any of our other respective unsecured obligations, only after all of our respective indebtedness secured by those assets has been repaid in full, and we caution you that there may not be sufficient assets remaining to pay amounts due on any or all the exchange notes or the guarantees, as the case may be, then outstanding. In the event of the bankruptcy, liquidation, reorganization or other winding up of any of subsidiaries of the operating partnership. or the Company, the rights of holders of indebtedness and other obligations of the operating partnership (including the exchange notes) or the Company (including the guarantees), as the case may be, will be subject to the prior claims of that subsidiary s creditors and of the holders of any indebtedness or other obligations guaranteed by that subsidiary, except to the extent that the operating partnership or the Company is itself a creditor with recognized claims against that subsidiary, in which case those claims would still be effectively subordinated to all security interests in, and debt secured by mortgages or other liens on, the assets of that subsidiary (to the extent of the value of those assets) and would be subordinate to all indebtedness of that subsidiary senior to that held by the operating partnership or the Company.

As of June 30, 2010, the operating partnership had approximately $1,182.0 million aggregate principal amount of outstanding indebtedness (before the impact of $26.9 million of unamortized discounts attributable to the operating partnership s 3.250% Exchangeable Notes due 2012, referred to as the 3.25% Exchangeable Notes, and the 4.250% Exchangeable Notes due 2014, referred to as the 4.25% Exchangeable Notes, and collectively, the Exchangeable Notes and other indebtedness), of which $317.5 million was its senior secured indebtedness and $864.5 million was its senior unsecured indebtedness. As of June 30, 2010, the Company had no outstanding indebtedness and had guaranteed borrowings and other amounts due under the operating partnership s $550 million unsecured revolving credit facility and approximately $1,032.0 million aggregate principal amount (before the impact of the unamortized debt discounts referred to above) of other outstanding indebtedness of the operating partnership. As of June 30, 2010, the subsidiaries of the operating partnership and the subsidiaries of the Company (excluding the operating partnership) had no outstanding indebtedness, exclusive of trade payables and other liabilities.

We may not be able to meet our debt service obligations.

Our ability to make payments on and to refinance our indebtedness, including the exchange notes, and to fund our operations, working capital and capital expenditures, depends on our ability to generate cash in the future. Our cash flow is subject to general economic, industry, financial, competitive, operating, legislative, regulatory and other factors, many of which are beyond our control.

The instruments and agreements governing some of our outstanding debt securities contain provisions that require us to repurchase those debt securities for cash or to pay cash in exchange for those debt securities under specified circumstances or upon the occurrence of specified events and our future debt agreements and debt securities may contain similar provisions. We may not have sufficient funds to pay our indebtedness when due (including upon any such required repurchase or exchange), and we may not be able to arrange for the financing necessary to make those payments on favorable terms or at all. In addition, our ability to make required payments on our indebtedness when due (including upon any such repurchase or exchange) may be limited by the terms of other

debt instruments or agreements. Our failure to pay amounts due in respect of any of our indebtedness when due may constitute an event of default under the instrument governing that indebtedness, which could permit the holders of that indebtedness to require the immediate repayment of that indebtedness in full and, in the case of secured indebtedness, could allow them to sell the collateral securing that indebtedness and use the proceeds to repay that indebtedness. Moreover, any acceleration of or default in respect of any of our indebtedness could, in turn, constitute an event of default under other debt instruments or agreements, thereby resulting in the acceleration and required repayment of that other indebtedness. Any of these events could materially adversely affect our ability to make payments of principal and interest on the notes when due and could prevent us from making those payments altogether.

We cannot assure you that our business will generate sufficient cash flow from operations or that future sources of cash will be available to us in an amount sufficient to enable us to pay amounts due on our indebtedness, including the exchange notes, or to fund our other liquidity needs. Additionally, if we incur additional indebtedness in connection with future acquisitions or for any other purpose, our debt service obligations could increase.

We may need to refinance all or a portion of our indebtedness, including the exchange notes, on or before maturity. Our ability to refinance our indebtedness or obtain additional financing will depend on, among other things:

- our financial condition and market conditions at the time; and
- restrictions in the agreements governing our indebtedness.

As a result, we may not be able to refinance our indebtedness, including the exchange notes, on commercially reasonable terms, or at all. If we do not generate sufficient cash flow from operations, and additional borrowings or refinancings or proceeds of assets sales or other sources of cash are not available to us, we may not have sufficient cash to enable us meet all of our obligations, including payments on the exchange notes. Accordingly, if we cannot service our indebtedness, we may have to take actions such as seeking additional equity financing, delaying capital expenditures, or strategic acquisitions and alliances. Any of these events or circumstances could have a material adverse effect on our financial condition, results of operations, cash flows, the quoted trading price of our securities and our ability to satisfy our debt service obligations.

Despite our substantial indebtedness, we may still incur significantly more debt, which could exacerbate the risks related to our indebtedness, including our inability to pay the principal of or interest on the exchange notes.

We may be able to incur substantial additional indebtedness in the future. Although the agreements governing our secured and unsecured indebtedness and the indenture governing the exchange notes limit our ability to incur additional indebtedness, these restrictions are subject to a number of significant exceptions and, in addition, we will have the ability to incur additional indebtedness, which could be substantial, without violating the limitations imposed by these debt instruments. To the extent we incur additional indebtedness, we may face additional risks associated with our indebtedness, including our possible inability to pay the principal of and interest on the exchange notes.

The Company has no significant operations, other than as the operating partnership s general partner, and no material assets, other than its investment in the operating partnership.

The exchange notes will be fully and unconditionally guaranteed by the Company. However, the Company has no significant operations, other than as general partner of the operating partnership, and no material assets, other than its investment in the operating partnership. Furthermore, the Company s guarantee will be effectively subordinated in right of payment to:

- all existing and future secured indebtedness of the Company (to the extent of the value of the collateral securing such indebtedness);

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- all existing and future equity not owned by the Company or the Company s consolidated subsidiaries (including the operating partnership) and of any subsidiary or other entity the Company accounts for using the equity method of accounting; and

- all existing and future unsecured and secured indebtedness and other liabilities of the Company s consolidated subsidiaries (including the operating partnership) and of any subsidiary or other entity the Company accounts for using the equity method of accounting.

There is currently no trading market for the exchange notes, and an active public trading market for the exchange notes may not develop or, if it develops, be maintained or be liquid. The failure of an active public trading market for the exchange notes to develop or be maintained is likely to adversely affect the market price and liquidity of the exchange notes.

The exchange notes are a new issue of securities, and there is currently no existing trading market for the exchange notes. We do not intend to apply for listing of the exchange notes on any securities exchange. Accordingly, an active public trading market may not develop for the exchange notes and, even if one develops, may not be maintained or be liquid. If an active public trading market for the exchange notes does not develop or is not maintained, the market price and liquidity of the exchange notes are likely to be adversely affected and holders may not be able to sell their exchange notes at desired times and prices or at all. If any of the exchange notes are traded after their purchase, they may trade at a discount from their purchase price.

The liquidity of the trading market, if any, and future trading prices of the exchange notes will depend on many factors, including, among other things, prevailing interest rates, the financial condition, results of operations, business, prospects and credit quality of the operating partnership and its subsidiaries and the Company and its subsidiaries and other comparable entities, the market for similar securities and the overall securities market, and may be adversely affected by unfavorable changes in any of these factors, some of which are beyond our control. In addition, market volatility or events or developments in the credit markets could materially and adversely affect the market value of the exchange notes, regardless of our financial condition, results of operations, business, prospects or credit quality.

The market price of the exchange notes may fluctuate significantly.

The market price of the exchange notes may fluctuate significantly in response to many factors, including:

- actual or anticipated variations in our operating results, funds from operations, cash flows, liquidity or distributions;

- changes in our earnings estimates or those of analysts;

- publication of research reports about us or the real estate industry or the office and industrial sectors in which we operate;

- the failure to maintain our current credit ratings or comply with our debt covenants;

- increases in market interest rates;

- changes in market valuations of similar companies;

- adverse market reaction to any securities we may issue or additional debt we incur in the future;

- additions or departures of key management personnel;

actions by institutional investors;

speculation in the press or investment community;

- continuing high levels of volatility in the credit markets;
- the realization of any of the other risk factors included in or incorporated by reference in this prospectus; and
- general market and economic conditions.

In addition, many of the factors listed above are beyond our control. These factors may cause the market price of the exchange notes to decline, regardless of our financial condition, results of operations, business or prospects. It is impossible to assure investors that the market price of the exchange notes will not fall in the future, and it may be difficult for investors to resell the exchange notes at prices they find attractive, or at all.

Holders of the exchange notes will not be entitled to require us to redeem or repurchase the exchange notes upon the occurrence of change of control or highly levered transactions or other designated events.

As of June 30, 2010, we had $464.5 million aggregate principal amount of outstanding debt securities (excluding a total of $23.9 million of unamortized debt discount) that permitted the holders of those securities to require us to repurchase those debt securities upon the occurrence of specified events, including, for example, the acquisition by any person or group of more than 50% of the total voting power of all of the Company s outstanding capital stock entitled to vote generally in the election of directors or if the Company ceases to be the general partner of the operating partnership or ceases to control the operating partnership. However, the exchange notes offered hereby do not have any similar rights to require us to repurchase the exchange notes, whether upon the occurrence of a change of control or highly leveraged transaction or otherwise, even though these transactions could increase the amount of our indebtedness or otherwise adversely affect our capital structure or credit ratings, thereby adversely affecting the market value of the exchange notes. These provisions may also allow holders of these other debt securities to be repaid upon the occurrence of specified transactions or events, which may deplete our available cash and sources of financing and make it difficult or impossible for us to make payments on the exchange notes when due.

An increase in interest rates could result in a decrease in the market value of the exchange notes.

In general, as market interest rates rise, notes bearing interest at a fixed rate generally decline in value. Consequently, if you purchase these exchange notes and market interest rates increase, the market value of your exchange notes may decline. We cannot predict the future level of market interest rates.

A downgrade in our credit ratings could materially adversely affect our business and financial condition and the market value of the exchange notes.

In April 2010, we received confirmation that the operating partnership had been assigned initial investment grade credit ratings by two major credit ratings. The credit ratings assigned to the operating partnership and the Company could change based upon, among other things, our results of operations and financial condition. These ratings are subject to ongoing evaluation by credit rating agencies, and we cannot assure you that any rating will not be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. Moreover, these credit ratings are not recommendations to buy, sell or hold the notes or any other securities. If either of the credit rating agencies that have rated the operating partnership or the Company downgrades or lowers its credit rating, or if either credit rating agency indicates that it has placed any such rating on a so-called watch list for a possible downgrading or lowering or otherwise indicates that its outlook for that rating is negative, it could have a material adverse effect on the market value of the exchange notes and our costs and availability of capital, which could in turn have a material adverse effect on our financial condition, results of operations, cash flows and our ability to satisfy our debt service obligations.

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If the procedures for tendering your private notes in this exchange offer are not followed, you may not receive exchange notes in exchange for your private notes.

We will issue the exchange notes in exchange for your private notes only if you tender the private notes and deliver a properly completed and duly executed letter of transmittal and other required documents before expiration of the exchange offer. You should allow sufficient time to ensure timely delivery of the necessary documents. Neither the exchange agent nor we are under any duty to give notification of defects or irregularities with respect to the tenders of private notes for exchange. If you are the beneficial holder of private notes that are registered in the name of your broker, dealer, commercial bank, trust company or other nominee, and you wish to tender private notes in the exchange offer, you should promptly contact the person in whose name your private notes are registered and instruct that person to tender your private notes on your behalf.

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FORWARD-LOOKING STATEMENTS

This prospectus, including the documents incorporated by reference herein, contain certain forward-looking statements within the meaning of federal securities law.

Additionally, documents we subsequently file with the SEC and incorporate by reference will contain forward-looking statements. In particular, statements pertaining to our capital resources, portfolio performance, results of operations, pending and potential or proposed acquisitions contain forward-looking statements. Likewise, all of our statements regarding anticipated growth in our funds from operations and anticipated market conditions, demographics and results of operations are forward-looking statements. Forward-looking statements involve numerous risks and uncertainties, and you should not rely on them as predictions of future events. Forward-looking statements depend on assumptions, data or methods which may be incorrect or imprecise, and we may not be able to realize them. We do not guarantee that the transactions and events described will happen as described (or that they will happen at all). You can identify forward-looking statements by the use of forward-looking terminology such as believes, expects, may, will, should, seeks, approximately, intends, plans, pro forma, estimates or an of these words and phrases or similar words or phrases. You can also identify forward-looking statements by discussions of strategies, plans or intentions. The following factors, among others, could cause actual results and future events to differ materially from those set forth or contemplated in the forward-looking statements:

- global market and general economic conditions;
- defaults on or non-renewal of leases by tenants, particularly any of our largest office tenants and our largest industrial tenants;
- adverse economic or real estate developments in California, and particularly the Southern California region;
- our ability to re-lease property at or above current market rates;
- increased interest rates and operating costs;
- our access to capital to satisfy our liquidity needs;
- significant competition, which may decrease the occupancy and rental rates of properties;
- potential losses that may not be covered by insurance;
- our ability to successfully complete acquisitions and operate acquired properties;
- our ability to successfully complete development and redevelopment properties on schedule and within budgeted amounts;
- fluctuations in availability and cost of construction materials and labor resulting from the effects of natural disasters and increased worldwide demand;

the Company s ability to maintain its status as a real estate investment trust, or REIT;

future terrorist activity in the United States or war;

adverse changes to, or implementations of, income tax laws, governmental regulations or legislation;

decreases in the population in geographic areas where our properties are located;

elevated utility costs and power outages in California; and

costs to comply with governmental regulations.

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While forward-looking statements reflect our good faith beliefs, they are not guarantees of future performance. For a further discussion of these and other factors that could impact our future results, performance or transactions, see Risk Factors.

THE EXCHANGE OFFER

Purpose of the Exchange Offer

On May 24, 2010, the operating partnership issued $250.0 million of the private notes to J.P. Morgan Securities Inc., Banc of America Securities LLC, Barclays Capital Inc., Comerica Securities, Inc., KeyBanc Capital Markets Inc., Mitsubishi UFJ Securities (USA), Inc., Nikko Bank (Luxembourg) S.A., PNC Capital Markets LLC, RBS Securities Inc., Scotia Capital (USA) Inc. and U.S. Bancorp Investments, Inc., the initial purchasers, pursuant to a purchase agreement. The initial purchasers subsequently sold the private notes to qualified institutional buyers, as defined in Rule 144A under the Securities Act, in reliance on Rule 144A. As a condition to the sale of the private notes, we entered into a registration rights agreement with the initial purchasers on May 24, 2010. The registration rights agreement provides that:

(1) the operating partnership and the Company will file an exchange offer registration statement with the SEC on or prior to 180 days after the closing date of the offering of the private notes;

(2) the operating partnership and the Company will use all commercially reasonable efforts to have the exchange offer registration statement declared effective by the SEC on or prior to 270 days after the closing date of the offering of private notes; and

(3) unless the exchange offer would not be permitted by applicable law or SEC policy or applicable interpretation of the staff of the SEC, the operating partnership and the Company will:

(a) commence the exchange offer promptly after the exchange offer registration statement is declared effective by the SEC and keep the exchange offer open for at least 20 business days (or longer, if required by applicable securities laws) after the date notice is sent to holders of entitled securities (as defined below); and

(b) use all commercially reasonable efforts to issue, on or prior to 30 business days (or longer, if required by applicable securities laws) after the date on which the exchange offer registration statement is declared effective by the SEC, exchange notes in exchange for all private notes tendered and not withdrawn prior thereto in the exchange offer; and

(4) if obligated to file the shelf registration statement, the operating partnership and the Company will use all commercially reasonable efforts to file a shelf registration statement with the SEC on or prior to 60 days after such filing obligation arises, to cause the shelf registration statement to be declared effective by the SEC on or prior to 120 days after such filing obligation arises and to keep the shelf registration statement continuously effective and the related prospectus current (subject to the right of the operating partnership to suspend sales of notes pursuant to the shelf registration statement from time to time) for a period of one year after the last date on which any notes are originally issued.

