KILROY REALTY CORP
Form 10-K/A
June 06, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K/A
(MARK ONE)

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2013
OR
.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number 1-12675 (Kilroy Realty Corporation)
Commission file number 000-54005 (Kilroy Realty, L.P.)

KILROY REALTY CORPORATION
KILROY REALTY, L.P.
(Exact name of registrant as specified in its charter)

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

12200 W. Olympic Boulevard, Suite 200, Los Angeles, California 90064
(Address of principal executive offices) (Zip Code)
Registrant's telephone number, including area code: (310) 481-8400

Securities registered pursuant to Section 12(b) of the Act:

Registrant	Title of each class	Name of each exchange on which registered
Kilroy Realty Corporation	Common Stock, $.01 par value	New York Stock Exchange
Kilroy Realty Corporation	6.875% Series G Cumulative Redeemable Preferred Stock, $.01 par value	New York Stock Exchange
Kilroy Realty Corporation	6.375% Series H Cumulative Redeemable Preferred Stock, $.01 par value	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:

Registrant	Title of each class
Kilroy Realty, L.P.	Common Units Representing Limited Partnership Interests

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Kilroy Realty Corporation Yes x No ¨ Kilroy Realty, L. P. Yes x No ¨

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act.
Kilroy Realty Corporation Yes ¨ No x Kilroy Realty, L. P. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Kilroy Realty Corporation Yes x No ¨ Kilroy Realty, L. P. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Kilroy Realty Corporation Yes x No ¨ Kilroy Realty, L. P. Yes x No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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.

Kilroy Realty Corporation

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

Kilroy Realty, L.P.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Kilroy Realty Corporation Yes ¨ No x Kilroy Realty, L. P. Yes ¨ No x

The aggregate market value of the voting and non-voting shares of common stock held by non-affiliates of Kilroy Realty Corporation was approximately $3,991,944,820 based on the quoted closing price on the New York Stock Exchange for such shares on June 30, 2013.

The aggregate market value of the voting and non-voting common units of limited partnership interest held by non-affiliates of Kilroy Realty, L.P. was approximately $55,100,926 based on the quoted closing price on the New York Stock Exchange for Kilroy Realty Corporation shares on June 30, 2013.

As of February 5, 2014, 82,130,022 shares of Kilroy Realty Corporation's common stock, par value $.01 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Kilroy Realty Corporation's Proxy Statement with respect to its 2014 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the registrant's fiscal year are incorporated by reference into Part III of this Form 10 K.

EXPLANATORY NOTE TO THIS AMENDMENT NO. 1

This Amendment No. 1 (the “Amendment”) amends the annual reports on Form 10-K for the year ended December 31, 2013 of Kilroy Realty Corporation and Kilroy Realty, L.P., which were originally filed on February 14, 2014 (the “Original Filing”). This Amendment is being filed solely for the purpose of amending Exhibits 31.1, 31.2, 31.3, 31.4, 32.1, 32.2, 32.3 and 32.4, which, due to a scrivener’s error, inadvertently omitted applicable references to the Original Filing. No other changes have been made to the Original Filing. This Amendment does not reflect events that have occurred after the February 14, 2014 filing date of the Original Filing, or modify or update the disclosures presented therein, except to reflect the amendment described above.

EXPLANATORY NOTE

This report combines the annual reports on Form 10-K for the year ended December 31, 2013 of Kilroy Realty Corporation and Kilroy Realty, L.P. Unless stated otherwise or the context otherwise requires, references to “Kilroy Realty Corporation” or the “Company,” “we,” “our,” and “us” mean Kilroy Realty Corporation, a Maryland corporation, and it controlled and consolidated subsidiaries, and references to “Kilroy Realty, L.P.” or the “Operating Partnership” mean Kilroy Realty, L.P., a Delaware limited partnership, and its controlled and consolidated subsidiaries.

The Company is a real estate investment trust, or REIT, and the general partner of the Operating Partnership. As of December 31, 2013, the Company owned an approximate 97.8% common general partnership interest in the Operating Partnership. The remaining approximate 2.2% common limited partnership interests are owned by non-affiliated investors and certain directors and officers of the Company. As the sole general partner of the Operating Partnership, the Company exercises exclusive and complete discretion over the Operating Partnership’s day-to-day management and control and can cause it to enter into certain major transactions including acquisitions, dispositions, and refinancings and cause changes in its line of business, capital structure and distribution policies.

There are a few differences between the Company and the Operating Partnership that are reflected in the disclosures in this Form 10-K. We believe it is important to understand the differences between the Company and the Operating Partnership in the context of how the Company and the Operating Partnership operate as an interrelated, consolidated company. The Company is a REIT, the only material asset of which is the partnership interests it holds in the Operating Partnership. As a result, the Company does not conduct business itself, other than acting as the sole general partner of the Operating Partnership, issuing equity from time to time and guaranteeing certain debt of the Operating Partnership. The Company itself is not directly obligated under any indebtedness, but guarantees some of the debt of the Operating Partnership. The Operating Partnership owns substantially all of the assets of the Company either directly or through its subsidiaries, conducts the operations of the Company’s business and is structured as a limited partnership with no publicly-traded equity. Except for net proceeds from equity issuances by the Company, which the Company is required to contribute to the Operating Partnership in exchange for units of partnership interest, the Operating Partnership generates the capital required by the Company’s business through the Operating Partnership’s operations, by the Operating Partnership’s incurrence of indebtedness or through the issuance of units of partnership interest.

Noncontrolling interests and stockholders’ equity and partners’ capital are the main areas of difference between the consolidated financial statements of the Company and those of the Operating Partnership. The common limited partnership interests in the Operating Partnership are accounted for as partners’ capital in the Operating Partnership’s financial statements and, to the extent not held by the Company, as noncontrolling interests in the Company’s financial statements. The Operating Partnership’s financial statements reflect the noncontrolling interest in Kilroy Realty Finance Partnership, L.P. a Delaware limited partnership (the “Finance Partnership”). This noncontrolling interest represents the Company’s 1% indirect general partnership interest in the Finance Partnership, which is directly held by Kilroy Realty Finance, Inc., a wholly owned subsidiary of the Company. The differences between stockholders’ equity, partners' capital and noncontrolling interests result from the differences in the equity issued by the Company and the Operating Partnership in the Operating Partnership's noncontrolling interest in the Finance Partnership.

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We believe combining the annual reports on Form 10-K of the Company and the Operating Partnership into this single report results in the following benefits:

- Combined reports better reflect how management and the analyst community view the business as a single operating unit;
- Combined reports enhance investors' understanding of the Company and the Operating Partnership by enabling them to view the business as a whole and in the same manner as management;
- Combined reports are more efficient for the Company and the Operating Partnership and result in savings in time, effort and expense; and
- Combined reports are more efficient for investors by reducing duplicative disclosure and providing a single document for their review.

To help investors understand the significant differences between the Company and the Operating Partnership, this report presents the following separate sections for each of the Company and the Operating Partnership:

- consolidated financial statements;
- the following notes to the consolidated financial statements:

Note 6, Secured and Unsecured Debt of the Company;

Note 7, Secured and Unsecured Debt of the Operating Partnership;

Note 9, Noncontrolling Interests on the Company's Consolidated Financial Statements;

Note 10, Stockholders' Equity of the Company;

Note 11, Preferred and Common Units of the Operating Partnership;

Note 18, Net Income Available to Common Stockholders Per Share of the Company;

Note 19, Net Income Available to Common Unitholders Per Unit of the Operating Partnership;

Note 21, Quarterly Financial Information of the Company (Unaudited); and

Note 22, Quarterly Financial Information of the Operating Partnership (Unaudited);

- Item 6. Selected Financial Data – Kilroy Realty Corporation;
- Item 6. Selected Financial Data – Kilroy Realty, L.P.;
- Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations:

—Liquidity and Capital Resources of the Company; and

—Liquidity and Capital Resources of the Operating Partnership.

This report also includes separate sections under Item 9A. Controls and Procedures and separate Exhibit 31 and Exhibit 32 certifications for each of the Company and the Operating Partnership to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that the Company and Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and 18 U.S.C. §1350.

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PART I

This document contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, information concerning projected future occupancy and rental rates, lease expirations, debt maturity, potential investments, strategies such as capital recycling, development and redevelopment activity, projected construction costs, dispositions, future executive incentive compensation and other forward-looking financial data, as well as the discussion in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Factors That May Influence Future Results of Operations.” Forward-looking statements are based on our current expectations, beliefs and assumptions, and are not guarantees of future performance. Forward-looking statements are inherently subject to uncertainties, risks, changes in circumstances, trends and factors that are difficult to predict, many of which are outside of our control. Accordingly, actual performance, results and events may vary materially from those indicated in the forward-looking statements, and you should not rely on the forward-looking statements as predictions of future performance, results or events. All forward-looking statements are based on currently available information and speak only as of the date on which they are made. We assume no obligation to update any forward-looking statement that becomes untrue because of subsequent events, new information or otherwise, except to the extent we are required to do so in connection with our ongoing requirements under U.S. federal securities laws.