Upon the effectiveness of the exchange offer registration statement, we will offer the exchange notes in exchange for the private notes. The registration rights agreement is listed as an exhibit to the registration statement of which this prospectus is part.

Resale of the Exchange Notes

Under existing interpretations by the staff of the SEC contained in no-action letters to third parties, the exchange notes will generally be freely transferable by holders (other than by any holder that is an affiliate (as defined in Rule 405 of the Securities Act) of the operating partnership or the Company) after the exchange offer without further registration under the Securities Act, except that participating broker-dealers (as defined below) will be required to deliver a prospectus in connection with any resale or other transfer of the exchange notes as described below.

If you wish to exchange your private notes for exchange notes in the exchange offer, you will be required to make certain representations. If you are not able to make these representations, you will not be entitled to participate in the exchange offer or to exchange your private notes for exchange notes.

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Any broker-dealer who holds private notes acquired for its own account as a result of market-making activities or other trading activities (a participating broker-dealer) who exchanges those private notes for exchange notes in the exchange offer must deliver a prospectus meeting the requirements of the Securities Act in connection with any resale of those exchange notes. We understand that the staff of the SEC has taken the position that participating broker-dealers may fulfill their prospectus delivery requirements with respect to exchange notes, other than a resale of an unsold allotment from the initial offering of the private notes, with the prospectus contained in the exchange offer registration statement. Under the registration rights agreement, for a period of 180 days following the expiration date of the exchange offer, participating broker-dealers who notify us within 30 days after consummation of the exchange offer will be entitled to use the prospectus contained in the exchange offer registration statement in connection with the resale of the exchange notes (and we will agree to keep the exchange offer registration statement continuously effective and the related prospectus current during such period), subject to exceptions, including the operating partnership s right to suspend the use of that prospectus as described below. If we effect the exchange offer, we will be permitted to require any participating broker-dealer to discontinue disposition of exchange notes pursuant to this prospectus, as described below under the caption Shelf Registration. Each such participating-broker will be subject to certain of the civil liability provisions under the Securities Act in connection with resales made pursuant to such prospectus.

Terms of the Exchange Offer

Upon the terms and subject to the conditions described in this prospectus and in the accompanying letter of transmittal, which together constitute the exchange offer, we will accept any and all private notes validly tendered and not withdrawn before the expiration date. We will issue $1,000 principal amount of exchange notes in exchange for each $1,000 principal amount of outstanding private notes surrendered pursuant to the exchange offer. You may tender private notes only in integral multiples of $1,000.

The form and terms of the exchange notes are the same as the form and terms of the private notes except that:

- the exchange notes will be registered with the SEC and thus will not be subject to restrictions on transfer or bear legends restricting their transfer; and

- the exchange notes will not provide for the payment of additional interest as described below or be entitled to registration rights under the registration rights agreement.

The exchange notes will evidence the same debt as the private notes and will be issued under the same indenture, so the exchange notes and the private notes will be treated as a single class of debt securities under the indenture.

As of the date of this prospectus, $250.0 million in aggregate principal amount of the private notes are outstanding and registered in the name of Cede & Co., as nominee for DTC. Only registered holders of the private notes, or their legal representative or attorney-in-fact, as reflected on the records of the trustee under the indenture, may participate in the exchange offer. We will not set a fixed record date for determining registered holders of the private notes entitled to participate in the exchange offer.

You do not have any appraisal or dissenters rights under the indenture in connection with the exchange offer. We intend to conduct the exchange offer in accordance with the provisions of the registration rights agreement and the applicable requirements of the Securities Act, the Exchange Act and the rules and regulations of the SEC.

We will be deemed to have accepted validly tendered private notes when, as and if we have given written notice of acceptance to the exchange agent. The exchange agent will act as your agent for the purposes of receiving the exchange notes from us.

If you tender private notes in the exchange offer you will not be required to pay brokerage commissions or fees with respect to the exchange of private notes pursuant to the exchange offer. We will pay all charges and expenses, other than the applicable taxes described below, in connection with the exchange offer.

Expiration Date; Extensions; Amendments

The term expiration date will mean 5:00 p.m., New York City time on , 2010 (the 21st business day following commencement of the exchange offer), unless we, in our sole discretion, extend the exchange offer, in which case the term expiration date will mean the latest date and time to which we extend the exchange offer.

To extend the exchange offer, we will notify the exchange agent and each registered holder of any extension in writing by a press release or other public announcement before 9:00 a.m., New York City time, on the next business day after the previously scheduled expiration date. The notice of extension will disclose the aggregate principal amount of the private notes that have been tendered as of the date of such notice.

We reserve the right, in our reasonable discretion:

- to delay accepting any private notes due to an extension of the exchange offer; or

- if any conditions listed below under Conditions are not satisfied, to terminate the exchange offer,

in each case by written notice of the delay, extension or termination to the exchange agent and by press release or other public announcement.

We will follow any delay in acceptance, extension or termination as promptly as practicable by written notice to the registered holders by a press release or other public announcement. If we amend the exchange offer in a manner we determine constitutes a material change, we will promptly disclose the amendment in a prospectus supplement that we will distribute to the registered holders. We will also extend the exchange offer for a period of five to ten business days, depending upon the significance of the amendment and the manner of disclosure, if the exchange offer would otherwise expire during the five to ten business day period.

Interest on the Exchange notes

The exchange notes will bear interest at the same rate and on the same terms as the private notes. Consequently, the exchange notes will bear interest at a rate equal to 6.625% per year (calculated using a 360-day year). Interest will be payable on the exchange notes semi-annually on each June 1 and December 1.

Interest on the exchange notes will accrue from the last interest payment date on which interest was paid on the private notes or, if no interest has been paid on the private notes, from the date of initial issuance of the private notes. We will deem the right to receive any interest accrued but unpaid on the private notes waived by you if we accept your private notes for exchange.

Procedures for Tendering

Valid Tender

Except as described below, a tendering holder must, prior to the expiration date, transmit to the exchange agent, at the address listed under the heading Exchange Agent :

- a properly completed and duly executed letter of transmittal, including all other documents required by the letter of transmittal; or

- if the private notes are tendered in accordance with the book-entry procedures listed below, an agent s message.

In addition, a tendering holder must:

deliver certificates, if any, for the private notes to the exchange agent at or before the expiration date; or

- deliver a timely confirmation of book-entry transfer of the private notes into the exchange agent s account at DTC, the book-entry transfer facility, along with the letter of transmittal or an agent s message; or

- comply with the guaranteed delivery procedures described below.

The term agent s message means a message, transmitted by DTC to and received by the exchange agent and forming a part of a book-entry confirmation, that states that DTC has received an express acknowledgment that the tendering holder agrees to be bound by the letter of transmittal and that we may enforce the letter of transmittal against this holder.

If the letter of transmittal is signed by a person other than the registered holder of private notes, the letter of transmittal must be accompanied by a written instrument of transfer or exchange in satisfactory form duly executed by the registered holder with the signature guaranteed by an eligible institution. The private notes must be endorsed or accompanied by appropriate powers of attorney. In either case, the private notes must be signed exactly as the name of any registered holder appears on the private notes.

If the letter of transmittal or any private notes or powers of attorney are signed by trustees, executors, administrators, guardians, attorneys-in-fact, officers of corporations or others acting in a fiduciary or representative capacity, these persons should so indicate when signing. Unless waived by us, proper evidence satisfactory to us of their authority to so act must be submitted.

By tendering private notes pursuant to the exchange offer, each holder will represent to us that, among other things, the exchange notes are being acquired in the ordinary course of business of the person receiving the exchange notes, whether or not that person is the holder, and neither the holder nor the other person has any arrangement or understanding with any person to participate in the distribution of the exchange notes. In the case of a holder that is not a broker-dealer, that holder, by tendering private notes pursuant to the exchange offer, will also represent to us that the holder is not engaged in and does not intend to engage in a distribution of the exchange notes.

The method of delivery of private notes, letters of transmittal and all other required documents is at your election and risk. If the delivery is by mail, we recommend that you use registered mail, properly insured, with return receipt requested. In all cases, you should allow sufficient time to assure timely delivery. You should not send letters of transmittal or private notes to us.

If you are a beneficial owner whose private notes are registered in the name of a broker, dealer, commercial bank, trust company or other nominee, and wish to tender, you should promptly instruct the registered holder to tender on your behalf. Any registered holder that is a participant in DTC s book-entry transfer facility system may make book-entry delivery of the private notes by causing DTC to transfer the private notes into the exchange agent s account, including by means of DTC s Automated Tender Offer Program.

Signature Guarantees

Signatures on a letter of transmittal or a notice of withdrawal must be guaranteed, unless the private notes surrendered for exchange are tendered:

- by a registered holder of the private notes who has not completed the box entitled Special Issuance Instructions or Special Delivery Instructions on the letter of transmittal; or

- for the account of an eligible institution.

If signatures on a letter of transmittal or a notice of withdrawal are required to be guaranteed, the guarantees must be by an eligible institution. An eligible institution is an eligible guarantor institution meeting the requirements of the registrar for the notes, which requirements include membership or participation in the Security Transfer Agent Medallion Program, or STAMP, or such other signature guarantee program as may be determined by the registrar for the notes in addition to, or in substitution for, STAMP, all in accordance with the Exchange Act.

Book-Entry Transfer

The exchange agent will make a request to establish an account for the private notes at DTC for purposes of the exchange offer within two business days after the date of this prospectus. Any financial institution that is a participant in DTC s systems must make book-entry delivery of private notes by causing DTC to transfer those private notes into the exchange agent s account at DTC in accordance with DTC s procedure for transfer. The participant should transmit its acceptance to DTC at or prior to the expiration date or comply with the guaranteed delivery procedures described below. DTC will verify this acceptance, execute a book-entry transfer of the tendered private notes into the exchange agent s account at DTC and then send to the exchange agent confirmation of this book-entry transfer. The confirmation of this book-entry transfer will include an agent s message confirming that DTC has received an express acknowledgment from this participant that this participant has received and agrees to be bound by the letter of transmittal and that we may enforce the letter of transmittal against this participant.

Delivery of exchange notes issued in the exchange offer may be effected through book-entry transfer at DTC. However, the letter of transmittal or facsimile of it or an agent s message, with any required signature guarantees and any other required documents, must:

be transmitted to and received by the exchange agent at the address listed under Exchange Agent at or prior to the expiration date; or

comply with the guaranteed delivery procedures described below.

Delivery of documents to DTC in accordance with DTC s procedures does not constitute delivery to the exchange agent.

Guaranteed Delivery

If a registered holder of private notes desires to tender the private notes, and the private notes are not immediately available, or time will not permit the holder s private notes or other required documents to reach the exchange agent before the expiration date, or the procedure for book-entry transfer described above cannot be completed on a timely basis, a tender may nonetheless be made if:

the tender is made through an eligible institution;

prior to the expiration date, the exchange agent received from an eligible institution a properly completed and duly executed notice of guaranteed delivery, substantially in the form provided by us, by facsimile transmission, mail or hand delivery:

1. stating the name and address of the holder of private notes and the amount of private notes tendered;

2. stating that the tender is being made; and

3. guaranteeing that within three New York Stock Exchange trading days after the expiration date, the certificates for all physically tendered private notes, in proper form for transfer, or a book-entry confirmation, as the case may be, and a properly completed and duly executed letter of transmittal, or an agent s message, and any other documents required by the letter of transmittal will be deposited by the eligible institution with the exchange agent; and

the certificates for all physically tendered private notes, in proper form for transfer, or a book-entry confirmation, as the case may be, and a properly completed and duly executed letter of transmittal, or any agent s message, and all other documents required by the letter of transmittal, are received by the exchange agent within three New York Stock Exchange trading days after the expiration date.

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Determination of Validity

We will determine in our sole discretion all questions as to the validity, form and eligibility of private notes tendered for exchange. This discretion extends to the determination of all questions concerning the time of receipt, acceptance and withdrawal of tendered private notes. These determinations will be final and binding. We reserve the absolute right to reject any and all private notes not properly tendered or any private notes our acceptance of which would, in the opinion of our counsel, be unlawful. We also reserve the right to waive any defects, irregularities or conditions of tender as to any particular private note either before or after the expiration date, including the right to waive the ineligibility of any tendering holder. Our interpretation of the terms and conditions of the exchange offer as to any particular private note either before or after the expiration date, including the letter of transmittal and the instructions to the letter of transmittal, shall be final and binding on all parties. Unless waived, you must cure any defects or irregularities with respect to tenders of private notes within the time we determine. Although we intend to notify you of defects or irregularities with respect to tenders of private notes, neither we, the exchange agent nor any other person will incur any liability for failure to give you that notification. Unless waived, we will not deem tenders of private notes to have been made until you cure the defects or irregularities.

Other Rights

While we have no present plan to acquire any private notes that are not tendered in the exchange offer or to file a registration statement to permit resales of any private notes that are not tendered in the exchange offer, we reserve the right in our sole discretion to purchase or make offers for any private notes that remain outstanding after the expiration date. We also reserve the right to terminate the exchange offer, as described below under Conditions, and, to the extent permitted by applicable law, purchase private notes in the open market, in privately negotiated transactions or otherwise. The terms of any of those purchases or offers could differ from the terms of the exchange offer.

Acceptance of Private Notes for Exchange; Issuance of Exchange Notes

Upon the terms and subject to the conditions of the exchange offer, we will accept, promptly after the expiration date, all private notes properly tendered. We will issue the exchange notes promptly after acceptance of the private notes. For purposes of the exchange offer, we will be deemed to have accepted properly tendered private notes for exchange when, as and if we have given oral or written notice to the exchange agent, with prompt written confirmation of any oral notice.

In all cases, issuance of exchange notes for private notes will be made only after timely receipt by the exchange agent of:

- certificates for the private notes, or a timely book-entry confirmation of the private notes, into the exchange agent s account at the book-entry transfer facility;

- a properly completed and duly executed letter of transmittal or an agent s message; and

- all other required documents.

For each private note accepted for exchange, the holder of the private note will receive an exchange note having a principal amount equal to that of the surrendered private note.