ITEM 1. BUSINESS

The Company

We are a self-administered REIT active in premier office submarkets along the West Coast. We own, develop, acquire and manage real estate assets, consisting primarily of Class A properties in the coastal regions of Los Angeles, Orange County, San Diego County, the San Francisco Bay Area and greater Seattle, 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. We own our interests in all of our properties through the Operating Partnership and the Finance Partnership and conduct substantially all of our operations through the Operating Partnership. We qualify as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”).

Our stabilized portfolio of operating properties was comprised of the following office properties at December 31, 2013:

	Number of Buildings	Rentable Square Feet	Number of Tenants	Percentage Occupied	
Stabilized Office Properties (1)	105	12,736,099	514	93.4	%

(1) Excludes 12 properties located in San Diego, California that were held for sale at December 31, 2013 (see Note 17 “Discontinued Operations” to the consolidated financial statements included in this report). The sale of these properties closed on January 9, 2014 (see Note 23 “Subsequent Events” to the consolidated financial statements included in this report for further details).

Our stabilized portfolio includes all of our properties with the exception of properties held for sale, undeveloped land, development and redevelopment properties currently under construction or committed for construction, and “lease-up” properties. We define redevelopment properties as those properties for which we expect to spend significant development and construction costs on the existing or acquired buildings pursuant to a formal plan, the intended result of which is a higher economic return on the property. We define “lease-up” properties as properties we recently developed or redeveloped that have not yet reached 95% occupancy and are within one year following cessation of major construction activities. During the fourth quarter of 2013, we completed one development property in San Francisco, California and stabilized a redevelopment property in Long Beach, California. As a result, these properties are included in our stabilized portfolio as of December 31, 2013.

As of December 31, 2013, the following properties were excluded from our stabilized portfolio:

	Number of Properties	Estimated Rentable Square Feet
Properties Held for Sale (1)	12	1,049,035
Development properties under construction (2)	6	2,538,000
Lease-up properties	1	410,000

(1) Includes 12 properties located in San Diego, California. The sale of these properties closed on January 9, 2014 (see Note 23 “Subsequent Events” to our consolidated financial statements included in this report for further details).
(2) Estimated rentable square feet upon completion.

As of December 31, 2013, all of our properties and development and redevelopment projects and all of our business is currently conducted in the state of California with the exception of twelve office properties located in the state of

Washington. All of our properties and development and redevelopment projects are 100% owned, excluding a development project owned by Redwood City Partners, LLC, a consolidated subsidiary created on June 27, 2013 (see additional information below) and certain properties held at Qualified Intermediaries for potential future Section 1031 Exchanges, which have been consolidated for financial reporting purposes (see Note 2 “Basis of Presentation and Significant Accounting Policies” to our consolidated financial statements included in this report).

On June 27, 2013, the Company entered into an agreement with an unaffiliated third party and formed a new consolidated subsidiary, Redwood City Partners, LLC. In connection with this transaction, the Company acquired a 0.35 acre land site, completing the first phase of the land assemblage for its plans to develop an approximate 300,000 square foot office project (the “Crossing/900” project) in Redwood City, California. In October 2013, the Company acquired a 2.0 acre undeveloped land parcel for $17.0 million, completing the final phase of the land assemblage for the Crossing/900 project. The related assets, liabilities, and noncontrolling interest acquired in connection with this transaction are included in our consolidated financial statements as of the dates of acquisition.

We own our interests in all of our real estate assets through the Operating Partnership and the Finance Partnership. We conduct substantially all of our operations through the Operating Partnership of which we owned a 97.8% common general partnership interest as of December 31, 2013. The remaining 2.2% common limited partnership interest in the Operating Partnership as of December 31, 2013 was owned by non-affiliated investors and certain of our executive officers and directors. 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% common general partnership interest. The Operating Partnership owns the remaining 99.0% common limited partnership interest. We conduct substantially all of our development activities through Kilroy Services, LLC (“KSLLC”), which is a wholly owned subsidiary of the Operating Partnership. With the exception of the Operating Partnership, certain properties held in Section 1031 Exchanges and Redwood City Partners LLC, all of the Company’s subsidiaries are wholly owned.

Available Information; Website Disclosure; Corporate Governance Documents

Kilroy Realty Corporation was incorporated in the state of Maryland on September 13, 1996 and 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 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 annual report on Form 10-K or any other report or document we file with or furnish to 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 corporate governance are also available free of charge on our website under “Investor Relations —Corporate Governance” and available in print to any security holder upon request:

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

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

Attention: Investor Relations
Kilroy Realty Corporation

12200 West Olympic Boulevard, Suite 200
Los Angeles, California 90064

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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, geographic location, physical characteristics, and operating sustainability 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 and development management;
- our ability to capitalize on inflection points in a real estate cycle to add quality assets to our portfolio at substantial discounts to long-term value, through either acquisition, development or redevelopment;
- our strong financial position that has and will continue to allow us to pursue attractive acquisition and development and redevelopment opportunities;
- our access to development, redevelopment, acquisition, and leasing opportunities as a result of our extensive experience and significant working relationships with major West Coast property owners, corporate tenants, municipalities, and landowners given our over 65-year presence in the West Coast markets;
- our capital recycling program (see “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations —Liquidity and Capital Resources of the Operating Partnership” for additional information pertaining to the Company’s capital recycling program and related 2013 and 2014 property dispositions); and
- our active development and redevelopment program and our extensive future development pipeline of undeveloped land sites (see “Item 7: Management’s Discussion and Analysis of Financial Condition and Results of Operations —Information on Leases Commenced and Executed” for additional information pertaining to the Company’s in-process and future development pipeline).

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

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

- maximizing cash flow from our properties through active leasing, early renewals, and effective property management;
- structuring leases to maximize returns and internal growth;
- managing portfolio credit risk through effective underwriting, including the use of credit enhancements and interests in collateral to mitigate portfolio credit risk;

- managing operating expenses through the efficient use of internal management, leasing, marketing, financing, accounting, legal, and construction management functions;
- maintaining and developing long-term relationships with a diverse tenant base;
- managing our properties to offer the maximum degree of utility and operational efficiency to tenants;

- building our current development projects to Leadership in Energy and Environmental Design (“LEED”) specifications. All of our development projects are now designed to achieve LEED certification, generally LEED Platinum or Gold. Our 333 Brannan Street and 350 Mission Street buildings are the first two ground-up LEED Platinum office development projects in San Francisco;

- actively pursuing LEED certification for over 2.5 million square feet of office space under construction. During 2013, we significantly enhanced the sustainability profile of our portfolio, ending the year with 40% of our properties LEED certified and 53% ENERGY STAR certified. According to the most widely used global benchmark for sustainability performance, we now rank among the top three American office REITs in sustainable practices and properties;

- continuing to effectively manage capital improvements to enhance our properties’ competitive advantages in their respective markets and improve the efficiency of building systems;

- enhancing our management team with individuals who have extensive regional experience and are highly knowledgeable in their respective markets; 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 and development and redevelopment opportunities as the result of our extensive experience, strong financial position and ability to access capital. We continue to actively monitor our target markets and to pursue the acquisition of value add office properties and development and redevelopment opportunities that add immediate Net Operating Income to our portfolio or play a strategic role in our future growth and that:

- provide attractive 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, repositioning and leasing that should result in increased occupancy and rental revenues.

Development and Redevelopment Strategies. We and our predecessors have developed office properties primarily located in California since 1947. As of December 31, 2013, our future development pipeline was comprised of nine potential development sites, representing 120.9 gross acres of undeveloped land on which we believe we have the potential to develop between 2.7 million and 3.4 million square feet of office space, 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 modern and collaborative office buildings on the West Coast;

- reinvest capital from dispositions of selective assets into new state-of-the-market development and acquisition assets with higher cash flow and rates of return;

- evaluate redevelopment opportunities in supply-constrained markets because such efforts generally achieve similar returns to new development with reduced entitlement risk and shorter construction periods; and

- execute on our development projects under construction and our future development pipeline.

Redevelopment opportunities are those projects in which we spend significant development and construction costs on existing buildings pursuant to a formal plan, the intended result of which is a higher economic return on the property. We may engage in the additional development or redevelopment of office properties 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 on the West Coast will give us further access to development and redevelopment 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 December 31, 2013, our total debt as a percentage of total market capitalization was 33.2%, and our total debt and liquidation value of our preferred equity as a percentage of total market capitalization was 36.3%, both of which were calculated based on the quoted closing price per share of the Company's common stock of $50.18 on December 31, 2013 (see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations —Liquidity and Capital Resources of the Company —Capitalization" for additional information). Our financing strategies include:

- maintaining financial flexibility, including a low secured to unsecured debt ratio, to maximize our ability to access a variety of both public and private capital sources;
- maintaining a staggered debt maturity schedule in which the maturity dates of our debt are spread over several years to limit risk exposure at any particular point in the capital and credit market cycles;
- completing financing in advance of the need for capital; and
- managing interest rate exposure by generally maintaining a greater amount of fixed-rate debt as compared to variable-rate debt.

We utilize multiple sources of capital, including borrowings under our unsecured line of credit, proceeds from the issuance of public or private debt or equity securities and other bank and/or institutional borrowings, and dispositions of selective 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 the discussion under the caption "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations —Factors That May Influence Future Results of Operations" and "Item 1A. Risk Factors."

Significant Tenants

As of December 31, 2013, our 15 largest tenants in terms of annualized base rental revenues represented approximately 33.0% of our total annualized base rental revenues, defined as annualized monthly contractual rents from existing tenants as of December 31, 2013. Annualized base rental revenue includes the impact of straight-lining rent escalations and the amortization of free rent periods and excludes the impact of the following: amortization of deferred revenue related tenant-funded tenant improvements, amortization of above/below market rents, amortization for lease incentives due under existing leases, and expense reimbursement revenue.

For further information on our 15 largest tenants and the composition of our tenant base, see "Item 2. Properties —Significant Tenants."

Competition

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

Segment and Geographic Financial Information

As of December 31, 2013 and 2012, we had one reportable segment, our office properties segment. For information about our office property revenues and long-lived assets and other financial information, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations —Results of Operations."

As of December 31, 2013, all of our properties and development and redevelopment projects and all of our business is currently conducted in the state of California with the exception of twelve office properties located in the state of Washington. All of our properties and development and redevelopment projects are 100% owned, excluding a development project owned by Redwood City Partners, LLC, a consolidated subsidiary created on June 27, 2013 (see Note 3 "Acquisitions" to our consolidated financial statements for additional information) and certain properties held in Section 1031 Exchanges, which have been consolidated for financial reporting purposes as variable interest entities (see Note 2 "Basis of Presentation and Significant Accounting Policies" to our consolidated financial statements included in this report).

Employees

As of December 31, 2013, we employed 219 people through the Operating Partnership, KSLLC, and Kilroy Realty TRS, Inc. We believe that relations with our employees are good.

Environmental Regulations and Potential Liabilities

Government Regulation 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 or above ground storage tanks, may have caused soil or groundwater contamination. In some instances, 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 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 dividends and distributions to security holders.

Use of hazardous materials by some of our tenants. Some of our tenants handle hazardous substances and wastes on our properties as part of their routine operations. Environmental laws and regulations may subject these tenants, and potentially us, to liability resulting from such activities. We generally require our tenants in their leases to comply with these environmental laws and regulations and to indemnify us for any related liabilities. As of December 31, 2013, other than routine cleaning materials, approximately 5% of our tenants handled hazardous substances and/or wastes on less than 4% of the aggregate square footage of our properties as part of their routine operations. These tenants are primarily involved in the life sciences 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 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, transactional indemnities or holdbacks. We carry what we believe to be commercially reasonable environmental insurance. Our environmental insurance policies are subject to various terms, conditions and exclusions. Similarly, in connection with some transactions we obtain environmental indemnities and holdbacks that may not be honored by the indemnitors or may fail to address resulting liabilities adequately. Therefore, we cannot provide any assurance that our insurance coverage or transactional indemnities 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 dividends and distributions to security holders.

ITEM 1A. RISK FACTORS

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

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 United States, market and economic conditions continue to be challenging with stricter regulations and modest growth. While recent economic data reflects moderate economic growth in the United States, the cost and availability of credit may continue to be adversely affected by governmental budget and global economic factors. 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 concern over a return to 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.

All of our properties are located in California and greater Seattle, Washington and we may therefore be susceptible to adverse economic conditions and regulations, as well as natural disasters, in those areas. Because all of our properties are concentrated in California and greater Seattle we may be exposed to greater economic risks than if we owned a more geographically dispersed portfolio. Further, within California, our properties are concentrated in Los Angeles, Orange County, San Diego County, and the San Francisco Bay Area, exposing us to risks associated with those specific areas. We are susceptible to adverse developments in the economic and regulatory environments of California and greater Seattle (such as business layoffs or downsizing, industry slowdowns, relocations of businesses, increases in real estate and other taxes, costs of complying with governmental regulations or increased regulation and other factors) as well as adverse weather conditions and natural disasters that occur in those areas (such as earthquakes, wind, landslides, droughts, fires and other events). In addition, California is also regarded as more litigious and more highly regulated and taxed than many other states, which may reduce demand for office space in California.

Any adverse developments in the economy or real estate market in California and the surrounding region, or in greater Seattle or any decrease in demand for office space resulting from the California or greater Seattle regulatory or business environment could impact our ability to generate revenues sufficient to meet our operating expenses or other obligations, which would adversely impact our financial condition, results of operations, cash flows, the quoted trading price of our securities and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

Our performance and the market value of our securities 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 market value of the Company's securities, are subject to the risk that our properties may not generate revenues sufficient to meet our operating expenses or other obligations. A deficiency of this nature would adversely impact our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

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 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 space 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 illiquidity of real estate investments;
- changing submarket demographics;
- changes in space utilization by our tenants due to technology, economic conditions and business culture;
- the development of harmful mold or other airborne toxins or contaminants that could damage our properties or expose us to third-party liabilities; 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, results of operations, ability to borrow funds and cash flows. As of December 31, 2013, our 15 largest tenants represented approximately 33.0% of total annualized base rental revenues. See further discussion on the composition of our tenants by industry and our largest tenants under “Item 2. Properties —Significant Tenants.”

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), renew 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 revenues and cash flows. For the year ended December 31, 2013, we derived approximately 98.4% 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 federal bankruptcy law, 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 price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

A large percentage of our tenants operate in a concentrated group of industries and downturns in these industries could adversely affect our financial condition, results of operations and cash flows. As of December 31, 2013, as a percentage of our annualized base rental revenue, 36% of our tenants operated in the technology and media industry, 19% in the finance, insurance and real estate industries, 15% in the professional, business and other services industries, 12% in the education and health services industries and 18% in other industries. As we expand our acquisition and development activities in markets populated by knowledge and creative based tenants in the technology and media industry, our tenant mix may become more concentrated, further exposing us to risks associated with that industry. For a further discussion of the composition of our tenants by industry, see “Item 2. Properties —Significant Tenants.” An economic downturn in any of these industries, or in any industry in which a significant number of our tenants currently or may in the future operate, could negatively impact the financial condition of such tenants and cause them to fail to make timely rental payments or default on lease obligations, fail to renew their leases or renew their leases on terms less favorable to us, become bankrupt or insolvent, or otherwise become unable to satisfy their obligations to us. As a result, a downturn in an industry in which a significant number of our tenants operate could adversely affect our financial conditions, result of operations and cash flows.

We may be unable to renew leases or re-lease available space. We had office space representing approximately 6.6%, of the total square footage of our properties that was not occupied as of December 31, 2013. In addition, leases representing approximately 9.9% and 13.3% of the leased rentable square footage of our properties are scheduled to expire in 2014 and 2015, 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. We cannot provide 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 price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders could be adversely affected.

We are subject to governmental regulations that may affect the development, redevelopment, and use of our properties.

Our properties are subject to regulation under federal laws, such as the Americans with Disabilities Act of 1990 (the "ADA"), pursuant to 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 price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders could be adversely affected.

Our properties are subject to land use rules and regulations that govern our development, redevelopment, and use of our properties. Changes in the existing land use rules and regulations and approval process that restrict or delay our ability to develop, redevelop, or use our properties (such as potential restrictions on the use and/or density of new developments, water use and other uses and activities) could have an adverse effect on our financial position, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

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 our borrowings may leave us with insufficient cash resources to operate our properties or to pay in cash the 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:

- 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 price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders could be adversely affected. In addition, foreclosures could create taxable income without accompanying cash proceeds, which could require us to borrow or sell assets to raise the funds necessary to meet the REIT distribution requirements discussed below, even if such actions are not on favorable terms. As of December 31, 2013, we had approximately $2.2 billion aggregate principal amount of indebtedness, of which $265.3 million is contractually due prior to December 31, 2014. Our total debt and preferred equity at December 31, 2013 represented 36.3% 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 the Operating Partnership's common units of limited partnership interest, or common units). For calculation of our market capitalization and additional information on debt maturities, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations —Liquidity and Capital Resources of the Company —Capitalization" and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations —Liquidity and Capital Resources of the Operating Partnership —Liquidity Uses."

The covenants in the Operating Partnership's revolving credit facility and term loan facility may limit our ability to make distributions to the holders of our common stock. The Operating Partnership's $500 million unsecured revolving credit facility and $150.0 million unsecured term loan facility contain financial covenants that could limit the amount of distributions we may pay on our common stock and preferred stock. We rely on cash distributions we receive from the Operating Partnership to pay distributions on our common stock and preferred stock and to satisfy our other cash needs, and the revolving credit facility and term loan facility provide that the Operating Partnership may not, in any year, make partnership distributions to us or other holders of its partnership interests in an aggregate amount in excess of the greater of:

- 95% of the Operating Partnership's consolidated funds from operations (as defined in each of the revolving credit facility and term loan agreements) for such year; and

- an amount which results in distributions to us (excluding any preferred partnership distributions to the extent the same have been deducted from consolidated funds from operations (as so defined) for such year) in an amount sufficient to permit us to pay dividends to our stockholders that we reasonably believe are necessary to (a) maintain our qualification as a REIT for federal and state income tax purposes and (b) avoid the payment of federal or state income or excise tax.

In addition, the revolving credit facility and term loan facility provide that, if the Operating Partnership fails to pay any principal of or interest on any borrowings under the revolving credit facility or term loan facility, respectively, when due, then the Operating Partnership may make only those partnership distributions to us and other holders of its partnership interests necessary to enable us to make distributions to our stockholders that we reasonably believe are necessary to maintain our status as a REIT for federal and state income tax purposes. Any limitation on our ability to make distributions to our stockholders, whether as a result of these provisions in the revolving credit facility, the term loan facility or otherwise, could have a material adverse effect on the market value of our common stock.