Return of Notes

Unaccepted or non-exchanged private notes will be returned without expense to the tendering holder of the private notes. In the case of private notes tendered by book-entry transfer in accordance with the book-entry procedures described above, the non-exchanged private notes will be credited to an account maintained with DTC as promptly as practicable after the expiration or termination of the exchange offer.

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Withdrawal of Tenders

Except as otherwise provided in this prospectus, you may withdraw tenders of private notes at any time before 5:00 p.m., New York City time, on the expiration date.

For a withdrawal to be effective, the exchange agent must receive a written notice of withdrawal at the address or, in the case of eligible institutions, at the facsimile number, indicated under Exchange Agent before the expiration date. Any notice of withdrawal must:

- specify the name of the person, referred to as the depositor, having tendered the private notes to be withdrawn;
- identify the private notes to be withdrawn, including the certificate number or numbers and principal amount of the private notes;
- contain a statement that the holder is withdrawing its election to have the private notes exchanged;
- be signed by the holder in the same manner as the original signature on the letter of transmittal by which the private notes were tendered, including any required signature guarantees, or be accompanied by documents of transfer to have the trustee with respect to the private notes register the transfer of the private notes in the name of the person withdrawing the tender; and
- specify the name in which the private notes are registered, if different from that of the depositor.

If certificates for private notes have been delivered or otherwise identified to the exchange agent, then, prior to the release of these certificates the withdrawing holder must also submit the serial numbers of the particular certificates to be withdrawn and signed notice of withdrawal with signatures guaranteed by an eligible institution, unless this holder is an eligible institution. If private notes have been tendered in accordance with the procedure for book-entry transfer described above, any notice of withdrawal must specify the name and number of the account at the book-entry transfer facility to be credited with the withdrawn private notes.

We will determine in our sole discretion all questions as to the validity, form and eligibility of the notices, and our determination will be final and binding on all parties. We will not deem any properly withdrawn private notes to have been validly tendered for purposes of the exchange offer, and we will not issue exchange notes with respect to those private notes, unless you validly retender the withdrawn private notes. You may retender properly withdrawn private notes by following the procedures described above under Procedures for Tendering at any time before 5:00 p.m., New York City time, on the expiration date.

Conditions

Notwithstanding any other term of the exchange offer, we will not be required to accept for exchange, or exchange the exchange notes for, any private notes, and may terminate the exchange offer as provided in this prospectus before the expiration of the exchange offer, if, in our reasonable judgment, the exchange offer violates applicable law, rules or regulations or an applicable interpretation of the staff of the SEC.

If we determine in our reasonable discretion that any of these conditions are not satisfied, we may:

- refuse to accept any private notes and return all tendered private notes to you;
- extend the exchange offer and retain all private notes tendered before the exchange offer expires, subject, however, to your rights to withdraw the private notes; or

waive the unsatisfied conditions with respect to the exchange offer and accept all properly tendered private notes that have not been withdrawn.

If the waiver constitutes a material change to the exchange offer, we will promptly disclose the waiver by means of a prospectus supplement that we will distribute to the registered holders of the private notes, and we will

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extend the exchange offer for a period of five to ten business days, depending upon the significance of the waiver and the manner of disclosure to the registered holders, if the exchange offer would otherwise expire during the five to ten business day period.

Termination of Rights

All of your rights under the registration rights agreement will terminate upon consummation of the exchange offer, except with respect to our continuing obligations:

- to indemnify you and parties related to you against liabilities, including liabilities under the Securities Act; and
- to provide, upon your request, the information required by Rule 144A(d)(4) under the Securities Act to permit resales of the notes pursuant to Rule 144A.

Shelf Registration

If:

(1) the operating partnership and the Company:

(a) do not cause the exchange offer registrations statement to become effective on or prior to 270 days after the closing of the offering of private notes or do not consummate the exchange offer within 30 business days after the exchange offer registration statement is declared effective; or

(b) are not permitted to consummate the exchange offer because the exchange offer is not permitted by applicable law or SEC policy or applicable interpretations of the staff of the SEC; or

(2) any holder of entitled securities notifies us prior to the 30th business day following consummation of the exchange offer that:

(a) it is prohibited by law or SEC policy or applicable interpretation of the staff of the SEC, or because of its inability to make certain required representations, from participating in the exchange offer;

(b) it may not resell the exchange notes acquired by it in the exchange offer to the public without delivering a prospectus and this prospectus is not appropriate or available for such resales;

(c) it is not an affiliate (as defined in Rule 144 of the Securities Act) of us and the exchange notes acquired by it in the exchange offer are not otherwise freely tradable by it under the Securities Act; or

(d) it is a broker-dealer and owns private notes acquired directly from the operating partnership or one of the operating partnership s affiliates,

the operating partnership and the Company will file with the SEC a shelf registration statement on the appropriate form to permit holders of entitled securities who provide certain information in connection with the shelf registration statement to resell those entitled securities to the public market.

For purposes of the foregoing, entitled securities means each note until the earliest to occur of:

(1) the date on which such private note has been exchanged by a person other than a broker-dealer for an exchange note in the exchange offer (unless the owner of such private note notifies us prior to the 30th day following consummation of the exchange offer that it is not an affiliate (as defined in Rule 144) of us and such exchange note is not freely tradable by it under the Securities Act);

(2) following the exchange by a broker-dealer in the exchange offer of a private note for an exchange note, the date on which such exchange note is sold or otherwise transferred to a person (other than a broker-dealer) who receives from such broker-dealer on or prior to the date of such sale a copy of this prospectus;

(3) the date on which such private note has been registered under the Securities Act and disposed of in accordance with the shelf registration statement; or

(4) the date on which such private note is actually sold or otherwise transferred pursuant to Rule 144 (if available) under the Securities Act.

If:

(1) the operating partnership and the Company fail to file any of the registration statements required by the registration rights agreement on or before to the date specified for such filing;

(2) any of such registration statements is not declared effective by the SEC on or prior to the date specified for such effectiveness;

(3) the operating partnership and the Company fail to consummate the exchange offer within 30 business days after the date on which the exchange offer registration statement is declared effective by the SEC; or

(4) the shelf registration statement or the exchange offer registration statement is declared effective but thereafter ceases to be effective or usable in connection with resales of entitled securities (other than as a result of our right to suspend the use of such registration for certain periods of time and under circumstances described below) during the periods specified in the registration rights agreement (each such event referred to in clauses (1) through (4) above, a registration default),

then the operating partnership will pay additional interest to each holder of entitled securities from and including the date on which any such registration default shall occur to but excluding the date on which all registration defaults have been cured or cease to exist.

With respect to the first 90-day period during which a registration default is continuing, additional interest will be paid at a rate equal to 0.25% per annum of the principal amount of entitled securities outstanding. If all registration defaults are not cured or cease to exist prior to the end of such 90-day period, then, from and including the first day after such 90-day period, the rate at which additional interest is payable will increase by an additional 0.25% per annum. However, the maximum rate of additional interest will in no event exceed 0.50% per annum. Additional interest will accrue and be payable to but excluding the date on which all registration defaults have been cured or cease to exist.

Additional interest will be computed on the basis of a 360-day year comprised of twelve 30-day months and will be paid to the holders of the entitled securities in the same manner and times as interest is otherwise payable on the entitled securities. From and including the date on which all registration defaults have been cured or otherwise ceased to exist, additional interest will cease to accrue unless and until a subsequent registration default occurs. Additional interest will not be payable on any private notes or exchange notes other than entitled securities.

Holders of the notes will be required to make certain representations to the operating partnership (as described in the registration rights agreement) in order to participate in the exchange offer. In order to include entitled securities in the shelf registration statement, if filed, and receive additional interest relating to a registration default with respect to the shelf registration statement, a holder will be required to provide certain information to the operating partnership and to be named as a selling security holder in the shelf registration statement and the related prospectus, and will be subject to certain civil liability provisions under the Securities Act in connection with sales under the shelf registration statement. By including entitled securities in the shelf registration statement, if any, a holder will be deemed to have agreed to indemnify us against certain losses arising out of information furnished by such holder in writing for inclusion in any shelf registration statement.

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If a shelf registration statement becomes effective under the Securities Act then, during any 365-day period thereafter the operating partnership may, by notice to holders of entitled securities registered pursuant to the shelf registration statement, suspend the availability of the shelf registration statement and the use of the related prospectus for up to two periods of up to 30 consecutive days each during any such 365-day period if:

- such action is required by applicable law;
- such action is taken by us in good faith and for valid business reasons, including avoiding premature public disclosure of an acquisition or divestiture of assets or a material corporate transaction or event; or
- the happening of any event or the discovery of any fact makes any statement made in the shelf registration statement or the related prospectus untrue in any material respect or constitutes an omission to state a material fact in the shelf registration statement or related prospectus.

Each holder of entitled securities will be required to discontinue disposition of those entitled securities pursuant to the shelf registration statement upon receipt from us of notice of any events described in the preceding sentence but will not be entitled to receive additional interest unless such suspension exceeds the number of days or periods specified above. If we effect the exchange offer, we will also be permitted to require any broker-dealers to discontinue disposition of exchange notes pursuant to this prospectus on the same terms and conditions described in this paragraph. If we suspend the use of the shelf registration statement or this prospectus during the period we are otherwise required to keep such registration statement effective, then the period that the operating partnership and the Company are required to keep the shelf registration statement effective or during which the exchange offer registration statement must remain effective and participating broker-dealers are entitled to use such prospectus, as the case may be, will be extended by a number of days equal to the period of any such suspension.

Exchange Agent

We have appointed U.S. Bank National Association as exchange agent for the exchange offer of notes. All executed letters of transmittal and any other required documents should be directed to the exchange agent at the address or facsimile number set forth below. You should direct questions and requests for assistance and requests for additional copies of this prospectus or of the letter of transmittal and requests for notices of guaranteed delivery to the exchange agent addressed as follows:

U.S. Bank National Association

West Side Flats Operations Center

60 Livingston Avenue

St. Paul, MN 55107

Attention: Specialized Finance

Reference: Kilroy

Fees and Expenses

We will bear the expenses of soliciting tenders. We have not retained any dealer manager in connection with the exchange offer and will not make any payments to brokers, dealers or others soliciting acceptances of the exchange offer. We will, however, pay the exchange agent reasonable and customary fees for its services and will reimburse it for its reasonable out-of-pocket expenses.

We will pay the cash expenses incurred in connection with the exchange offer. These expenses include registration fees, fees and expenses of the exchange agent and the trustee, accounting and legal fees and printing costs, among others.

We will pay all transfer taxes, if any, applicable to the exchange of notes pursuant to the exchange offer. If, however, a transfer tax is imposed for any reason other than the exchange of the private notes pursuant to the exchange offer, then you must pay the amount of the transfer taxes. If satisfactory evidence of payment of such taxes or exemption therefrom is not submitted with the letter of transmittal, the amount of such transfer taxes will be billed directly to you.

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Consequence of Failures to Exchange

Participation in the exchange offer is voluntary. We urge you to consult your financial and tax advisors in making your decisions on what action to take. Private notes that are not exchanged for exchange notes pursuant to the exchange offer will remain restricted securities. Accordingly, those private notes may be resold only:

- to a person whom the seller reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A;
- in a transaction meeting the requirements of Rule 144 under the Securities Act;
- outside the United States to a foreign person in a transaction meeting the requirements of Rule 903 or 904 of Regulation S under the Securities Act;
- in accordance with another exemption from the registration requirements of the Securities Act and based upon an opinion of counsel if we so request;
- to us; or
- pursuant to an effective registration statement.

In each case, the private notes may be resold only in accordance with any applicable securities laws of any state of the United States or any other applicable jurisdiction.

Accounting Treatment

The exchange notes will be recorded at the same carrying value as the original notes, as reflected in our accounting records on the date of the exchange. Accordingly, no gain or loss for accounting purposes will be recognized.

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USE OF PROCEEDS

The exchange offer satisfies an obligation under the registration rights agreement. We will not receive any cash proceeds from the exchange offer.

The net proceeds from the sale of the private notes after deducting discounts, commissions and offering expenses, were approximately $245.0 million. We used a portion of the net proceeds from the sale of the private notes to repurchase $150.0 million in aggregate principal balance of our 3.25% Exchangeable Notes and the remainder to acquire additional properties and for general corporate purposes.

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SELECTED CONSOLIDATED FINANCIAL DATA

The following tables set forth summary historical consolidated financial and operating data for Kilroy Realty, L.P. and Kilroy Realty Corporation and their respective subsidiaries. You should read the following summary historical financial data in conjunction with the consolidated historical financial statements and notes thereto of Kilroy Realty, L.P. and its subsidiaries, included elsewhere in this prospectus, and Kilroy Realty Corporation and its subsidiaries, incorporated by reference into this prospectus, and Management s Discussion and Analysis of Financial Condition and Results of Operations, included elsewhere in this prospectus.

Kilroy Realty, L.P.

The consolidated balance sheet data as of December 31, 2009 and 2008 and the consolidated statement of operations data for the years ended December 31, 2009, 2008 and 2007 have been derived from the historical consolidated financial statements of Kilroy Realty, L.P. audited by Deloitte & Touche LLP, an independent registered public accounting firm, whose report with respect thereto is included elsewhere in this prospectus. The consolidated balance sheet data as of December 31, 2007, 2006 and 2005 and the consolidated statement of operations data for each of the years ended December 31, 2006 and 2005 have been derived from the unaudited historical consolidated financial statements of Kilroy Realty, L.P., not included in this prospectus. The consolidated balance sheet data as of June 30, 2010 and the consolidated statement of operations data for the six months ended June 30, 2010 and 2009 have been derived from the unaudited historical consolidated financial statements of Kilroy Realty, L.P., which are included elsewhere in this prospectus and include all adjustments of a normal and recurring nature that management considers necessary for a fair presentation of such information. Kilroy Realty, L.P. s consolidated results of operations and financial condition as of and for the six months ended June 30, 2010 do not purport to be indicative of its financial condition or results of operations as of or for the year ending December 31, 2010.