A downgrade in our credit ratings could materially adversely affect our business and financial condition. The credit ratings assigned to the Operating Partnership's debt securities and our preferred stock 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 do not apply to our common stock and are not recommendations to buy, sell or hold our common stock or any other securities. If any of the credit rating agencies that have rated the Operating Partnership's debt securities or our preferred stock downgrades or lowers its credit rating, or if any 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 our costs and availability of capital, which could in turn 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 and to pay dividends and distributions to our security holders.

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, undeveloped land 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 price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders may be adversely affected.

In order to maintain the quality of our properties and successfully compete against other properties, we must periodically spend money to maintain, repair, and renovate our properties, which reduces our cash flows. If our properties are not as attractive to current and prospective tenants in terms of rent, services, condition, or location as properties owned by our competitors, we could lose tenants or suffer lower rental rates. As a result, we may from time to time be required to make significant capital expenditures to maintain the competitiveness of our properties. There can be no assurances that any such expenditure would result in higher occupancy or higher rental rates, or deter existing tenants from relocating to properties owned by our competitors.

Potential casualty losses, such as earthquake losses, may not be covered by insurance and payment of such losses may adversely affect our financial condition, results of operations and cash flows. 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. In addition, all of our properties are located in earthquake-prone areas. 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. We may also 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. Further, 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 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, acquirer 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 our 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 our properties. Although we believe that the prior owners of the affected properties or other persons may have conducted remediation of known contamination at these properties, not all such contamination has been remediated. Unknown or unremediated 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. See “Item 1. Business —Environmental Regulations and Potential Liabilities.”

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

- 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 and private REITs, institutional investment funds and other real estate investors;
- even if we are able to acquire a desired property, competition from other real estate investors may significantly increase the purchase price;

- even if we enter into agreements for the acquisition of a desired property, we may be unable to complete such acquisitions because 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 or at all;
- we may spend more than budgeted amounts in operating costs or to make necessary improvements or renovations to acquired properties;
- we may lease acquired properties at economic lease terms different than projected;
- 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 price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders 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 projected economic lease terms 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 resulting from 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 price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

While we historically have acquired, developed, and redeveloped office properties in California markets, over the past few years we have acquired twelve properties in greater Seattle and 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 mixed-use, office, or with certain outside markets, which could adversely affect our ability to acquire, develop or redevelop properties or to achieve expected performance.

Joint venture investments could be adversely affected by our lack of sole decision-making authority, our reliance on co-venturers' financial condition, and disputes between us and our co-venturers and could expose us to potential liabilities and losses.

As described more fully in Note 3 "Acquisitions" to our consolidated financial statements included in this report, on June 27, 2013, we entered into an agreement with an unaffiliated third party and formed a new consolidated subsidiary, Redwood City Partners, LLC, to ultimately develop and operate a new office complex in Redwood City, California. We are the managing member and expect to eventually own 93% of Redwood City Partners, LLC. In addition to this venture, we may continue to co-invest in the future with third parties through partnerships, joint ventures or other entities, or through acquiring non-controlling interests in, or sharing responsibility for, managing the affairs of a property, partnership, joint venture or other entity, which may subject us to risks that may not be present with other methods of ownership, including the following:

- we would not be able to exercise sole decision-making authority regarding the property, partnership, joint venture or other entity, which would allow for impasses on decisions that could restrict our ability to sell or transfer our interests in such entity or such entity's ability to transfer or sell its assets;

- partners or co-venturers might become bankrupt or fail to fund their share of required capital contributions, which could delay construction or development of a property or increase our financial commitment to the partnership or joint venture;

- partners or co-venturers may pursue economic or other business interests, policies or objectives that are competitive or inconsistent with ours;

- if we become a limited partner or non-managing member in any partnership or limited liability company, and such entity takes or expects to take actions that could jeopardize our status as a REIT or require us to pay tax, we may be forced to dispose of our interest in such entity;

- disputes between us and partners or co-venturers may result in litigation or arbitration that would increase our expenses and prevent our officers and/or directors from focusing their time and effort on our business; and

- we may, in certain circumstances, be liable for the actions of our third-party partners or co-venturers.

We own certain properties subject to ground leases and other restrictive agreements that limit our uses of the properties, restrict our ability to sell or otherwise transfer the properties and expose us to the loss of the properties if such agreements are breached by us, terminated or not renewed. As of December 31, 2013, we owned eleven office buildings, located on various land parcels and regions, which we lease individually on a long-term basis. As of December 31, 2013, we had approximately 1.9 million aggregate rentable square feet, or 14.6% of our total stabilized portfolio, of rental space located on these leased parcels and we may in the future invest in additional properties that are subject to ground leases or other similar restrictive arrangements. Many of these ground leases and other restrictive agreements impose significant limitations on our uses of the subject property, restrict our ability to sell or otherwise transfer our interests in the property or restrict our leasing of the property. These restrictions may limit our ability to timely sell or exchange the properties, impair the properties' value or negatively impact our ability to find suitable tenants for the properties. In addition, 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 price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

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 price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

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

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

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

We face risks associated with short-term liquid investments. From time to time, we have significant cash balances that we invest in a variety of short-term investments that are intended to preserve principal value and maintain a high degree of liquidity while providing current income. These investments may include (either directly or indirectly):

- direct obligations issued by the U.S. Treasury;
- obligations issued or guaranteed by the U.S. government or its agencies;
- taxable municipal securities;
- obligations (including certificates of deposits) of banks and thrifts;
- commercial paper and other instruments consisting of short-term U.S dollar denominated obligations issued by corporations and banks;
- repurchase agreements collateralized by corporate and asset-backed obligations;
- both registered and unregistered money market funds; and
- other highly rated short-term securities.

Investments in these securities and funds are not insured against loss of principal. Under certain circumstances we may be required to redeem all or part of our right to redeem some or all of our investment may be delayed or suspended. In addition, there is no guarantee that our investments in these securities or funds will be redeemable at par value. A decline in the value of our investment or a delay or suspension of our right to redeem may have a material adverse effect on our results of operations or financial condition.

Future terrorist activity or engagement in war by the United States may have an adverse effect on our financial condition and operating results. Terrorist attacks in the United States 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 United States 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 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.

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") will subject us to substantial additional federal regulation. There are significant corporate governance and executive compensation-related requirements that have been, and will in the future be, imposed on publicly-traded companies under the Dodd-Frank Act. Several of these provisions require the SEC to adopt additional rules and regulations in these areas. For example, the Dodd-Frank Act requires publicly-traded companies to give stockholders a non-binding vote on executive compensation and so-called "golden parachute" payments, heightens certain independence standards for compensation advisers and authorizes the SEC to promulgate rules that would allow stockholders to nominate their own candidates for board seats using a registrant's proxy materials. Our efforts to comply with these requirements have resulted in, and are likely to continue to result in, an increase in expenses and a diversion of management's time from other business activities. In addition, if stockholders do not vote to approve our executive compensation practices and/or our equity plan amendments, these actions may interfere with our ability to attract and retain key personnel who are essential to our future success. Given the uncertainty associated with both the results of the existing Dodd-Frank Act requirements and the manner in which additional provisions of the Dodd-Frank Act will be implemented by various regulatory agencies and through regulations, the full extent of the impact of such requirements on our operations is unclear. Accordingly, the changes resulting from the Dodd-Frank Act may impact the profitability of business activities, require changes to certain business practices, or otherwise adversely affect our financial condition, results of operations, cash flows, the quoted trading price of our securities and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

Our property taxes could increase due to reassessment or property tax rate changes. We are required to pay some state and local taxes on our properties. In addition, the real property taxes on our properties may increase as our properties are reassessed by taxing authorities or as property tax rates change. For example, under a current California law commonly referred to as "Proposition 13," property tax reassessment generally occurs as a result of a "change in ownership" of a property, as specially defined for purposes of those rules. Because the property taxing authorities may not determine whether there has been a "change in ownership" or the actual reassessed value of a property for a period of time after a transaction has occurred, we may not know the impact of a potential reassessment for a considerable amount of time following a particular transaction. Therefore, the amount of property taxes we are required to pay could increase substantially from the property taxes we currently pay or have paid in the past, including on a retroactive basis. In addition, from time to time voters and lawmakers have announced initiatives to repeal or amend Proposition 13 to eliminate its application to commercial and industrial property and/or introduce split tax roll legislation. Such initiatives, if successful, would increase the assessed value and/or tax rates applicable to commercial property in California, including our office properties. An increase in the assessed value of our properties or our property tax rates could adversely impact our financial condition, results of operations, cash flows, the quoted trading price of our securities and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

Unfavorable resolution of litigation matters and disputes could have a material adverse effect on our financial condition. From time to time, we are involved in legal proceedings, lawsuits and other claims. We may also be named as defendants in lawsuits allegedly arising out of our actions or the actions of our operators and tenants in which such operators and tenants have agreed to indemnify, defend and hold us harmless from and against various claims, litigation and liabilities arising in connection with their respective businesses. An unfavorable resolution of litigation could have an 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 our ability to pay dividends and distributions to our security holders. Regardless of its outcome, litigation may result in substantial costs and expenses and significantly divert the attention of our management. There can be no assurance that we will be able to prevail in, or achieve a favorable settlement of, litigation. In addition, litigation, government proceedings or environmental matters could lead to increased costs or interruption of our normal business operations.

Our business could be adversely impacted if there are deficiencies in our disclosure controls and procedures or internal control over financial reporting. The design and effectiveness of our disclosure controls and procedures and internal control over financial reporting may not prevent all errors, misstatements or misrepresentations. While management will continue to review the effectiveness of our disclosure controls and procedures and internal control over financial reporting, there can be no guarantee that our internal control over financial reporting will be effective in accomplishing all control objectives all of the time. Deficiencies, including any material weakness, in our internal control over financial reporting that may occur in the future could result in misstatements of our results of operations, restatements of our financial statements, or otherwise adversely impact our financial condition, results of operations, cash flows, the quoted trading price of our securities and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

We face risks associated with security breaches through cyber attacks, cyber intrusions or otherwise, as well as other significant disruptions of our information technology (IT) networks and related systems. We face risks associated with security breaches, whether through cyber attacks or cyber intrusions over the Internet, malware, computer viruses, attachments to e-mails, persons inside our organization or persons with access to systems inside our organization, and other significant disruptions of our IT networks and related systems. The risk of a security breach or disruption, particularly through cyber attack or cyber intrusion, including by computer hackers, foreign governments and cyber terrorists, has generally increased as the number, intensity and sophistication of attempted attacks and intrusions from around the world have increased. Our IT networks and related systems are essential to the operation of our business and our ability to perform day-to-day operations (including managing our building systems), and, in some cases, may be critical to the operations of certain of our tenants. There can be no assurance that our efforts to maintain the security and integrity of these types of IT networks and related systems will be effective or that attempted security breaches or disruptions would not be successful or damaging. A security breach or other significant disruption involving our IT networks and related systems could adversely impact our financial condition, results of operations, cash flows, the quoted trading price of our securities and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

Risks Related to Our Organizational Structure

Loss of our key personnel could harm our operations and financial performance and adversely affect the quoted trading price of our securities The leadership and performance of our executive and senior officers, particularly John B. Kilroy, Jr., President and Chief Executive Officer, Jeffrey C. Hawken, Executive Vice President and Chief Operating Officer, Eli Khouri, Executive Vice President and Chief Investment Officer, Tyler H. Rose, Executive Vice President and Chief Financial Officer, and Justin W. Smart, Executive Vice President, Development and Construction Services, play a key role in the success of the Company. They are integral to the Company's success for many reasons, including that each has a strong national or regional reputation in our industry and investment community. In addition, they have significant relationships with investors, lenders, tenants and industry personnel, which benefit the Company. Our ability to retain and motivate these individuals will depend on various factors, including our ability to provide them competitive share-based incentive compensation, which may be adversely impacted by our inability to grant share-settled awards under our 2006 Incentive Award Plan. See Note 12 "Share-Based Compensation" to our consolidated financial statements included in this report for more information regarding the number of shares that remain available to grant under our 2006 Incentive Award Plan. The loss or limited availability of the services of our key personnel could materially and adversely affect our business, financial condition, and results of operations and could be negatively perceived in the capital markets.

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 (subject to certain adjustments and excluding any net capital gain), and the Operating Partnership is required to make distributions to the Company to allow the Company to satisfy these REIT distribution requirements. 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 trading price of our securities. If we cannot obtain capital from third-party sources, our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders may be adversely affected.

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

In certain circumstances, our limited partners must approve our dissolution and the disposition of properties contributed by the limited partners. For as long as limited partners own at least 5% of all of the Operating Partnership's partnership interests, we must obtain the approval of limited partners holding a majority of the units representing common limited partnership interests before we may dissolve. As of December 31, 2013, limited partners owned approximately 2.2% of the Operating Partnership's partnership interests, of which 0.9% was owned by John B. Kilroy, Jr. In addition, we agreed to use commercially reasonable efforts to minimize the tax consequences to common limited partners resulting from the repayment, refinancing, replacement, or restructuring of debt, or any sale, exchange, or other disposition of any of our other assets. The exercise of one or more of these approval rights by the limited partners could delay or prevent us from completing a transaction that may be in the best interest of all our security holders.

The Chairman of our board of directors and our President and Chief Executive Officer has substantial influence over our affairs. John B. Kilroy, Jr. is the Chairman of our board of directors and our President and Chief Executive Officer. John B. Kilroy, Jr. beneficially owned, as of December 31, 2013, approximately 2.1% of the total outstanding shares of our common stock. The percentage of outstanding shares of common stock beneficially owned includes 137,334 shares of common stock, 424,680 restricted stock units that were vested and held by John B. Kilroy, Jr. at December 31, 2013, and assumes the exchange into shares of our common stock of the 782,059 common units of the Operating Partnership held by John B. Kilroy, Jr. (which may be exchanged for an equal number of shares of our common stock).

Pursuant to the Company's charter, no stockholder may own, actually or constructively, more than 7.0% (by value or by number of shares, whichever is more restrictive) of our outstanding common stock without obtaining a waiver from the board of directors. The board of directors has waived the ownership limits with respect to John B. Kilroy, Jr., members of his family 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 our common stock, excluding Operating Partnership units that are exchangeable into shares of our common stock. Consequently, John B. Kilroy Jr., has substantial influence over the Company, and because the Company is the manager of the Operating Partnership, over the Operating Partnership, and could exercise his influence in a manner that is not in the best interest of our stockholders, noteholders or unitholders. Also, John B. Kilroy Jr., may, in the future, have a substantial influence over the outcome of any matters submitted to our stockholders or unitholders for approval.

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

In order for the Company to qualify as a REIT under the Code, its stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months (other than the first year for which an election to be a REIT has been made) or during a proportionate part of a shorter taxable year. Also, not more than 50% of the value of the outstanding shares of the Company's stock may be owned, actually or constructively, by five or fewer individuals (as defined in the Code to include certain entities) during the last half of a taxable year (other than the first year for which an election to be a REIT has been made). The Company's charter contains restrictions on the ownership and transfer of its capital stock that are intended to assist the Company in complying with these requirements and continuing to qualify as a REIT. No single stockholder may own, either actually or constructively, absent a waiver from the board of directors, more than 7.0% (by value or by number of shares, whichever is more restrictive) of the Company's outstanding common stock. Similarly, absent a waiver from the board of directors, no single holder of the Company's 6.875% Series G Cumulative Redeemable Preferred stock (the "Series G Preferred Stock") may actually or constructively own more than 9.8% (by value or by number of shares, whichever is more restrictive) of the Company's Series G Preferred Stock; and no single holder of the Company's 6.375% Series H Cumulative Redeemable Preferred stock (the "Series H Preferred Stock") may actually or constructively own more than 9.8% (by value or by number of shares, whichever is more restrictive) of the Company's Series H Preferred Stock.

The constructive ownership rules under the Code are complex and may cause stock owned actually or constructively by a group of related individuals and/or entities to be owned constructively by one individual or entity. As a result, the acquisition of less than the applicable ownership limit of a particular class of the Company's capital stock could, nevertheless, cause that individual or entity, or another individual or entity, to constructively own stock in excess of, and thereby subject such stock to, the applicable ownership limit.

The board of directors may waive the ownership limits if it is satisfied that the excess ownership would not jeopardize the Company's REIT status and if it believes that the waiver would be in our best interest. The board of directors has waived the ownership limits with respect to John B. Kilroy, Jr., members of his family and some of their affiliated entities. These named individuals and entities may own either actually or constructively, in the aggregate, up to 19.6% of our outstanding common stock, excluding common units that are exchangeable into shares of common stock. The board of directors has also waived the ownership limits with respect to the initial purchasers of the 4.25% Exchangeable Senior Notes due 2014 (the "4.25% Exchangeable Notes") and certain of their affiliated entities to beneficially own up to 9.8%, in the aggregate, of the Company's common stock in connection with hedging the capped call transactions.

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

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

- the Company's charter authorizes the board of directors to issue up to 30,000,000 shares of the Company's preferred stock, including convertible preferred stock, without stockholder approval. The board of directors may establish the preferences, rights, and other terms, including the right to vote and the right to convert into common stock any shares issued. The issuance of preferred stock could delay or prevent a tender offer or a change of control even if a tender offer or a change of control was in our security holder's interest. As of December 31, 2013, 8,000,000 shares of the Company's preferred stock were issued and outstanding, consisting of 4,000,000 shares of the Company's Series G Preferred Stock and 4,000,000 shares of the Company's Series H Preferred Stock; and

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

The board of directors may change investment and financing policies without stockholder or unitholder approval. Our board of directors determines our major policies, including policies and guidelines relating to our acquisition, development, and redevelopment activities, leverage, financing, growth, operations and distributions to our security holders. Our board of directors may amend or revise these and other policies and guidelines from time to time without stockholder or unitholder approval. Accordingly, our stockholders and unitholders will have limited control over changes in our policies and those changes could adversely impact our financial condition, results of operations, cash flows, the quoted trading price of our securities, and our ability to satisfy our debt service obligations and to pay dividends and distributions to our security holders.