Kilroy Realty, L.P. Consolidated

(in thousands, except unit and per unit, square footage and occupancy data)

	Six Months Ended June 30, 2010	2009
Statements of Operation Data:		
Rental income	$ 125,694	$ 125,662
Tenant reimbursements	12,201	15,055
Other property income	1,340	2,844
Total revenues	139,235	143,561
Property expenses	26,563	24,912
Real estate taxes	12,518	12,272
Provision for bad debts	14	152
Ground leases	312	829
General and administrative expenses	13,823	14,361
Acquisition-related expenses	1,270	
Depreciation and amortization	44,660	44,640
Total expenses	99,160	97,166
Interest income and other net investment gains	366	573
Interest expense	(25,044)	(24,115)
Loss on early extinguishment of debt	(4,564)	
Total other (expenses) income	(29,242)	(23,542)
Income from continuing operations	10,833	22,853
Discontinued operations:		
Loss from discontinued operations		(224)
Net gain on dispositions of discontinued operations		2,485
Total income from discontinued operations		2,261
Net income	10,833	25,114
Net income attributable to noncontrolling interests in consolidated subsidiaries	(96)	(133)
Net income attributable to Kilroy Realty, L.P.	10,737	24,981
Preferred distributions	(7,598)	(7,598)
Net income available to common unitholders	$ 3,139	$ 17,383

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Kilroy Realty, L.P. Consolidated

(in thousands, except unit and per unit, square footage and occupancy data)

	Year Ended December 31,				
	2009	2008	2007	2006	2005
Statements of Operation 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 interests in consolidated subsidiaries	(201)	(237)	(324)	(238)	(465)
Net income attributable to Kilroy Realty, L.P.	37,814	46,674	122,993	93,204	42,091
Preferred distributions	(15,196)	(15,196)	(15,196)	(15,196)	(15,196)
Net income available to common unitholders	$ 22,618	$ 31,478	$ 107,797	$ 78,008	$ 26,895

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	Six Months Ended June 30,		Year Ended December 31,				
	2010	2009	2009	2008	2007	2006	2005
Unit Data:							
Weighted average common units outstanding basic	48,397,625	36,143,799	40,436,196	34,531,779	34,615,769	33,842,375	32,460,353
Weighted average common units outstanding diluted	48,400,981	36,170,122	40,463,221	34,606,060	34,644,738	33,890,941	32,512,217
Income (loss) from continuing operations available to common unitholders per common unit basic	$ 0.05	$ 0.41	$ 0.47	$ 0.87	$ 0.81	$ 0.95	$ (0.34)
Income (loss) from continuing operations available to common unitholders per common unit diluted	$ 0.05	$ 0.41	$ 0.47	$ 0.87	$ 0.81	$ 0.95	$ (0.34)
Net income available to common unitholders per unit basic	$ 0.05	$ 0.47	$ 0.53	$ 0.90	$ 3.09	$ 2.30	$ 0.83
Net income available to common unitholders per unit diluted	$ 0.05	$ 0.47	$ 0.53	$ 0.90	$ 3.09	$ 2.30	$ 0.83
Distributions declared per common unit	$ 0.70	$ 0.93	$ 1.63	$ 2.32	$ 2.22	$ 2.12	$ 2.04

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Kilroy Realty, L.P. Consolidated

	June 30,		December 31,				
	2010	2009	2009	2008	2007	2006	2005
Balance Sheet Data:							
Total real estate held for investment, before accumulated depreciation and amortization	$ 2,953,609	$	$ 2,520,083	$ 2,475,596	$ 2,370,004	$ 2,040,761	$ 1,953,971
Total assets	2,556,509		2,084,281	2,102,918	2,069,810	1,799,352	1,674,474
Total debt	1,155,118		972,016	1,142,348	1,072,659	879,198	842,282
Total liabilities	1,330,805		1,126,805	1,314,394	1,229,138	1,011,790	1,031,106
Series A preferred units(1)	73,638		73,638	73,638	73,638	73,638	73,638
Total series E and F preferred units	121,582		121,582	121,582	121,582	121,582	121,582
Total capital(2)	1,152,066		883,838	714,886	767,034	713,924	569,730
Other Data:							
Cash flows provided by (used in):							
Operating activities	57,388	60,902	124,965	144,481	147,500	61,570	116,002
Investing activities	(414,108)	(23,598)	(50,474)	(93,825)	(244,802)	(136,193)	(75,682)
Financing activities	376,265	(33,509)	(74,161)	(52,835)	97,086	82,690	(41,292)
Office Properties:							
Rentable square footage	10,088,803	8,651,040	8,708,466	8,650,126	8,088,769	7,835,040	7,948,152
Occupancy	85.7%	83.5%	80.6%	86.2%	93.7%	95.8%	92.5%
Industrial Properties:							
Rentable square footage	3,654,463	3,654,463	3,654,463	3,718,663	3,869,969	3,869,969	4,587,491
Occupancy	83.3%	90.2%	88.2%	96.3%	94.7%	95.8%	99.3%

(1) Represents the redemption value, less issuance costs of our issued and outstanding 1,5000,000 Series A Preferred Units.

(2) Includes (i) the partnership interests represented by the Series E Preferred Units and the Series F Preferred Units, (ii) the common partnership interests, and (iii) the noncontrolling interests in consolidated subsidiaries, but excludes the partnership interests represented by the Series A Preferred Units.

	Six Months Ended June 30,	Year Ended December 31,				
	2010	2009	2008	2007	2006	2005
Other Data:						
Ratio of earnings to fixed charges	1.25x	1.53x	1.49x	1.46x	1.70x	0.96x

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Kilroy Realty Corporation

The consolidated balance sheet data as of December 31, 2009 and 2008 and the consolidated statement of operations data for the years ended December 31, 2009, 2008 and 2007 have been derived from the historical consolidated financial statements of Kilroy Realty Corporation audited by Deloitte & Touche LLP, an independent registered public accounting firm, whose report with respect thereto is incorporated by reference in this prospectus. The consolidated balance sheet data as of December 31, 2007, 2006 and 2005 and the consolidated statement of operations data for each of the years ended December 31, 2006 and 2005 have been derived from the historical consolidated financial statements of Kilroy Realty Corporation, not included in or incorporated by reference in this prospectus. The consolidated balance sheet data as of June 30, 2010 and the consolidated statement of operations data for the six months ended June 30, 2010 and 2009 have been derived from the unaudited historical consolidated financial statements of Kilroy Realty Corporation, which are incorporated by reference in this prospectus and include all adjustments of a normal and recurring nature that management considers necessary for a fair presentation of such information. Kilroy Realty Corporation s consolidated results of operations and financial condition as of and for the six months ended June 30, 2010 do not purport to be indicative of its financial condition or results of operations as of or for the year ending December 31, 2010. Interest expense has been reclassified to be presented under Other (Expenses) Income in the consolidated statements of operations for the six months ended June 30, 2009 to conform to the presentation for the six months ended June 30, 2010. Interest expense had previously been presented under Expenses.

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Kilroy Realty Corporation Consolidated

(in thousands, except share and per share, square footage and occupancy data)

	Six Months Ended June 30,	
	2010	2009
Statements of Operation Data:		
Rental income	$ 125,694	$ 125,662
Tenant reimbursements	12,201	15,055
Other property income	1,340	2,844
Total revenues	139,235	143,561
Property expenses	26,563	24,912
Real estate taxes	12,518	12,272
Provision for bad debts	14	152
Ground leases	312	829
General and administrative expenses	13,823	14,361
Acquisition-related expenses	1,270	
Depreciation and amortization	44,660	44,640
Total expenses	99,160	97,166
Interest income and other net investment gains	366	573
Interest expense	(25,044)	(24,115)
Loss on early extinguishment of debt	(4,564)	
Total other (expense) income	(29,242)	(23,542)
Income from continuing operations	10,833	22,853
Discontinued operations:		
Loss from discontinued operations		(224)
Net gain on dispositions of discontinued operations		2,485
Total income from discontinued operations		2,261
Net income	10,833	25,114
Net income attributable to noncontrolling common units of the operating partnership	(132)	(824)
Net income attributable to Kilroy Realty Corporation	10,701	24,290
Preferred distributions	(7,598)	(7,598)
Net income available to common stockholders	$ 3,103	$ 16,692

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Kilroy Realty Corporation Consolidated

(in thousands, except share and per share, square footage and occupancy data)

	Year Ended December 31,				
	2009	**2008**	**2007**	**2006**	**2005**
Statements of Operation 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	(15,196)	(15,196)	(15,196)	(15,196)	(15,196)
Net income available to common stockholders	$ 21,794	$ 29,829	$ 101,164	$ 72,256	$ 24,211

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	Six Months Ended June 30,		Year Ended December 31,				
	2010	2009	2009	2008	2007	2006	2005
Share Data:							
Weighted average common shares outstanding basic	46,674,494	34,404,608	38,705,101	32,466,591	32,379,997	31,244,062	28,710,726
Weighted average common shares outstanding diluted	46,677,850	34,430,931	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	$ 0.05	$ 0.41	$ 0.47	$ 0.88	$ 0.82	$ 0.96	$ (0.33)
Income (loss) from continuing operations available to common stockholders per common share diluted	$ 0.05	$ 0.41	$ 0.47	$ 0.88	$ 0.82	$ 0.96	$ (0.33)
Net income available to common stockholders per common share basic	$ 0.05	$ 0.48	$ 0.53	$ 0.91	$ 3.09	$ 2.30	$ 0.84
Net income available to common stockholders per common share diluted	$ 0.05	$ 0.47	$ 0.53	$ 0.91	$ 3.09	$ 2.30	$ 0.84
Distributions declared per common share	$ 0.70	$ 0.93	$ 1.63	$ 2.32	$ 2.22	$ 2.12	$ 2.04

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Kilroy Realty Corporation Consolidated

	June 30,		Kilroy Realty Corporation Consolidated December 31,				
	2010	2009	2009	2008	2007	2006	2005
Balance Sheet Data:							
Total real estate held for investment, before accumulated depreciation and amortization	$ 2,953,609	$	$ 2,520,083	$ 2,475,596	$ 2,370,004	$ 2,040,761	$ 1,953,971
Total assets	2,556,509		2,084,281	2,102,918	2,069,810	1,799,352	1,674,474
Total debt	1,155,118		972,016	1,142,348	1,072,659	879,198	842,282
Total liabilities	1,330,805		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	73,638
Total preferred stock	121,582		121,582	121,582	121,582	121,582	121,582
Total equity[(2)]	1,152,066		883,838	714,886	767,034	713,924	569,730
Other Data:							
Cash flows provided by (used in):							
Operating activities	57,388	60,902	124,965	144,481	147,500	61,570	116,002
Investing activities	(414,108)	(23,598)	(50,474)	(93,825)	(244,802)	(136,193)	(75,682)
Financing activities	376,265	(33,509)	(74,161)	(52,835)	97,086	82,690	(41,292)
Office Properties:							
Rentable square footage	10,088,803	8,651,040	8,708,466	8,650,126	8,088,769	7,835,040	7,948,152
Occupancy	85.7%	83.5%	80.6%	86.2%	93.7%	95.8%	92.5%
Industrial Properties:							
Rentable square footage	3,654,463	3,654,463	3,654,463	3,718,663	3,869,969	3,869,969	4,587,491
Occupancy	83.3%	90.2%	88.2%	96.3%	94.7%	95.8%	99.3%

(1) Represents the redemption value, less issuance costs of our issued and outstanding 1,5000,000 Series A Preferred Units.

(2) Includes the noncontrolling interest of the common units of the operating partnership.

	Six Months Ended June 30,	Year Ended December 31,				
	2010	2009	2008	2007	2006	2005
Other Data:						
Ratio of earnings to fixed charges	1.14x	1.39x	1.37x	1.34x	1.55x	0.86x

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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 prospectus. 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 prospectus. Numerous factors could 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, our ability to complete and successfully integrate pending and recent acquisitions, competitive market conditions and interest rate levels, and capital market conditions. You are cautioned not to place undue reliance on this information, which speaks only as of the date this prospe. 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 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 prospectus might not occur.

Overview and Background

The Company is a REIT and the sole general partner of the operating partnership, through which substantially all of the Company s operations are conducted and assets are owned. The Company owned a 96.7% general partnership interest in the operating partnership as of June 30, 2010, and a 96.2% interest in the operating partnership as of both December 31, 2009, and June 30, 2009. We own, operate, develop, and acquire primarily Class A suburban office and industrial real estate in key submarkets in California. We own our interests in all of our properties through the operating partnership or the finance partnership or wholly-owned subsidiaries. All our properties are held in fee except for the seven office buildings located at Kilroy Airport Center in Long Beach, California, which are held subject to leases for the land that expire in 2084.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, or 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 the operating partnership s consolidated annual financial statements included in this prospectus.

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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.

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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, 2009, 2008, and 2007 has been that our final reconciliation and billing process resulted in final amounts that approximated the total annual tenant reimbursement revenues recognized.

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 June 30, 2010, December 31, 2009, and December 31, 2008, current receivables were carried net of an allowance for uncollectible amount of $3.0 million, $3.1 million, and $4.0 million, respectively, and deferred rent receivables were carried net of an allowance for uncollectible accounts of $6.2 million, $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 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 the operating partnership s consolidated annual financial statements included in this prospectus). 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 unitholders 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 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.

In recent periods, circumstances occurred that indicated that an analysis for potential impairment of certain of our properties was necessary. As a result, for each property where such an indicator occurred and/or for properties within a given submarket where such an indicator occurred, we completed an impairment evaluation. After completing this process, we determined that for each of the properties evaluated, undiscounted cash flows over the holding period were in excess of carrying value and, therefore, we did not record any impairment losses for the six months ended June 30, 2010 or 2009 or the years ended December 31, 2009, 2008, and 2007.

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

Acquisitions. As a key component of our growth strategy, we continually evaluate selected property acquisition opportunities. We consider potential acquisitions on an ongoing basis and may have one or more potential acquisitions under consideration at any point in time, which may be at varying stages of the negotiation and due diligence review process. We generally finance our acquisitions through debt and equity offerings and borrowings on our line of credit. As of the date of this prospectus, we have completed five acquisitions for seven buildings in 2010 (see Note 2 to the operating partnership s consolidated financial statements for the period ended June 30, 2010 included elsewhere in this prospectus). Costs associated with acquisitions are expensed as incurred and we may be unable to complete an acquisition after making a nonrefundable deposit or incurring acquisition-related costs.

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

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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.

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 the year ended December 31, 2009 and the six months ended June 30, 2010.

Lease Commencement Information by Segment

For Leases that Commenced During the Year Ended December 31, 2009

	1st & 2nd Generation[1]				2nd Generation[1]			
	Number of Leases[2]		Rentable Square Feet[2]					
	New	Renewal	New	Renewal	Changes in Rents[3]	Changes in Cash Rents[4]	Retention Rates[5]	Weighted Average Lease Term (in months)
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) First generation leasing includes space where we have made capital expenditures that result in additional revenue generated when the space is re-leased. Second generation leasing includes space where we have made capital expenditures to maintain the current market revenue stream.

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

(3) 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.

(4) 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.

(5) 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.

Leasing Commencement Information by Segment

For Leases That Commenced During the Six Months Ended June 30, 2010

	1st & 2nd Generation[1]				2nd Generation[1]			
	Number of Leases[2]		Rentable Square Feet[2]					
	New	Renewal	New	Renewal	Changes in Rents[3]	Changes in Cash Rents[4]	Retention Rates[5]	Weighted Average Lease Term (in months)

Office Properties	27	21	489,465	221,811	(5.7)%	(16.8)%	78.1%	94
Industrial Properties	5	3	35,000	127,156	(21.4)%	(24.6)%	44.8%	48
Total portfolio	32	24	524,465	348,967	(7.5)%	(17.6)%	61.4%	85

(1) First generation leasing includes space where we have made capital expenditures that result in additional revenue generated when the space is re-leased. Second generation leasing includes space where we have made capital expenditures to maintain the current market revenue stream.

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

(3) 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, or vacant when we acquired the property.
(4) 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, or vacant when we acquired the property.
(5) Calculated as the percentage of space either renewed or expanded into by existing tenants or subtenants at lease expiration.

The changes in rents and changes in cash rents reported above exclude leases of 291,012 rentable square feet for the six months ended June 30, 2010 for which the space was vacant longer than one year or the Company is leasing the space for the first time. The Company excludes space vacant for more than one year in its change in rents calculations in order to provide a meaningful market comparison.

In general, we have been experiencing decreases in rental rates in many of our submarkets due to continuing recessionary conditions and other related factors. During the second quarter of 2010, we executed 33 leases for an aggregate of 0.3 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 24.8% decrease in cash rents and a 22.0% decrease in GAAP rents, excluding leases for which the space was vacant longer than one year. As of June 30, 2010, we believe that the weighted average cash rental rates for our overall portfolio, including recently acquired properties, are approximately 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 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 14.9%, of vacant space in our stabilized portfolio at June 30, 2010, leases representing approximately 7.1% and 9.0% of the occupied square footage of our stabilized portfolio are scheduled to expire during the remainder of 2010 and in 2011, respectively. The leases scheduled to expire during the remainder of 2010 and in 2011 represent approximately 1.4 million rentable square feet of office space, or 11.4% of our total annualized base rental revenue, and 0.5 million rentable square feet of industrial space, or 1.5% of our total annualized base rental revenue. As of June 30, 2010, we believe that the weighted average cash rental rates for leases scheduled to expire during the remainder of 2010 are up to 5% above the current average market rental rates and leases scheduled to expire during 2011 are approximately 15% above 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. 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 Activity. Of our leased space as of June 30, 2010, approximately 309,800 rentable square feet, or 2.3% of the square footage in our stabilized portfolio, was available for sublease compared to 297,100 rentable square feet, or 2.4% of the square footage in our stabilized portfolio, as of December 31, 2009. Of the 2.3% of available sublease space in our stabilized portfolio as of June 30, 2010, approximately 1.8% was vacant space, and the remaining 0.5% was occupied. Approximately 59.7%, 22.6%, and 3.9% of the available sublease space as of June 30, 2010 is located in the San Diego, Los Angeles, and Orange County regions, respectively. Of the approximately 309,800 rentable square feet available for sublease as of June 30, 2010, approximately 18,000 rentable square feet representing two leases are scheduled to expire in 2010, and approximately 45,300 rentable square feet representing two leases are scheduled to expire in 2011.

Development and Redevelopment Programs. We believe that a portion of our future potential growth will continue to come from our development pipeline and redevelopment opportunities within our existing portfolio and/or targeted acquisitions. However, while we continue to evaluate development opportunities throughout 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 June 30, 2010, we had no development or redevelopment projects under, or committed for, construction. We are focusing on enhancing the

entitlements for our existing development land pipeline, identifying redevelopment opportunities within our existing portfolio, and performing other activities to prepare for the time when development will again be economically attractive. 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 (see additional information under the caption Current Regional Information).

Incentive Compensation. The Executive Compensation Committee, referred to as the Compensation Committee, of our board of directors determines compensation, including equity and cash incentive programs, for our executive officers. The programs approved by the 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, the Compensation Committee approved the 2010 Annual Bonus Program for executive management that will allow executive management to receive bonus compensation for achieving certain specified corporate performance measures for the year ending December 31, 2010. See additional information on the provisions of the 2010 Annual Bonus Program under the caption Executive Compensation below. As a result of the structure of this program and other performance-based and market-based programs that the Compensation Committee may adopt in the future, accrued incentive compensation and compensation expense for such programs will be affected by our operating and development performance, financial results, the performance of the trading price of the Company s common stock, and market conditions. Consequently, we cannot predict the amounts that will be recorded in future periods related to these compensation programs.

Share-Based Compensation. As of June 30, 2010, there was $8.1 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 1.4 years. The $8.1 million of unrecognized compensation cost does not reflect the potential future compensation cost for the 2010 Annual Bonus Program or the leasing component of the 2007 Development Performance Plan, or DPP, since share-based awards have not been granted under these programs as of June 30, 2010. See Note 7 to the operating partnership s consolidated financial statements for the period ended June 30, 2010 included elsewhere in this prospectus.

As of June 30, 2010, we were still in the performance period for the leasing component of the DPP. The incentive award that may be earned under the leasing component of the DPP is based on whether certain future leasing targets are achieved by the fourth quarter of 2010 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 for this program, which was $1.0 million as of June 30, 2010.

Stabilized Portfolio Information

The following table reconciles the changes in the rentable square feet in our stabilized portfolio of operating properties from June 30, 2009 to June 30, 2010:

	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 June 30, 2009	92	8,651,040	41	3,654,463	133	12,305,503
Acquisition	7	1,381,508			7	1,381,508
Property added from the development portfolio	1	50,925			1	50,925
Remeasurement		5,330				5,330
Total as of June 30, 2010	100	10,088,803	41	3,654,463	141	13,743,266

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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:

	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	1	50,925			1	50,925
Disposition (1)			(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) 6/30/2010	12/31/2009	12/31/2008
Office Properties:					
Los Angeles and Ventura Counties	30	3,351,777	93.0%	88.8%	92.3%
San Diego	62	5,357,607	81.5	76.8	83.1
Orange County	7	647,447	78.2	49.8	67.9
San Francisco	1	731,972	89.7		
	100	10,088,803	85.7	80.6	86.2
Industrial Properties:					
Los Angeles County	1	192,053	100.0	100.0	100.0

Orange County	40	3,462,410	82.4	87.6	96.1
	41	3,654,463	83.3	88.2	96.3
Total stabilized portfolio	141	13,743,266	85.1%	82.8%	89.2%

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	Average Occupancy for Six Months Ended June 30,			
	Stabilized Portfolio[1]		Core Portfolio[2]	
	2010	2009	2010	2009
Office Properties	82.8%	84.7%	83.1%	84.7%
Industrial Properties	85.1	91.4	85.1	92.4
Total portfolio	83.5%	86.8%	83.7%	87.0%

(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 as of January 1, 2009 and still owned and stabilized as of June 30, 2010.

	Average Occupancy for the Years Ended December 31,			
	Stabilized Portfolio[1]		2009 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 June 30, 2010, the office properties and industrial properties represented approximately 91.3% and 8.7%, respectively, of our total annualized base rental revenue. 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

Real estate fundamentals continue to be challenging in many of our regional submarkets. We have generally seen an increase in vacancy rates across many of our regional submarkets, a decrease in occupancy, as well as a downward trend in rental rates. Generally, we believe that there may continue to be 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 and Ventura Counties. Our Los Angeles and Ventura Counties stabilized office portfolio of 3.4 million rentable square feet was 93.0% occupied with approximately 236,100 vacant rentable square feet as of June 30, 2010 compared to 88.8% occupied with approximately 376,400 vacant rentable square feet as of December 31, 2009. The increase in Los Angeles and Ventura Counties stabilized office portfolio occupancy is primarily due to two leases encompassing approximately 146,100 rentable square feet that commenced in the second quarter of 2010.

As of June 30, 2010, an aggregate of approximately 561,200 and 476,000 rentable square feet are scheduled to expire in this region during the remainder of 2010 and 2011, respectively. The aggregate rentable square feet scheduled to expire in this region during the remainder of 2010 and 2011 represents approximately 32.0% of the total occupied rentable square feet in this region and 7.9% of our annualized base rental revenues for our total stabilized portfolio. Of the 1,037,200 rentable square feet scheduled to expire during the remainder of 2010 and 2011, approximately 399,300 rentable square feet is located in the El Segundo submarket. Based on third party broker reports, total vacancy in the El Segundo Class A office market is forecasted to increase over the next six months from its current level of 13.2% to slightly above 20% due to approximately 800,000 rentable square feet of lease expirations that are expected to vacate in this submarket. Of the approximately 399,300 rentable square feet scheduled to expire in the El Segundo submarket, approximately 286,200 rentable square feet was occupied by The Boeing Company through July 31, 2010. As of the date of this prospectus, the Boeing Company has vacated our building and consolidated into space it currently owns. Since The Boeing Company and its predecessors occupied the building for more than 25 years, we will be redeveloping 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. Our San Diego stabilized office portfolio of 5.4 million rentable square feet was 81.5% occupied with approximately 991,700 vacant rentable square feet as of June 30, 2010 compared to 76.8% occupied with approximately 1.2 million vacant rentable square feet as of December 31, 2009. The increase in San Diego stabilized office portfolio occupancy is primarily due to six leases comprising approximately 241,800 rentable square feet that have commenced during the first and second quarters of 2010. In addition, we have leased approximately 257,400 rentable square feet in this region that was vacant at June 30, 2010. The new leases are scheduled to commence at various dates during the remainder of 2010. During the six months ended June 30, 2010, we acquired four San Diego office buildings encompassing approximately 279,400 rentable square feet. These four buildings were 78.0% occupied as of June 30, 2010 (see Note 2 to the operating partnership s consolidated financial statements for the period ended June 30, 2010 included elsewhere in this prospectus).

As of June 30, 2010, leases representing an aggregate of approximately 138,300 and 145,600 rentable square feet are scheduled to expire during the remainder of 2010 and 2011, respectively, in this region. The aggregate rentable square feet scheduled to expire in this region during the remainder of 2010 and 2011 represents approximately 6.5% of the total occupied rentable square feet in this region and 2.8% of our annualized base rental revenues for our total stabilized portfolio.

Orange County. As of June 30, 2010, our Orange County stabilized industrial portfolio was 82.4% occupied with approximately 609,800 vacant rentable square feet compared to 87.6% occupied with approximately 429,900 vacant rentable square feet as of December 31, 2009. The decrease in Orange County stabilized industrial portfolio occupancy is primarily attributable to two leases encompassing approximately 74,300 and 58,300 rentable square feet that expired during the first and second quarters, respectively, of 2010. Approximately 264,900 rentable square feet of the 609,800 rentable square feet that was vacant as of June 30, 2010 has been re-leased to new tenants. The new leases are expected to commence during the remainder of 2010.

Our Orange County stabilized office portfolio of approximately 647,400 rentable square feet was 78.2% occupied with approximately 141,500 vacant rentable square feet as of June 30, 2010 compared to 49.8% occupied with approximately 139,100 vacant rentable square feet as of December 31, 2009. During the quarter ended June 30, 2010, we acquired two Orange County office buildings encompassing approximately 370,100 rentable square feet. These two buildings were 97.0% occupied as of June 30, 2010 (see Note 2 to the operating partnership s consolidated financial statements for the period ended June 30, 2010 included elsewhere in this prospectus).

As of June 30, 2010, leases representing an aggregate of approximately 107,000 and 401,000 rentable square feet are scheduled to expire during the remainder of 2010 and 2011, respectively, in this region. The aggregate rentable square feet scheduled to expire during the remainder of 2010 and 2011 represents approximately 15.2% of the total occupied rentable square feet in this region and 1.8% of the annualized base rental revenues for our total stabilized portfolio. Of the 508,000 rentable square feet scheduled to expire during the remainder of 2010 and 2011, approximately 473,100 rentable square feet is industrial space. Within the overall Orange County market, total vacancy for industrial space is currently 6.0%. Over the last year, the Orange County industrial market has experienced a significant decrease in rental rates. As of June 30, 2010, we believe that the weighted average cash rental rates for our Orange County industrial portfolio are approximately 15% above the current average market rental rates, although individual properties may be leased either above, below, or at the current average market rental rates.

San Francisco. During the quarter ended June 30, 2010, we acquired one office building in San Francisco encompassing approximately 732,000 rentable square feet. The building was 89.7% occupied as of June 30, 2010 (see Note 2 to the operating partnership s consolidated financial statements for the period ended June 30, 2010 included elsewhere in this prospectus). As of June 30, 2010, leases representing an aggregate of approximately 12,600 and 22,600 rentable square feet are scheduled to expire during the remainder of 2010 and 2011, respectively, in this region. The aggregate rentable square feet scheduled to expire in this region during the remainder of 2010 and 2011 represents approximately 5.4% of the total occupied rentable square feet in this region and less than 0.5% of our annualized base rental revenues for our total stabilized portfolio. Total vacancy in the San Francisco South Financial District Class A office market is currently 21.9%.

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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 11 to the operating partnership s consolidated financial statements for the period ended June 30, 2010 and Note 14 to the operating partnership s consolidated financial statements for the year ended December 31, 2009 included elsewhere in this prospectus.

Comparison of the Six Months Ended June 30, 2010 to the Six Months Ended June 30, 2009

The following table reconciles our Net Operating Income by segment to our net income available for common unitholders for the six months ended June 30, 2010 and 2009.

	Six Months Ended June 30, 2010	Six Months Ended June 30, 2009	Dollar Change	Percentage Change
	($ in thousands)			
Net Operating Income, as defined				
Office Properties	$ 88,561	$ 91,575	$ (3,014)	(3.3)%
Industrial Properties	11,267	13,821	(2,554)	(18.5)
Total portfolio	$ 99,828	$ 105,396	$ (5,568)	(5.3)
Reconciliation to Net Income Available for Common Unitholders:				
Net Operating Income, as defined for reportable segments	$ 99,828	$ 105,396	$ (5,568)	(5.3)
Unallocated income (expenses):				
Interest income and other net investment gains	366	573	(207)	(36.1)
Interest expense	(25,044)	(24,115)	(929)	(3.9)
Loss on early extinguishment of debt	(4,564)		(4,564)	(100.0)
General and administrative expenses	(13,823)	(14,361)	538	3.7
Acquisition-related expenses	(1,270)		(1,270)	(100.0)
Depreciation and amortization	(44,660)	(44,640)	(20)	0.0
Income from continuing operations	10,833	22,853	(12,020)	(52.6)
Income from discontinued operations		2,261	(2,261)	(100.0)
Net income	10,833	25,114	(14,281)	(56.9)
Net income attributable to noncontrolling interests in consolidated subsidiaries	(96)	(133)	37	27.8
Net income attributable to Kilroy Realty, L.P.	10,737	24,981	(14,244)	(57.0)
Preferred distributions	(7,598)	(7,598)		0.0
Net income available to common unitholders	$ 3,139	$ 17,383	$ (14,244)	(81.9)%

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Rental Operations

Office Properties

The following table compares the Net Operating Income for the office properties for the six months ended June 30, 2010 and 2009.

Office Properties

	Total Office Portfolio				Core Office Portfolio[1]			
	2010	2009	Dollar Change	Percentage Change	2010	2009	Dollar Change	Percentage Change
				($ in thousands)				
Operating revenues:								
Rental income	$ 112,917	$ 111,496	$ 1,421	1.3%	$ 109,580	$ 111,497	$ (1,917)	(1.7)%
Tenant reimbursements	10,477	13,012	(2,535)	(19.5)	10,411	13,010	(2,599)	(20.0)
Other property income	926	1,740	(814)	(46.8)	924	1,740	(816)	(46.9)
Total	124,320	126,248	(1,928)	(1.5)	120,915	126,247	(5,332)	(4.2)
Property and related expenses:								
Property expenses	24,461	23,199	1,262	5.4	23,420	23,038	382	1.7
Real estate taxes	10,948	10,718	230	2.1	10,287	10,595	(308)	(2.9)
Provision for bad debts	38	(73)	111	152.1	38	(72)	110	152.8
Ground leases	312	829	(517)	(62.4)	312	829	(517)	(62.4)
Total	35,759	34,673	1,086	3.1	34,057	34,390	(333)	(1.0)
Net Operating Income	$ 88,561	$ 91,575	$ (3,014)	(3.3)%	$ 86,858	$ 91,857	$ (4,999)	(5.4)%

(1) Office properties owned and stabilized as of January 1, 2009 and still owned and stabilized as of June 30, 2010.