We are not limited in our ability to incur debt. 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 December 31, 2013, we had approximately $2.2 billion aggregate principal amount of indebtedness outstanding, which represented 33.2% 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 36.3% as of December 31, 2013. See “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Liquidity and Capital Resources of the Company —Capitalization” for a calculation of our market capitalization. These ratios may be increased or decreased without the consent of our unitholders or stockholders. Increases in the amount of debt outstanding would result in an increase in our debt service, which could adversely affect cash flow and our ability to pay dividends and distributions to our security holders. Higher leverage also increases the risk of default on our obligations and limits our ability to obtain additional financing in the future.

We may issue additional common units and shares of capital stock without unitholder or stockholder approval, as applicable, which may dilute unitholder or stockholder investment. The Company may issue shares of our common stock, preferred stock, or other equity or debt securities without stockholder approval, including the issuance of shares to satisfy REIT dividend distribution requirements. Similarly, the Operating Partnership may offer its common or preferred units for contributions of cash or property without approval by our stockholders or the Operating Partnership’s unitholders. Further, under certain circumstances, the Company may issue shares of our common stock in exchange for the Operating Partnership’s outstanding 4.25% Exchangeable Notes. Existing security holders have no preemptive rights to acquire any of these securities, and any issuance of equity securities under these circumstances may dilute a unitholder’s or stockholder’s investment.

The market price of our common stock may be adversely affected by future offerings of debt and equity securities by us or the Operating Partnership. In the future, we may increase our capital resources by offering our debt securities and/or preferred stock, the Operating Partnership’s debt securities and/or equity securities and our or the Operating Partnership’s other borrowings. Upon our liquidation, dissolution or winding-up, holders of such debt securities, our preferred stock and Operating Partnership’s equity securities, and lenders with respect to other borrowings by us and the Operating Partnership, will be entitled to receive distributions of our available assets prior to the holders of our common stock and it is possible that, after making distributions on these other securities and borrowings, no assets would be available for distribution to holders of our common stock. In addition, the Operating Partnership’s debt and equity securities and borrowings are structurally senior to our common stock, our debt securities and borrowings are senior in right of payment to our common stock, and our outstanding preferred stock has and any preferred stock we may issue in the future may have a preference over our common stock, and all payments (including dividends, principal and interest) and liquidating distributions on such securities and borrowings could limit our ability to pay dividends or make other distributions to the holders of our common stock. Because any decision to issue securities and make borrowings in the future will depend on market conditions and other factors, some of which may be beyond our control, we cannot predict or estimate the amount, timing or nature of our or the Operating Partnership’s future offerings or borrowings. Such future offerings or borrowings may reduce the market price of our common stock.

Sales of a substantial number of shares of the Company’s securities, or the perception that this could occur, could result in decreasing the quoted trading price per share of the Company’s common stock and of the Operating Partnership’s publicly-traded notes. Management cannot predict whether future issuances of shares of the Company’s common stock or the availability of shares for resale in the open market will result in decreasing the market price per share of the Company’s common stock. As of December 31, 2013, 82,153,944 shares of the Company’s common stock and 8,000,000 shares of the Company’s preferred stock, consisting of 4,000,000 shares of Series G Preferred Stock and 4,000,000 shares of Series H Preferred Stock, were issued and outstanding.

As of December 31, 2013, the Company had reserved for future issuance the following shares of common stock: 1,805,200 shares issuable upon the exchange, at the Company's option, of the Operating Partnership's common units; 7,414 shares remained available for grant under our 2006 Incentive Award Plan (see Note 12 "Shared-Based Compensation" to our consolidated financial statements included in this report); 1,158,407 shares issuable upon settlement of nonvested restricted stock units ("RSUs"); 143,022 shares contingently issuable upon settlement of RSUs subject to performance conditions; and 1,525,000 shares issuable upon exercise of outstanding options, as well as 5,640,939 shares potentially issuable under certain circumstances, in exchange for the 4.25% Exchangeable Notes. The Company has a currently effective registration statement registering 1,821,503 shares of our common stock for possible issuance to the holders of the Operating Partnership's common units. That registration statement also registers 141,634 shares of common stock held by certain stockholders for possible resale. The Company also has a currently effective registration statement registering the 5,640,939 shares of our common stock that may potentially be issued in exchange for the Operating Partnership's presently outstanding 4.25% Exchangeable Notes. Consequently, if and when the shares are issued, they may be freely traded in the public markets.

Risks Related to Taxes and the Company's Status as a REIT

Loss of the Company's REIT status would have significant adverse consequences to us and the value of the Company's common stock. The Company currently operates in a manner that is intended to allow it to qualify as a REIT for federal income tax purposes under the Code. If the Company were to lose its REIT status, the Company would face adverse tax consequences that would substantially reduce the funds available for distribution to its stockholders for each of the years involved because:

- the Company would not be allowed a deduction for dividends paid to its stockholders in computing the Company's taxable income and would be subject to federal income tax at regular corporate rates;

- the Company could be subject to the federal alternative minimum tax and possibly increased state and local taxes; and

- unless entitled to relief under statutory provisions, the Company could not elect to be taxed as a REIT for four taxable years following the year during which the Company was disqualified.

In addition, if the Company failed to qualify as a REIT, it would not be required to make distributions to its stockholders. As a result of all these factors, the Company's failure to qualify as a REIT also could impair our ability to expand our business and raise capital and could adversely affect the value and quoted trading price of the Company's common stock.

Qualification as a REIT involves the application of highly technical and complex Code provisions for which there are only limited judicial and administrative interpretations. The complexity of these provisions and of the applicable Treasury regulations that have been promulgated under the Code is greater in the case of a REIT that, like the Company, holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within our control may affect the Company's ability to continue to qualify as a REIT. For example, to qualify as a REIT, at least 95% of the Company's gross income in any year must be derived from qualifying sources. Also, the Company must make distributions to its stockholders aggregating annually at least 90% of the Company's net taxable income (excluding any net capital gains). In addition, legislation, new regulations, administrative interpretations, or court decisions may adversely affect the Company's security holders or the Company's ability to qualify as a REIT for federal income tax purposes or the desirability of an investment in a REIT relative to other investments. Although management believes that we are organized and operate in a manner to permit the Company to continue to qualify as a REIT, we cannot provide assurances that the Company has qualified or will continue to qualify as a REIT for tax purposes. We have not requested and do not plan to request a ruling from the Internal Revenue Service ("IRS") regarding the Company's qualification as a REIT.

To maintain the Company's REIT status, we may be forced to borrow funds during unfavorable market conditions. To qualify as a REIT, the Company generally must distribute to its stockholders at least 90% of the Company's net taxable income each year (excluding any net capital gains), and the Company will be subject to regular corporate income taxes to the extent that it distributes less than 100% of its net taxable income each year. In addition, the Company will be subject to a 4% nondeductible excise tax on the amount, if any, by which distributions it pays in any calendar year are less than the sum of 85% of its ordinary income, 95% of its net capital gains, and 100% of its undistributed income from prior years. To maintain the Company's REIT status and avoid the payment of federal income and excise taxes, the Operating Partnership may need to borrow funds and distribute or loan the proceeds to the Company so it can meet the REIT distribution requirements even if the then-prevailing market conditions are not favorable for these borrowings. These borrowing needs could result from differences in timing between the actual receipt of income and inclusion of income for federal income tax purposes, or the effect of nondeductible capital expenditures, the creation of reserves, or required debt or amortization payments.

If a transaction intended to qualify as a Section 1031 Exchange is later determined to be taxable, we may face adverse consequences, and if the laws applicable to such transactions are amended or repealed, we may not be able to dispose of properties on a tax deferred basis. From time to time we dispose of properties in transactions that are intended to qualify as Section 1031 Exchanges. It is possible that the qualification of a transaction as a Section 1031 Exchange could be successfully challenged and determined to be currently taxable. In such case, our taxable income and earnings and profits would increase. This could increase the dividend income to our stockholders by reducing any return of capital they received. In some circumstances, we may be required to pay additional dividends or, in lieu of that, corporate income tax, possibly including interest and penalties. As a result, we may be required to borrow funds in order to pay additional dividends or taxes, and the payment of such taxes could cause us to have less cash available to distribute to our stockholders. In addition, if a Section 1031 Exchange were later to be determined to be taxable, we may be required to amend our tax returns for the applicable year in question, including any information reports we sent our stockholders. Moreover, it is possible that legislation could be enacted that could modify or repeal the laws with respect to Section 1031 Exchanges, which could make it more difficult or not possible for us to dispose of properties on a tax deferred basis.

Dividends payable by REITs, including us, generally do not qualify for the reduced tax rates available for some dividends. "Qualified dividends" payable to U.S. stockholders that are individuals, trusts and estates generally are subject to tax at preferential rates. Subject to limited exceptions, dividends payable by REITs are not eligible for these reduced rates and are taxable at ordinary income tax rates. The more favorable rates applicable to regular corporate qualified dividends could cause investors who are individuals, trusts and estates to perceive investments in REITs to be relatively less attractive than investments in the stocks of non-REIT corporations that pay dividends, which could adversely affect the value of the shares of REITs, including the shares of our capital stock.

The tax imposed on REITs engaging in "prohibited transactions" may limit our ability to engage in transactions which would be treated as sales for federal income tax purposes. A REIT's net income from prohibited transactions is subject to a 100% penalty tax. In general, prohibited transactions are sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of business. Although we do not intend to hold any properties that would be characterized as held for sale to customers in the ordinary course of our business, unless a sale or disposition qualifies under certain statutory safe harbors, such characterization is a factual determination and no guarantee can be given that the IRS would agree with our characterization of our properties or that we will always be able to make use of the available safe harbors.

Complying with REIT requirements may cause us to forego otherwise attractive opportunities or liquidate otherwise attractive investments. To qualify as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources of our income, the nature and diversification of our assets, the amounts we distribute to our stockholders and the ownership of our capital stock. If we fail to comply with one or more of the asset tests at the end of any calendar quarter, we must correct the failure within 30 days after the end of the calendar quarter or qualify for certain statutory relief provisions to avoid losing our REIT qualification and suffering adverse tax consequences. In order to meet these tests, we may be required to forego investments we might otherwise make or to liquidate otherwise attractive investments. Thus, compliance with the REIT requirements may hinder our performance and reduce amounts available for distribution to our stockholders.

Legislative or regulatory action could adversely affect us. In recent years, numerous legislative, judicial and administrative changes have been made to the federal income tax laws applicable to investments in REITs and similar entities. Additional changes to tax laws are likely to continue to occur in the future, and any such changes may adversely impact our ability to qualify as a REIT, our tax treatment as a REIT, our ability to comply with contractual obligations or the tax treatment of our stockholders and limited partners.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

General

Our stabilized portfolio of operating properties was comprised of the following office properties at December 31, 2013:

	Number of Buildings	Rentable Square Feet	Number of Tenants	Percentage Occupied	
Stabilized Office Properties (1)	105	12,736,099	514	93.4	%

(1) Excludes 12 properties located in San Diego, California that were held for sale at December 31, 2013 (see Note 17 "Discontinued Operations" to our consolidated financial statements included in this report). The sale of these properties closed on January 9, 2014 (see Note 23 "Subsequent Events" to our consolidated financial statements included in this report for further details).

Our stabilized portfolio includes all of our properties with the exception of properties held for sale, undeveloped land, development and redevelopment properties currently under construction or committed for construction, and "lease-up" properties. We define redevelopment properties as those properties for which we expect to spend significant development and construction costs on the existing or acquired buildings pursuant to a formal plan, the intended result of which is a higher economic return on the property. We define "lease-up" properties as properties we recently developed or redeveloped that have not yet reached 95% occupancy and are within one year following cessation of major construction activities. During the fourth quarter of 2013, we completed one development property in San Francisco, California and stabilized a redevelopment property in Long Beach, California. As a result, these properties are included in our stabilized portfolio as of December 31, 2013.

As of December 31, 2013, the following properties were excluded from our stabilized portfolio:

	Number of Properties	Estimated Rentable Square Feet
Properties Held for Sale (1)	12	1,049,035
Development properties under construction (2)	6	2,538,000
Lease-up properties	1	410,000

(1) Includes 12 properties located in San Diego, California. The sale of these properties closed on January 9, 2014 (see Note 23 "Subsequent Events" to our consolidated financial statements included in this report for further details).
(2) Estimated rentable square feet upon completion.

As of December 31, 2013, all of our properties and development and redevelopment projects and all of our business is currently conducted in the state of California with the exception of twelve office properties located in the state of Washington. All of our properties and development and redevelopment projects are 100% owned, excluding a development project owned by Redwood City Partners, LLC, a consolidated subsidiary created on June 27, 2013 (see Note 3 "Acquisitions" to our consolidated financial statements for additional information) and certain properties held in Section 1031 Exchanges, which have been consolidated for financial reporting purposes (see Note 2 "Basis of Presentation and Significant Accounting Policies" to our consolidated financial statements included in this report).

We own all of our properties through the Operating Partnership and the Finance Partnership. All our properties are held in fee, except for the eleven office buildings that are held subject to long-term ground leases for the land (see Note 15 "Commitments and Contingencies" to our consolidated financial statements included in this report for additional information regarding our ground lease obligations).

In general, the office properties are leased to tenants on a full service gross, modified gross or triple net basis. Under a full service gross lease, we are 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. In addition, some office properties, primarily in the greater Seattle region, are leased to tenants on a triple net basis, pursuant to which the tenants pay their proportionate share of real estate taxes, operating costs, and utility costs.

We believe that all of our properties are well maintained and do not require significant capital improvements. As of December 31, 2013, we managed all of our properties through internal property managers.

Office Properties

The following table sets forth certain information relating to each of the stabilized office properties owned as of December 31, 2013.

Property Location		No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/2013 (1)		Annualized Base Rent($000's) (2)	Annualized Rent Per Square Foot (2)
Los Angeles and Ventura Counties								
23925 Park Sorrento, Calabasas, California		1	2001	11,789	100.0	%	$ 421	$ 35.72
23975 Park Sorrento, Calabasas, California		1	2002	104,797	93.5	%	3,398	35.65
24025 Park Sorrento, Calabasas, California		1	2000	108,670	99.8	%	3,493	32.22
2829 Townsgate Road, Thousand Oaks, California		1	1990	81,067	93.6	%	2,064	27.74
2240 E. Imperial Highway, El Segundo, California	(7)	1	1983/2008	122,870	100.0	%	4,435	36.09
2250 E. Imperial Highway, El Segundo, California		1	1983	298,728	100.0	%	10,362	34.83
2260 E. Imperial Highway, El Segundo, California		1	1983/2012	298,728	100.0	%	10,404	34.83
909 Sepulveda Blvd., El Segundo, California		1	1972/2005	241,607	98.6	%	6,354	26.98
999 Sepulveda Blvd., El Segundo, California		1	1962/2003	128,592	96.6	%	2,924	24.35
6255 W. Sunset Blvd, Los Angeles, California		1	1971/1999	321,883	82.5	%	8,646	35.04
3750 Kilroy Airport Way, Long Beach, California		1	1989	10,457	86.1	%	109	19.95
3760 Kilroy Airport Way, Long Beach, California		1	1989	165,278	98.2	%	4,680	28.83
3780 Kilroy Airport Way, Long Beach, California		1	1989	219,745	92.2	%	5,580	28.10
3800 Kilroy Airport Way, Long Beach, California	(3)	1	2000	192,476	98.5	%	5,847	32.12
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	1987/2013	98,243	100.0	%	2,811	28.62
3900 Kilroy Airport Way, Long Beach, California		1	1987	126,840	95.0	%	2,903	24.14
12100 W. Olympic Blvd., Los Angeles, California		1	2003	150,167	94.4	%	5,488	38.71

12200 W. Olympic Blvd., Los Angeles, California		1	2000	150,302	95.3 %	4,211	39.88
12233 W. Olympic Blvd., Los Angeles, California	(8)	1	1980/2011	151,029	96.4 %	2,534	36.59
12312 W. Olympic Blvd, Los Angeles, California		1	1950/1997	78,000	— %	—	—
1633 26th Street, Santa Monica, California		1	1972/1997	44,915	100.0 %	1,271	28.30
2100/2110 Colorado Avenue, Santa Monica, California		3	1992/2009	102,864	100.0 %	4,357	42.36
3130 Wilshire Blvd., Santa Monica, California		1	1969/1998	88,339	97.6 %	2,766	32.08
501 Santa Monica Blvd., Santa Monica, California		1	1974	73,115	84.3 %	2,580	41.85
Subtotal/Weighted Average – Los Angeles and Ventura Counties		27		3,506,527	93.7 %	$ 102,553	$32.80

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Property Location		No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/2013 (1)		Annualized Base Rent($000's) (2)	Annualized Rent Per Square Foot (2)
Orange County								
2211 Michelson, Irvine, California		1	2007	271,556	94.1	%	$ 9,399	$ 37.25
111 Pacifica, Irvine Spectrum, California		1	1991	67,496	76.9	%	1,164	22.44
999 Town & Country, Orange, California	(4)	1	1977/2009	98,551	100.0	%	2,919	29.62
Subtotal/Weighted Average – Orange County		3		437,603	92.8	%	$ 13,482	$ 33.47
San Diego County								
12225 El Camino Real, Del Mar, California	(4)	1	1998	58,401	100.0	%	$ 1,965	$ 33.64
12235 El Camino Real, Del Mar, California	(4)	1	1998	54,673	95.0	%	1,881	36.22
12340 El Camino Real, Del Mar, California	(4)	1	2002	87,405	86.9	%	3,293	43.37
12390 El Camino Real, Del Mar, California	(4)	1	2000	72,332	100.0	%	3,069	42.44
12348 High Bluff Drive, Del Mar, California	(4)	1	1999	38,710	41.7	%	601	37.28
12400 High Bluff Drive, Del Mar, California	(4)	1	2004	208,464	100.0	%	9,896	47.47
3579 Valley Centre Drive, Del Mar, California	(4)	1	1999	51,167	92.7	%	1,782	37.59
3611 Valley Centre Drive, Del Mar, California	(4)	1	2000	130,349	93.4	%	4,679	38.45
3661 Valley Centre Drive, Del Mar, California	(4)	1	2001	129,752	81.2	%	2,837	29.76
3721 Valley Centre Drive, Del Mar, California		1	2003	114,780	79.9	%	4,155	45.28
3811 Valley Centre Drive, Del Mar, California	(5)	1	2000	112,067	100.0	%	5,199	46.39
7525 Torrey Santa Fe, 56 Corridor, California	(5)	1	2007	103,979	100.0	%	3,012	28.97
7535 Torrey Santa Fe, 56 Corridor, California	(5)	1	2007	130,243	100.0	%	3,693	28.35
7545 Torrey Santa Fe, 56 Corridor, California	(5)	1	2007	130,354	100.0	%	3,609	27.68
7555 Torrey Santa Fe, 56 Corridor, California	(5)	1	2007	101,236	100.0	%	3,175	31.36
12780 El Camino Real, Del Mar, California	(5)	1	2013	140,591	100.0	%	6,366	45.28
12790 El Camino Real, Del Mar, California		1	2013	78,349	100.0	%	3,196	40.79
	(4)	1	2008	41,194	67.1	%	673	24.35