Rental Income

Rental income from office properties increased $1.4 million, or 1.3%, for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 due to:

- An increase of $3.3 million attributable to the seven office buildings we acquired in 2010; and

- An offsetting decrease of $1.9 million generated by office properties owned and stabilized as of January 1, 2009 and still owned and stabilized as of June 30, 2010, which we refer to as our Core Office Portfolio, primarily attributable to a 1.6% decrease in average occupancy from 84.7% for the six months ended June 30, 2009 to 83.1% for the six months ended June 30, 2010.

Tenant Reimbursements

Tenant reimbursements from office properties decreased $2.5 million, or 19.5%, for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 primarily due to:

A decrease of $2.6 million generated by the Core Office Portfolio primarily due to:

A decrease in the average occupancy, as discussed above under the caption Rental Income ; and

A decrease due to the renewal of several leases which resulted in the reset of the base year expense level for these leases.

Other Property Income

Other property income from office properties decreased $0.8 million, or 46.8%, for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 primarily due to a $1.3 million net lease termination fee related to a settlement with a former tenant during the six months ended June 30, 2009.

Property Expenses

Property expenses from office properties increased $1.3 million, or 5.4%, for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 primarily due to:

An increase of $0.8 million generated by the seven office buildings we acquired in 2010; and

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An increase of $0.4 million generated by the Core Office Portfolio due to:

An increase of $0.9 million primarily attributable to nonreimbursable legal fees and consulting costs; and

An offsetting decrease of $0.6 million primarily related to nonrecurring repairs in 2009.

Ground Leases

Ground lease expense from office properties decreased $0.5 million, or 62.4%, for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 primarily due to a ground rent expense adjustment for our Kilroy Airport Center, Long Beach Project. During the first quarter of 2010, we were successful in negotiating a lower rental rate under the terms of the ground lease retroactive to January 1, 2006.

Net Operating Income

Net Operating Income from office properties decreased $3.0 million, or 3.3%, for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 primarily due to:

A decrease of $5.0 million attributable to the Core Office Portfolio primarily due to:

A decrease of $4.5 million due to a decrease in rental income and tenant reimbursements primarily attributable to a decrease in average occupancy period over period; and

An offsetting increase of $2.2 million attributable to the seven office buildings we acquired in 2010.

Industrial Properties

The following table compares the Net Operating Income for the industrial properties for the six months ended June 30, 2010 and 2009.

Industrial Properties

	Total Office Portfolio				Core Office Portfolio[1]			
	2010	2009	Dollar Change	Percentage Change	2010	2009	Dollar Change	Percentage Change
				($ in thousands)				
Operating revenues:								
Rental income	$ 12,777	$ 14,166	$ (1,389)	(9.8)%	$ 12,687	$ 14,038	$ (1,351)	(9.6)%
Tenant reimbursements	1,724	2,043	(319)	(15.6)	1,724	2,043	(319)	(15.6)
Other property income	414	1,104	(690)	(62.5)	414	1,104	(690)	(62.5)
Total	14,915	17,313	(2,398)	(13.9)	14,825	17,185	(2,360)	(13.7)
Property and related expenses:								
Property expenses	2,102	1,713	389	22.7	1,879	1,469	410	27.9
Real estate taxes	1,570	1,554	16	1.0	1,350	1,327	23	1.7
Provision for bad debts	(24)	225	(249)	(110.7)	(24)	225	(249)	(110.7)
Total	3,648	3,492	156	4.5	3,205	3,021	184	6.1

Net Operating Income	$ 11,267	$ 13,821	$ (2,554)	(18.5)%	$ 11,620	$ 14,164	$ (2,544)	(18.0)%

(1) Industrial properties owned and stabilized as of January 1, 2009 which are still owned and stabilized as of June 30, 2010.

Rental Income

Rental income from industrial properties decreased $1.4 million, or 9.8%, for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 primarily due to a decrease in average occupancy for the industrial properties owned and stabilized as of January 1, 2009 and still owned and stabilized as of June 30, 2010, which we refer to as our Core Industrial Portfolio. Average occupancy for the Core Industrial Portfolio decreased 7.3%, from 92.4% for the six months ended June 30, 2009, to 85.1% for the six months ended June 30, 2010.

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Tenant Reimbursements

Tenant reimbursements from industrial properties decreased $0.3 million, or 15.6%, for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 due to a decrease in the Core Industrial Portfolio s average occupancy, as discussed above under the caption Rental Income.

Other Property Income

Other property income from industrial properties decreased $0.7 million, or 62.5%, for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 due to:

- A decrease of $0.7 million attributable to the Core Industrial Portfolio primarily due to:
  - A decrease related to a $1.1 million restoration fee included in the results for 2009 from a tenant that vacated one of our industrial properties in Orange County; and
  - An offsetting increase related to the recognition of $0.2 million of a $1.0 million surrender fee during the second quarter of 2010 that is being amortized over the remaining term of a lease with one tenant that will be vacating one of our industrial properties in Orange County during the fourth quarter of 2010.

Property Expenses

Property expenses from industrial properties increased $0.4 million, or 22.7%, for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 primarily due to an increase in nonreimbursable legal fees mainly due to tenant defaults that occurred during 2009.

Net Operating Income

Net Operating Income from industrial properties decreased $2.6 million, or 18.5%, for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 primarily due to:

- A decrease of $2.5 million attributable to the Core Industrial Portfolio primarily due to:
  - A $1.1 million restoration fee included in the results for the first quarter of 2009 from a tenant that vacated one of our industrial properties in Orange County; and
  - A decrease in average occupancy year over year.

Other Income and Expenses

Acquisition-Related Expenses

During the six months ended June 30, 2010, we incurred acquisition costs in connection with acquisitions completed in 2010 and other potential acquisitions. See additional information under the caption Factors That May Influence Future Results of Operations Acquisitions. In accordance with accounting provisions, all acquisition costs related to operating properties are expensed as incurred. We anticipate that we could incur additional third-party acquisition costs throughout 2010 as we pursue other potential acquisition opportunities.

Interest Expense

The following table sets forth our gross interest expense, including debt discounts and loan cost amortization, net of capitalized interest for the six months ended June 30, 2010 and 2009:

	2010	2009	Dollar Change	Percentage Change
		($ in thousands)		
Gross interest expense	$ 30,437	$ 28,451	$ 1,986	7.0%
Capitalized interest	(5,393)	(4,336)	(1,057)	24.4%
Interest expense	$ 25,044	$ 24,115	$ 929	3.9%

Gross interest expense, before the effect of capitalized interest, increased $2.0 million, or 7.0%, for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 primarily due to an increase in our weighted-average effective interest rate from approximately 5.0% during the six months ended June 30, 2009 to approximately 6.1% during the six months ended June 30, 2010, offset by a decrease in our average debt balance during the six months ended June 30, 2010 compared to the six months ended June 30, 2009.

Capitalized interest increased $1.1 million, or 24.4%, for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 primarily due to an increase in our weighted-average effective interest rate, which caused a corresponding increase in the capitalization rate applied to our development and redevelopment asset balances qualifying for interest capitalization. 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 June 30, 2010, our development pipeline included 116.7 gross acres of land with an aggregate cost basis of approximately $261.0 million. During both the six months ended June 30, 2010 and 2009, we did not capitalize interest on five of our seven development pipeline properties with an aggregate cost basis of approximately $82 million as of June 30, 2010, as we determined these projects did not qualify for interest capitalization under GAAP. We have suspended substantially all development activities related to these projects as a result of economic conditions in our submarkets. We expect that average development asset balances qualifying for interest capitalization may decrease over the next year as a result of a decrease in the level of our development activities.

Interest Income and Other Net Investment Gains

Total interest income and other net investment gains decreased $0.2 million, or 36.1%, for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 primarily due to a decrease in the fair value of the marketable securities held in connection with the Kilroy Realty Corporation 2007 Deferred Compensation Plan, or the Deferred Compensation Plan.

Loss on Early Extinguishment of Debt

Loss on early extinguishment of debt was approximately $4.6 million during the six months ended June 30, 2010 and represents the net loss from the repurchase of 3.25% Exchangeable Notes with an aggregate stated principal amount of $150.0 million.

Comparison of the Year Ended December 31, 2009 to the Year Ended December 31, 2008

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

	Year Ended December 31, 2009	2008	Dollar Change	Percentage Change
	($ 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	203,229	212,763	(9,534)	(4.5)
Reconciliation to Net Income Available to Common Unitholders:				
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	87,627	83,215	4,412	5.3
Income from continuing operations	35,754	45,849	(10,095)	(22.0)
Income from discontinued operations	2,261	1,062	1,199	112.9
Net income	38,015	46,911	(8,896)	(19.0)
Net income attributable to noncontrolling interests in consolidated subsidiaries	(201)	(237)	36	15.2
Net income attributable to Kilroy Realty, L.P.	37,814	46,674	(8,860)	(19.0)
Preferred distributions	(15,196)	(15,196)		0.0
Net income available to common unitholders	$ 22,618	$ 31,478	$ (8,860)	(28.1)%

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

	Total Office Portfolio				Core Office Portfolio[1]			
	2009	2008	Dollar Change	Percentage Change	2009	2008	Dollar Change	Percentage Change
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, which we refer to as our 2009 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 the operating partnership s consolidated annual financial statements included in this prospectus 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, which we refer to as our 2008 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, which we refer to as our 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 2009 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 2008 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 2009 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 2008 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 2009 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

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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 2008 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 at one of our properties in San Diego (see Note 13 to the operating partnership s consolidated annual financial statements included in this prospectus 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 2009 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 2008 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.

Industrial Properties

	Total Industrial Portfolio				2009 Core Industrial Portfolio[1]			
	2009	2008	Dollar Change	Percentage Change	2009	2008	Dollar Change	Percentage Change
	($ dollars 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 and 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, which we refer to as our 2009 Core Industrial Portfolio. Average occupancy for the 2009 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 2009 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 2009 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 and which we refer to as 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 2009 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.

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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 the operating partnership s consolidated annual financial statements included in this prospectus for additional information), partially offset by a decrease in incentive compensation expense year over year and severance costs paid in 2008.

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.

	2009	2008	Dollar Change	Percentage Change
	($ 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	$ 46,119	$ 45,346	$ 773	1.7%

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 properties because we suspended substantially all development activities related to these projects as a result of economic conditions in our submarkets.

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 2008 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 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 the operating partnership s consolidated annual financial statements included in this prospectus for additional information).

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Comparison of the Year Ended December 31, 2008 to the Year Ended December 31, 2007

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

	Year Ended December 31, 2008	2007	Dollar Change	Percentage Change
	($ 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 Unitholders:				
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 interests in consolidated subsidiaries	(237)	(324)	87	26.9
Net income attributable to Kilroy Realty, L.P.	46,674	122,993	(76,319)	(62.1)
Preferred distributions	(15,196)	(15,196)		0.0
Net income available to common unitholders	$ 31,478	$ 107,797	$ (76,319)	(70.8)%

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				2008 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, which we refer to as our 2007 Office Development Properties, and our 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 office properties owned and stabilized at January 1, 2007 and still owned and stabilized as of December 31, 2009, which we refer to as our 2008 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 the operating partnership s consolidated annual financial statements included in this prospectus 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;
    - 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 2007 Office Development Properties, the 2008 Office Development Properties, and the Office Redevelopment Properties; and

An increase of $1.8 million generated by the 2008 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 the operating partnership s

consolidated annual financial statements included in this prospectus 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 2008 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 2008 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 2007 Office Development Properties, 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 2007 Office Development Properties, 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 the operating partnership s consolidated annual financial statements included in this prospectus 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 2007 Office Development Properties and 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 2008 Core Office Portfolio as discussed above.

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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				**2008 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	$ 26,796	$ 24,475	$ 2,321	9.5%	$ 26,998	$ 24,929	$ 2,069	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 92.3% 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 industrial properties owned and stabilized at January 1, 2007 and still owned and stabilized as of December 31, 2009, which we refer to as our 2008 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

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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 collectability 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 2008 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.

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	$ 45,346	$ 40,762	$ 4,584	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 2007 Office Development Properties and the 2008 Office Development Properties;

- An increase of $2.8 million from the 2008 Core Office Portfolio and 2008 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 New Credit Facility (as defined under 2010 Financing Activities below);

- Proceeds from additional secured or unsecured debt financings;

- Proceeds from public or private issuance of debt or equity securities; and

- Proceeds from the disposition of nonstrategic assets.

Liquidity Uses

- Property or developed land acquisitions;

- Operating and corporate expenses;

- Capital expenditures, tenant improvement and leasing costs;

- Development and redevelopment costs;
- Debt service and principal payments, including debt maturities;
- Distributions to common and preferred unitholders; and
- Purchasing outstanding debt.

General Strategy

Our general strategy is to maintain a conservative balance sheet with a top credit profile and to maintain 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 noted above under the caption Liquidity Uses, will be satisfied using potentially all liquidity sources listed above. 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, which we may finance, as necessary, with future public and private issuances of debt and equity securities.

2010 Financing Activities

During the first six months of 2010, we completed a variety of capital raising activities which significantly extended our debt maturities and enabled us to fund five property acquisitions. This financing and acquisition activity increased our consolidated total assets by approximately 20% as compared to December 31, 2009, without increasing our total debt as a percentage of total market capitalization. The following activities occurred during the period:

In August 2010, we entered into a $500 million unsecured revolving credit facility (the New Credit Facility) with a term of three years plus a one year extension option. We used borrowings under the New Credit Facility to repay, and then terminate, our $550 million unsecured line of credit (the Credit Facility).

A portion of our unsecured senior notes, with a principal balance of $61.0 million matured in August 2010. We used borrowings under our Credit Facility to repay the remaining principal amounts of the maturing loan.

In June 2010, we completed a tender offer for the repurchase of $150.0 million in aggregate stated principal value of our 3.25% Exchangeable Notes for approximately $151.1 million in cash, including transaction costs.

In June 2010, we assumed secured debt with a principal balance of $52.0 million in conjunction with the acquisition of Mission City Corporate Center in San Diego, CA.

In May 2010, we issued $250.0 million in aggregate principal amount of private notes due 2020.

In April 2010, we completed an underwritten public offering of 9,200,000 shares of its common stock. The net offering proceeds, after deducting underwriting discounts and commissions and offering expenses, were approximately $299.8 million and were contributed to us in exchange for common units, as required by our partnership agreement.

In April 2010, we were assigned initial investment grade credit ratings by two major rating agencies, which management believes enhances our access to the capital markets by allowing us to raise long-term unsecured debt financing in the bond market.

In April 2010, we extended the maturity date of the Credit Facility from April 2010 to April 2011 for a one-time extension fee equal to 0.15% of the total $550 million borrowing capacity of the Credit Facility.

In March 2010, we used borrowings under the Credit Facility to pay off a secured line of credit with an outstanding principal balance of $33.5 million that was scheduled to mature in April 2010.

In January 2010, we used the proceeds from the issuance of a new $71.0 million mortgage loan to pay off an outstanding mortgage loan with a principal balance of $63.2 million that was scheduled to mature in April 2010. The new mortgage loan is secured by five properties, bears interest at an annual rate of 6.51%, requires monthly interest and principal payments based on a 30-year

amortization period, and is scheduled to mature on February 1, 2017.

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2009 Financing Activities

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 distribution to $0.35 per common unit. This represented an approximately 40% reduction from our quarterly cash distribution of $0.58 per common unit for unitholders of record for the prior quarter and is equivalent to an annual rate of $1.40 per unit.

In June 2009, we completed an underwritten public offering of 10,062,500 shares of its common stock. The net offering proceeds, after deducting underwriting discounts and commissions and offering expenses, were approximately $191.7 million and were contributed to us in exchange for common units, as required by our partnership agreement.

In November 2009, we issued $172.5 million in aggregate stated principal amount of 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 the operating partnership s consolidated financial statements for year ended December 31, 2009 and for the period ended June 30, 2010 included elsewhere in this prospectus.

Liquidity Uses

Capitalization

As of June 30, 2010, our total debt as a percentage of total market capitalization was 39.6%, and our total debt and liquidation value of our preferred equity as a percentage of total market capitalization was 46.3%, which was calculated based on the closing price per share of the Company s common stock of $29.73 on June 30, 2010 as follows:

	Units at June 30, 2010	Aggregate Principal Amount or $Value Equivalent ($ in thousands)	% of Total Market Capitalization
Debt:			
Credit Facility		$ 150,000	5.0%
3.25% Exchangeable Notes[1]		148,000	5.0
4.25% Exchangeable Notes[2]		172,500	5.8
Unsecured Senior Notes due 2010		61,000	2.0
Unsecured Senior Notes due 2014		83,000	2.8
Unsecured Senior Notes due 2020[3]		250,000	8.4
Secured debt[4]		317,470	10.6
Total debt		$ 1,181,970	39.6
Capital:			
7.450% Series A Cumulative Redeemable Preferred Units[5]	1,500,000	$ 75,000	2.5
7.800% Series E Cumulative Redeemable Preferred Units[6]	1,610,000	40,250	1.3
7.500% Series F Cumulative Redeemable Preferred Units[6]	3,450,000	86,250	2.9
Common Units Outstanding held by Limited Partners[7]	1,723,131	51,229	1.7
Common Units Outstanding held by Kilroy Realty Corporation[7]	52,296,219	1,554,767	52.0
Total capital		1,807,496	60.4
Total Market Capitalization		$ 2,989,466	100.0%

(1) Represents gross aggregate principal amount before the effect of the unamortized discount of approximately $5.5 million as of June 30, 2010.
(2) Represents gross aggregate principal amount before the effect of the unamortized discount of approximately $18.4 million as of June 30, 2010.
(3) Represents gross aggregate principal amount before the effect of the unamortized discount of approximately $2.1 million as of June 30, 2010.
(4) Includes the $52.0 million gross aggregate principal amount of the loan due in April 2012 before the effect of the unamortized discount of approximately $0.9 million as of June 30, 2010.
(5) Value based on $50.00 per unit liquidation preference.
(6) Value based on $25.00 per unit liquidation preference.
(7) Value based on closing price per share of the Company s common stock of $29.73 as of June 30, 2010.

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Debt Composition

The composition of our aggregate debt balances between fixed- and variable-rate debt as of June 30, 2010 and December 31, 2009 were as follows:

	Percentage of Total Debt		Weighted Average Interest Rate	
	June 30, 2010	**December 31, 2009**	**June 30, 2010**	**December 31, 2009**
Secured vs. unsecured:				
Unsecured[1]	73.1%	70.7%	4.5%	3.8%
Secured	26.9	29.3	6.0	5.7
Variable-rate vs. fixed-rate:				
Variable-rate	12.7	13.0	1.2	1.1
Fixed-rate[1]	87.3	87.0	5.5	4.8
Total debt interest rate[1]			4.9	4.3
Total debt interest rate including loan costs[1]			5.3	4.8
GAAP effective interest rate[2]			6.0%	5.9%

(1) Excludes the impact of the noncash debt discounts on our Exchangeable Notes (see Note 5 to the operating partnership s consolidated financial statements for the period ended June 30, 2010 included elsewhere in this prospectus).
(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 Facilities

The following table summarizes the balance and significant terms of the Credit Facility as of June 30, 2010 and December 31, 2009.

	June 30, 2010	December 31, 2009
	(in thousands)	
Outstanding borrowings	$ 150,000	$ 97,000
Remaining borrowing capacity	400,000	453,000
Total borrowing capacity	$ 550,000	$ 550,000
Maturity date[1]	April 2011	April 2010
Interest rate[2]	1.17%	1.11%
Unused funds fee[3]	0.20%	0.20%

(1) In April 2010, we exercised an option to extend the maturity date of the Credit Facility from by one year.
(2) At June 30, 2010, the Credit Facility bore interest at an annual rate plus 0.80%. At December 31, 2009, the Credit Facility bore interest at an annual rate of LIBOR plus 0.85% to 1.35% depending upon the Company s leverage ratio.
(3) At June 30, 2010, the fee for unused funds was at an annual rate of 0.20%. At December 31, 2009, the fee for unused funds was an annual rate of 0.15% to 0.20% depending on our remaining borrowing capacity.

In August 2010, we entered into the New Credit Facility and we used borrowings to repay, and then terminate, the Credit Facility. The New Credit Facility is a $500 million unsecured revolving facility and includes a $200 million accordion option and has a term of three years plus a one year extension option. The New Credit Facility bears interest at an annual rate of LIBOR plus 2.675%. We expect to borrow amounts under the New Credit Facility from time to time for general corporate purposes, to fund potential acquisitions, to finance development and

redevelopment expenditures, and potentially to repay long-term debt.

Debt Maturities

The following table summarizes our scheduled principal payments as of June 30, 2010:

Year	Secured Debt	Exchangeable Notes	Unsecured Senior Notes	Credit Facility	Total
			(in thousands)		
Remaining 2010	$ 3,139		$ 61,000		$ 64,139
2011	75,028			150,000(1)	225,028
2012	156,302(2)	148,000(3)			304,302
2013	3,248				3,248
2014	3,479	172,500(4)	83,000		258,979
Thereafter	76,274		250,000(5)		326,274
	$ 317,470	$ 320,500	$ 394,000	$ 150,000	$ 1,181,970

(1) In August 2010, we entered into the New Credit Facility and we used borrowings to repay, and then terminate, the Credit Facility. See additional information under the caption Credit Facilities above.

(2) Includes the $52.0 million gross aggregate principal amount of the loan due in April 2012 before the effect of the unamortized discount of approximately $0.9 million as of June 30, 2010.

(3) Represents gross aggregate principal amount before the effect of the unamortized discount of approximately $5.5 million as of June 30, 2010.

(4) Represents gross aggregate principal amount before the effect of the unamortized discount of approximately $18.4 million as of June 30, 2010.

(5) Represents gross aggregate principal amount before the effect of the unamortized discount of approximately $2.1 million as of June 30, 2010.

A portion of our unsecured senior notes, with a principal balance of $61.0 million matured in August 2010. We used borrowings under the Credit Facility to repay the remaining principal amounts of the maturing loan. In addition, in April 2010, we were assigned investment grade debt ratings, which enhance our ability to raise long-term unsecured debt to refinance near-term debt maturities.

Factors That May Influence Future Sources of Capital and Liquidity

We continue to evaluate sources of financing for our business activities, including borrowings under the New Credit Facility, fixed-rate secured mortgage financing, common stock offerings of the Company, 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, a decrease in market rental rates or market values of real estate assets in our submarkets, and the amount of future borrowings. These events could result in the following:

- further decreases in our cash flows from operations, which could create further dependence on our New 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.

In addition to the factors noted above, our initial credit ratings are subject to ongoing evaluation by credit rating agencies and may be changed or withdrawn by a rating agency in the future if, in its judgment, circumstances warrant. In the event that our credit ratings are downgraded, we

may incur higher borrowing costs and may experience difficulty in obtaining additional financing or refinancing.

Debt Covenants

As of June 30, 2010, our Credit Facility, unsecured senior notes, and certain other secured debt arrangements contained covenants and restrictions requiring us to meet certain financial ratios and reporting requirements. Our New Credit Facility also contains covenants and restrictions requiring us to meet certain financial ratios and reporting requirements. As of June 30, 2010, key financial covenants and their covenant levels included:

Credit Facility (as defined per Credit Agreement):	Covenant Level	Actual Performance at June 30, 2010
Total debt to total asset value[(1)]	< 60%	39%
Fixed charge coverage ratio	> 1.5X	2.7X
Minimum consolidated tangible net worth	> $700 million + 75% of all Net Offering Proceeds(2)	$1.9 billion
Dividend coverage ratio	< 95% of FFO	66% of FFO
Unsecured debt ratio[(1)(3)]	> 1.67X	2.89X
Unencumbered asset pool debt service coverage[(4)]	³ 2.0X	6.2X
Unsecured Senior Notes due 2020 (as defined per Indenture):		
Total debt/total asset value	< 60%	38%
Interest coverage	> 1.5X	3.9X
Secured debt/total asset value	< 40%	10%
Unencumbered asset pool value to unsecured debt	³ 150%	298%

(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 $1.2 billion as of June 30, 2010.
(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 June 30, 2010. Our current expectation is that we will continue to meet the requirements of our debt covenants in both the short and long term. However, in the event of a continued economic slow down and a crisis in the credit markets, there is no certainty that we will be able to continue to satisfy all the covenant requirements.

Liquidity Uses

Contractual Obligations

The following table provides information with respect to our contractual obligations as of June 30, 2010. The financing activities completed during the six months ended June 30, 2010, including the issuance of $250 million of unsecured senior notes and the repurchase of $150 million of aggregate principal value of our 3.25% Exchangeable Notes, significantly extended our debt maturities as compared to December 31, 2009. The table: (i) indicates the maturities and scheduled principal repayments of our secured debt, Exchangeable Notes, unsecured senior notes, and Credit Facility; (ii) indicates the scheduled interest payments of our fixed-rate and variable-rate debt as of June 30, 2010; and (iii) provides information about the minimum commitments due in connection with our ground lease obligations and other lease and contractual commitments as of June 30, 2010.

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	Payment Due by Period				
	Less than 1 Year (Remainder of 2010)	1 3 Years (2011-2012)	3 5 Years (2013-2014) (in thousands)	More than 5 Years (After 2014)	Total
Principal payments secured debt[1]	$ 3,139	$ 231,330	$ 6,727	$ 76,274	$ 317,470
Principal payments Exchangeable Notes[2]		148,000	172,500		320,500
Principal payments unsecured senior notes[3]	61,000		83,000	250,000	394,000
Principal payments Credit Facility[4]		150,000			150,000
Interest payments fixed-rate debt[5]	25,455	90,693	63,091	103,767	283,006
Interest payments variable-rate debt[4)(6]	1,500	1,000			2,500
Ground lease obligations[7]	703	2,425	2,136	69,292	74,556
Lease and contractual commitments[8]	33,528				33,528
Separation payments[9]	5,650				5,650
Total	$ 130,975	$ 623,448	$ 327,454	$ 499,333	$ 1,581,210

(1) Represents secured debt before the effect of a $0.9 million unamortized discount as of June 30, 2010.
(2) Represents gross aggregate principal amount before the effect of the unamortized discount of approximately $23.9 million as of June 30, 2010.
(3) Represents unsecured senior notes before the effect of a $2.1 million unamortized discount as of June 30, 2010.
(4) In April 2010, we exercised an option to extend the maturity date of the Credit Facility by one year. In August 2010, we entered into the New Credit Facility as noted above under the caption 2010 Financing Activities.
(5) As of June 30, 2010, 87.3% 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.
(6) As of June 30, 2010, 12.7% of our debt bore interest at variable rates. The variable interest rate payments are based on LIBOR plus a spread of 0.80% as of June 30, 2010. The information in the table above reflects our projected interest rate obligations for these variable-rate payments based on outstanding principal balances as of June 30, 2010, the scheduled interest payment dates, and the contractual maturity dates.
(7) 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.
(8) Amounts represent commitments under signed leases and contracts for operating properties, excluding tenant-funded tenant improvements.
(9) Represents a separation payment that was paid in July 2010.

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.

The following tables set forth the capital expenditures, tenant improvements, and leasing costs, excluding tenant-funded tenant improvements, for renewed and retenanted 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 expenditures. First generation expenditures are those expenditures that ultimately result in additional revenue generated when the space is re-leased.

We currently project we could spend up to $25 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 $34 million of commitments discussed under capital commitments.

As of June 30, 2010, 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.

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

The Company is required to distribute 90% of its REIT taxable income (excluding capital gains) on an annual basis to maintain its 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 REITs to satisfy up to 90% of this requirement through the distribution of shares of their 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 our board of directors. We may be required to use borrowings under the New Credit Facility, if necessary, to meet REIT distribution requirements and maintain the Company s REIT status. We have historically distributed amounts in excess of our taxable income resulting in a return of capital to our unitholders and stockholders of the Company and currently believe we have the ability to maintain our distributions to meet the Company s 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 unitholders are invested primarily in interest-bearing accounts and short-term interest-bearing securities, which is consistent with our intention to maintain the Company s 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 July 16, 2010, we paid a regular quarterly cash distribution of $0.350 per common unit to unitholders of record on June 30, 2010. This distribution is equivalent to an annual rate of $1.40 per unit and we believe that for the foreseeable future we have the ability to maintain our distribution at this level or as otherwise required to meet the Company s REIT requirements.

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

Other Potential Liquidity Uses

We continue to position ourselves to take advantage of attractive acquisition opportunities to expand our property portfolio and, under the right conditions, may act on such opportunities. See additional information under the caption Factors That May Influence Future Results of Operations Acquisitions.

We have the ability to repurchase our Exchangeable Notes, and the Company has the ability to repurchase shares of its preferred stock, in open market transactions. In addition, an aggregate of 988,025 shares of the Company s common stock currently remains eligible for repurchase under a share-repurchase program approved by our board of directors. The Company did not repurchase shares of common stock under this program during the year ended December 31, 2009 or the six months ended June 30, 2010. Our Company may seek to repurchase our Exchangeable Notes or shares of the Company s common stock or preferred stock in the future depending upon prevailing market conditions and our liquidity and financial position.

Historical Cash Flow Summary

Our historical cash flow activity for the six months ended June 30, 2010 as compared to the six months ended June 30, 2009 and for the year ended December 31, 2009 as compared to the year ended December 31, 2008 is as follows:

	Six Months Ended June 30,			
	2010	**2009**	**Dollar Change**	**Percentage Change**
	($ in thousands)			
Net cash provided by operating activities	$ 57,388	$ 60,902	$ (3,514)	(5.8)%
Net cash used in investing activities	(414,108)	(23,598)	(391,051)	(1,654.8)
Net cash provided by (used in) financing activities	376,265	(33,509)	409,774	(1,222.9)

	Year Ended December 31,			
	2009	**2008**	**Dollar Change**	**Percentage 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 depend 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 cash flows from operations in the future will be impacted by these factors as well as the operating results of any acquired properties. While our portfolio of stabilized operating properties has historically generated positive cash flows, in recent periods we have been experiencing a decrease in Net Operating Income primarily due to a decline in occupancy in our Core Office Portfolio.

Comparison of the Six Months Ended June 30, 2010 to the Six Months Ended June 30, 2009

Our net cash provided by operating activities decreased by $3.5 million, or 5.8%, for the six months ended June 30, 2010 compared to the six months ended June 30, 2009 primarily due to:

A decline in cash from Net Operating Income in the six months ended 2010 as compared to the six months ended 2009 (see additional information under the caption Rental Operations) ;

An increase in expenditures of approximately $1.3 million for acquisition-related costs for the six months ended June 30, 2010 compared to the six months ended June 30, 2009; and

A partially offsetting decrease of approximately $3.0 million in cash paid during the first quarter of 2010 compared to 2009 for incentive compensation related to prior year performance.

In the event that the current market conditions persist or worsen in our submarkets, our occupancy rates or rental rates may decline, which could result in a further decrease in net cash flows from our operating properties.

Comparison of the Year Ended December 31, 2009 to the Year Ended December 31, 2008

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.

Investing Activities

Our net cash used in investing activities is generally used to fund recurring and nonrecurring capital expenditures for our operating properties, property acquisitions, and development and redevelopment projects.

Comparison of the Six Months Ended June 30, 2010 to the Six Months Ended June 30, 2009

Our net cash used in investing activities increased $391.1 million for the six months ended June 30, 2010 compared to the six months ended June 30, 2009. This net increase was primarily comprised of the following:

Approximately $373.6 million in cash paid to acquire five operating properties during 2010 (see Note 2 to the operating partnership s consolidated financial statements for the period ended June 30, 2010 included elsewhere in this prospectus); and

An increase of $15.9 million in expenditures for our operating properties in 2010 primarily for tenant improvement projects and leasing commissions related to increased leasing activity at the end of 2009.

Comparison of the Year Ended December 31, 2009 to the Year Ended December 31, 2008

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;

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- 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 debt and equity capital raising activities net of distributions paid to common and preferred unitholders.

Comparison of the Six Months Ended June 30, 2010 to the Six Months Ended June 30, 2009

Net cash provided by financing activities fluctuated by $409.8 million for the six months ended June 30, 2010 compared to the six months ended June 30, 2009. The net change in financing activities was primarily due to the following:

- An increase in capital raising activities, including the issuance of secured debt, unsecured debt, and 9.2 million shares of the Company s common stock, primarily to fund property acquisitions (see Notes 2, 5, and 6 to the operating partnership s consolidated financial statements for the period ended June 30, 2010 included elsewhere in this prospectus);

- An offsetting decrease related to the repurchase of $150.0 million in aggregate stated principal of 3.25% Exchangeable Notes (see Note 5 to the operating partnership s consolidated financial statements for the period ended June 30, 2010 included elsewhere in this prospectus); and

- An offsetting decrease related to the 40% decrease in our cash dividend rate enacted by our board of directors in the second quarter of 2009. This resulted in a $9.0 million decrease in our dividends and distributions paid to common unitholders during the six months ended June 30, 2010 as compared to the six month ended June 30, 2009.

Comparison of the Year Ended December 31, 2009 to the Year Ended December 31, 2008

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.

Off-Balance Sheet Arrangements

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

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.

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 June 30, 2010 and December 31, 2009, we did not have any interest rate-sensitive derivative assets or liabilities.

Information about our changes in interest rate risk exposures from December 31, 2009 to June 30, 2010 is incorporated herein by reference from Liquidity and Capital Resources.

Market Risk

As of June 30, 2010, approximately 12.7% of our total outstanding debt of $1.2 billion was subject to variable interest rates. The remaining 87.3% 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 nonconvertible conventional debt instruments. See Note 8 to the operating partnership s consolidated financial statements for the period ended June 30, 2010 included elsewhere in this prospectus.

As of June 30, 2010, the total outstanding balance of our variable-rate debt included borrowings on our Credit Facility of $150 million and was indexed to LIBOR plus a spread of 0.80% (weighted average interest rate was 1.17%). As of December 31, 2009, the total outstanding balance of our variable-rate debt included borrowings of $97 million on our Credit Facility, which was indexed to LIBOR plus a spread of 0.85%, and borrowings of $33.5 million on our secured line of credit, which was indexed to LIBOR plus a spread of 0.75% (weighted average interest rate was 1.1%). Assuming no changes in the outstanding balance of our existing variable-rate debt as of June 30, 2010, a 100 basis point increase in the LIBOR rate would increase our projected annual interest expense, before the effect of capitalization, by approximately $1.5 million. Comparatively, if interest rates were 100 basis points higher as of December 31, 2009, our projected annual interest expense, before the effect of capitalization, would have been $1.3 million higher.

The total carrying value of our fixed-rate debt, including our Exchangeable Notes, was approximately $1.0 billion and $841.5 million as of June 30, 2010 and December 31, 2009, respectively. The total estimated fair value of our fixed-rate debt was approximately $1.0 billion and $842.1 million as of June 30, 2010 and December 31, 2009, 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 $38.2 million, or 3.7%, as of June 30, 2010. 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 $20.2 million, or 2.4%, as of December 31, 2009.

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.

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BUSINESS AND PROPERTIES

Business

General

We own, operate, develop, and acquire primarily Class A suburban office and industrial real estate in key submarkets in California, which we believe have strategic advantages and strong barriers to entry. Class A real estate encompasses attractive and efficient buildings of high quality that are attractive to tenants, are well-designed and constructed with above-average material, workmanship and finishes and are well-maintained and managed. All but one of our properties are located in Southern California. Kilroy Realty, L.P., a Delaware limited partnership, is the entity through which Kilroy Realty Corporation, a Maryland corporation, conducts its business and owns its assets. Kilroy Realty Corporation operates as a real estate investment trust, or REIT, for federal income tax purposes.

As of June 30, 2010, our stabilized portfolio of operating properties was comprised of 100 office buildings and 41 industrial buildings, which encompassed an aggregate of approximately 10.1 million and 3.7 million rentable square feet, respectively. As of June 30, 2010, the office properties were approximately 85.7% leased to 354 tenants, and the industrial properties were approximately 83.3% leased to 56 tenants. Our stabilized portfolio excludes undeveloped land and one industrial property that we are in the process of reentitling for residential use.

The Company owns its interests in all of its properties through Kilroy Realty, L.P., the finance partnership or wholly-owned subsidiaries. As of June 30, 2010, the Company owned an approximate 96.7% common general partnership interest in the operating partnership. The remaining approximate 3.3% common limited partnership interests were owned by non-affiliated investors and certain directors and officers of the Company. 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 of the Finance Partnership. We conduct substantially all of our development activities through Kilroy Services, LLC, or KSLLC, a wholly-owned subsidiary.

The following diagram illustrates our Company s structure as of June 30, 2010:

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Available Information; Website Disclosure; Corporate Governance Documents

Kilroy Realty Corporation was incorporated in the state of Maryland on September 13, 1996. Kilroy Realty, L.P. was organized in the state of Delaware on October 2, 1996. Our principal executive offices are located at 12200 W. Olympic Boulevard, Suite 200, Los Angeles, California 90064. Our telephone number at that location is (310) 481-8400. Our website is located at www.kilroyrealty.com. The information found on, or otherwise accessible through, our website is not incorporated into, and does not form a part of, this prospectus or any other report or document we file with or furnish to the United States Securities and Exchange Commission, or the SEC. All reports we will file with the SEC will be available free of charge via EDGAR through the SEC website at www.sec.gov. In addition, the public may read and copy materials we file with the SEC at the SEC s public reference room located at 100 F Street, N.E., Washington, D.C. 20549. All reports that we will file with the SEC will also be available free of charge on our website at www.kilroyrealty.com as soon as reasonably practicable after we file those materials with, or furnish them to, the SEC.

The following documents relating to the Company s 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
- 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 Management s Discussion and Analysis of Financial Condition and Results of Operations Results of Operations included in this prospectus for a reconciliation of Net Operating Income to GAAP net income available to the operating partnership s common unitholders, and Management s Discussion and Analysis of Financial

Condition and Results of Operations in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 and Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, incorporated by reference in this prospectus, for a reconciliation of Net Operating Income and FFO to GAAP net income available to the Company s 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;

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- 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 when strategic opportunities exist because of the combination of our extensive experience, strong financial position, and our Company s ability to access capital. We seek to acquire 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
- 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 June 30, 2010, 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, commencing development in stages, or 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 supply-constrained markets since such efforts generally achieve similar returns to new development with reduced entitlement risk and shorter construction periods.

Redevelopment opportunities are those projects in which we spend significant development and construction costs on existing buildings pursuant to a formal plan, the result of which is a higher economic return on the property. 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. As of June 30, 2010, our total debt as a percentage of total market capitalization was 39.6%, and our total debt and liquidation value of our preferred equity as a percentage of total market capitalization was 46.3%, both of which were calculated based on the closing price per share of the Company s common stock of $29.73 on June 30, 2010. 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 in which the maturity dates of our debt are spread out over several years, 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 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 Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources and Risk Factors

Significant Tenants

As of the date of this prospectus, our fifteen largest tenants in terms of annualized base rental revenues represented approximately 40% of total annualized base rental revenues, defined as annualized monthly contractual rents from existing tenants as of June 30, 2010 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., leased an aggregate of approximately 536,800 rentable square feet of office space under two separate leases, representing 5.5% of our total annualized base rental revenues as of June 30, 2010.

For further information on the composition of our tenant base, see 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 Risk Factors.

Segment and Geographic Financial Information

For financial information about our two reportable segments, office properties and industrial properties, see Note 14 to the operating partnership s consolidated annual financial statements and Note 11 to the operating partnership s consolidated financial statements for the period ended June 30, 2010.

All of our business is conducted in California. For information about our revenues and long-lived assets and other financial information, see our consolidated financial statements included or incorporated by reference in this prospectus and Management s Discussion and Analysis of Financial Condition and Results of Operations Information Results of Operations.

Employees

As of June 30, 2010, we employed 124 people directly or through 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 and unitholders.

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 June 30, 2010, 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. The hazardous substances and wastes are primarily comprised of diesel fuel for emergency generators and small quantities of lab and light manufacturing chemicals including, but not limited to, alcohol, ammonia, carbon dioxide, cryogenic gases, dichlorophenol, methane, naturalyte acid, nitrogen, nitrous oxide, and oxygen which are routinely used by life science and light manufacturing companies. 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

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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 and unitholders.

Properties

General

As of June 30, 2010, our stabilized portfolio of operating properties was comprised of 100 office properties and 41 industrial properties, which encompassed an aggregate of approximately 10.1 million and 3.7 million rentable square feet, respectively. As of June 30, 2010, the office properties were approximately 85.7% leased to 354 tenants, and the industrial properties were approximately 83.3% leased to 56 tenants. Our stabilized portfolio excludes undeveloped land and one industrial property that we are in the process of reentitling for residential use.

All but one of our properties are located in Southern California. We own all of our properties directly or through the Finance Partnership or wholly-owned subsidiaries. All our properties are held in fee except for the seven office buildings located at Kilroy Airport Center in Long Beach, California, which are all 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 June 30, 2010, we managed all of our properties through internal property managers.

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 June 30, 2010.

Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 6/30/10[1]	Annualized Base Rental Revenue ($000 s)[2]	Average Base Rental Revenue Per Sq. Ft. ($)[3]
Office Properties:						
Los Angeles /Ventura Counties						
23925 Park Sorrento, Calabasas, California	1	2001	11,789	100.0%	$ 421	$ 35.71
23975 Park Sorrento, Calabasas, California	1	2002	100,592	82.7%	2,985	37.05
24025 Park Sorrento, Calabasas, California	1	2000	102,264	100.0%	3,997	39.09
26541 Agoura Road Calabasas, California	1	1988	90,156	100.0%	1,628	18.06
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

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Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 6/30/10[1]	Annualized Base Rental Revenue ($000 s)[3]	Average Base Rental Revenue Per Sq. Ft. ($)[3]
5155 Camino Ruiz, Camarillo, California[10]	1	1982	38,856	100.0%	625	16.09
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	93.4%	8,430	31.03
2260 E. Imperial Highway, El Segundo, California	1	1983	286,151	100.0%	5,383	18.81
909 Sepulveda Blvd., El Segundo, California	1	1972/2005	241,607	97.7%	5,906	25.03
999 Sepulveda Blvd., El Segundo, California	1	1962/2003	127,901	98.6%	2,733	23.91
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	96.1%	4,675	29.42
3780 Kilroy Airport Way, Long Beach, California	1	1989	219,745	87.3%	5,044	27.82
3800 Kilroy Airport Way, Long Beach, California	1	2000	192,476	100.0%	5,449	28.31
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%	1,354	13.78
3900 Kilroy Airport Way, Long Beach, California	1	1987	126,840	65.2%	2,016	24.44
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	92.2%	3,990	37.59
12312 W. Olympic Blvd, Los Angeles, California[4]	1	1950/1997	78,000	100.0%	2,108	27.03
1633 26th Street, Santa Monica, California	1	1972/1997	44,915	100.0%	1,152	25.65
2100 Colorado Avenue, Santa Monica, California	3	1992/2009	94,844	58.9%	2,413	43.17
3130 Wilshire Blvd., Santa Monica, California	1	1969/1998	88,339	80.3%	2,268	31.97
501 Santa Monica Blvd., Santa Monica, California	1	1974	73,115	71.2%	1,966	40.53
2829 Townsgate Road, Thousand Oaks, California	1	1990	81,067	94.7%	2,312	30.12
Subtotal/Weighted Average Los Angeles/Ventura Counties	30		3,351,777	93.0%	82,269	26.97

Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 6/30/10[1]	Annualized Base Rental Revenue ($000 s)[3]	Average Base Rental Revenue Per Sq. Ft. ($)[3]
San Diego						
12225 El Camino Real, Del Mar, California[6]	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	88.7%	3,391	43.74
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%	1,394	36.01
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[6]	1	1999	52,375	73.7%	1,472	38.13
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	88.5%	3,563	33.66
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[18]	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[7]	1	2005	65,638	72.3%	936	19.71
15253 Avenue of Science, I-15 Corridor, California[7]	1	2005	37,437	100.0%	610	16.29
15333 Avenue of Science, I-15 Corridor, California[19]	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[6]	1	2000	51,500	63.5%	732	22.39
15445 Innovation Drive, I-15 Corridor, California[6]	1	2000	51,500	100.0%	1,214	23.57
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

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Property Location	No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 6/30/10[1]	Annualized Base Rental Revenue ($000 s)[3]	Average Base Rental Revenue Per Sq. Ft. ($)[3]
13500 Evening Creek Drive North, I-15 Corridor, California[6]	1	2004	142,742	97.6%	5,874	42.16
13520 Evening Creek Drive North, I-15 Corridor, California[6]	1	2004	141,368	91.9%	4,772	37.59
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
2355 Northside Drive, Mission City, California[6]	1	1990	50,425	80.2%	1,458	36.06
2365 Northside Drive, Mission City, California[6]	1	1990	91,260	82.4%	2,592	34.45