13280 Evening Creek Drive South, I-15 Corridor, California								
13290 Evening Creek Drive South, I-15 Corridor, California	(9)	1	2008	59,188	—	%	—	—
13480 Evening Creek Drive North, I-15 Corridor, California	(4)	1	2008	149,817	100.0	%	7,779	51.92
13500 Evening Creek Drive North, I-15 Corridor, California	(4)	1	2004	147,533	100.0	%	6,286	42.61
13520 Evening Creek Drive North, I-15 Corridor, California	(4)	1	2004	141,128	96.6	%	4,818	36.11
2355 Northside Drive, Mission Valley, California	(4)	1	1990	53,610	87.4	%	1,236	27.27
2365 Northside Drive, Mission Valley, California	(4)	1	1990	96,436	97.9	%	2,599	27.52
2375 Northside Drive, Mission Valley, California	(4)	1	1990	51,516	91.9	%	1,418	29.97
2385 Northside Drive, Mission Valley, California	(4)	1	2008	89,023	100.0	%	2,801	31.46

Property Location		No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/2013 (1)		Annualized Base Rent($000's) (2)	Annualized Rent Per Square Foot (2)
2305 Historic Decatur Road, Point Loma, California	(10)	1	2009	103,900	100.0	%	$ 4,163	$40.07
4921 Directors Place, Sorrento Mesa, California		1	2008	56,136	100.0	%	1,386	24.69
4939 Directors Place, Sorrento Mesa, California	(5)	1	2002	60,662	100.0	%	2,276	37.52
4955 Directors Place, Sorrento Mesa, California	(5)	1	2008	76,246	100.0	%	2,881	37.79
10770 Wateridge Circle, Sorrento Mesa, California	(12)	1	1989	174,310	97.5	%	3,057	17.98
6260 Sequence Drive, Sorrento Mesa, California	(11)	1	1997	130,536	—	%	—	—
6290 Sequence Drive, Sorrento Mesa, California	(5)	1	1997	90,000	100.0	%	2,098	23.31
6310 Sequence Drive, Sorrento Mesa, California	(5)	1	2000	62,415	100.0	%	1,137	18.22
6340 Sequence Drive, Sorrento Mesa, California	(5)	1	1998	66,400	100.0	%	1,341	20.20
6350 Sequence Drive, Sorrento Mesa, California	(6)	1	1998	132,600	100.0	%	2,507	18.91
10390 Pacific Center Court, Sorrento Mesa, California	(5)	1	2002	68,400	100.0	%	2,771	40.52
10394 Pacific Center Court, Sorrento Mesa, California	(5)	1	1995	59,630	100.0	%	1,077	18.05
10398 Pacific Center Court, Sorrento Mesa, California	(5)	1	1995	43,645	100.0	%	698	15.99
10421 Pacific Center Court, Sorrento Mesa, California	(5)	1	1995/2002	75,899	100.0	%	1,076	14.18
10445 Pacific Center Court, Sorrento Mesa, California	(5)	1	1995	48,709	100.0	%	936	19.22
10455 Pacific Center Court, Sorrento Mesa, California	(6)	1	1995	90,000	100.0	%	1,112	12.35
5717 Pacific Center Blvd, Sorrento Mesa, California	(3)	1	2001/2005	67,995	100.0	%	1,503	22.11
4690 Executive Drive, UTC, California	(13)	1	1999	47,212	88.3	%	1,014	24.33
6200 Greenwich Drive, Governor Park, California		1	1999	73,507	—	%	—	—
6220 Greenwich Drive, Governor Park , California	(4)	1	1996	141,214	100.0	%	4,286	30.35
9785 Towne Center Drive, UTC, California	(3)	1	1999	75,534	100.0	%	1,373	18.18
9791 Towne Center Drive, UTC, California	(3)	1	1999	50,466	100.0	%	917	18.18

Subtotal/Weighted Average – San Diego County		48		4,367,713	90.8	%	$ 127,627	$32.29
San Francisco								
4100 Bohannon Drive, Menlo Park, California	(5)	1	1985	46,614	100.0	%	$ 1,719	$36.87
4200 Bohannon Drive, Menlo Park, California	(5)	1	1987	46,255	66.2	%	1,196	39.04
4300 Bohannon Drive, Menlo Park, California	(5)	1	1988	62,920	59.1	%	1,110	29.85
4400 Bohannon Drive, Menlo Park, California	(5)	1	1988	46,255	100.0	%	1,295	30.28
4500 Bohannon Drive, Menlo Park, California	(5)	1	1990	62,920	100.0	%	2,041	32.43
4600 Bohannon Drive, Menlo Park, California	(5)	1	1990	46,255	100.0	%	1,837	39.72
4700 Bohannon Drive, Menlo Park, California	(5)	1	1989	62,920	100.0	%	2,275	36.16
331 Fairchild Drive, Mountain View, California	(5)	1	2013	87,565	100.0	%	4,185	47.80

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Property Location		No. of Buildings	Year Built/ Renovated	Rentable Square Feet	Percentage Occupied at 12/31/2013 (1)		Annualized Base Rent($000's) (2)	Annualized Rent Per Square Foot (2)
303 Second Street, San Francisco, California		1	1988	740,047	91.6	%	$ 28,340	$41.87
100 First Street, San Francisco, California		1	1988	466,490	96.7	%	19,721	44.48
250 Brannan Street, San Francisco, California	(4)	1	1907/2001	95,008	100.0	%	5,413	56.98
201 Third Street, San Francisco, California		1	1983	332,893	99.1	%	13,882	42.21
301 Brannan Street, San Francisco, California	(4)	1	1909/1989	74,430	100.0	%	3,023	40.61
4040 Civic Center, San Rafael, California		1	1979/1994	130,237	98.1	%	4,106	32.96
599 N. Mathilda Avenue, Sunnyvale, California	(3)	1	2000	75,810	100.0	%	2,202	29.04
Subtotal/Weighted Average – San Francisco		15		2,376,619	94.8	%	$ 92,345	$41.33
Greater Seattle								
601 108th Avenue NE, Bellevue, Washington	(14)	1	2000	488,470	98.5	%	$ 14,074	$29.56
10900 NE 4th Street, Bellevue, Washington		1	1983	416,755	87.3	%	12,888	35.55
10220 NE Points Drive, Kirkland, Washington	(3)	1	1987	49,851	96.3	%	1,226	25.79
10230 NE Points Drive, Kirkland, Washington	(3)	1	1988	98,982	94.2	%	2,534	27.60
10210 NE Points Drive, Kirkland, Washington	(3)	1	1990	84,641	100.0	%	2,078	24.55
3933 Lake Washington Blvd NE, Kirkland, Washington	(3)	1	1993	46,450	100.0	%	1,209	26.03
837 N. 34th Street, Lake Union, Washington	(3)	1	2008	111,580	100.0	%	2,694	24.15
701 N. 34th Street, Lake Union, Washington	(3)	1	1998	138,995	100.0	%	2,600	18.71
801 N. 34th Street, Lake Union, Washington	(3)	1	1998	169,412	100.0	%	4,423	26.11
320 Westlake Terry Ave. N., Lake Union, Washington	(3)	1	2013	184,643	100.0	%	6,317	34.21
321 Terry Ave. N., Lake Union, Washington	(3)	1	2013	135,755	100.0	%	4,465	32.89
15050 N.E. 36th Street, Redmond, Washington	(3)	1	1998	122,103	100.0	%	3,130	25.64
Subtotal/Weighted Average – Greater Seattle		12		2,047,637	96.7	%	$ 57,638	$29.23

TOTAL/WEIGHTED AVERAGE	105	12,736,099	93.4 %	$ 393,645	$ 33.68

(1) Based on all leases at the respective properties in effect as of December 31, 2013. Includes month-to-month leases as of December 31, 2013.

(2) Annualized base rental revenue includes the impact of straight-lining rent escalations and the amortization of free rent periods and excludes the impact of the following: amortization of deferred revenue related tenant-funded tenant improvements, amortization of above/below market rents, amortization for lease incentives due under existing leases, and expense reimbursement revenue. Excludes month-to-month leases and vacant space as of December 31, 2013.

(3) For these properties, the leases are written on a triple net basis.

(4) For these properties, the leases are written on a modified gross basis.

(5) For these properties, the leases are written on a modified net basis.

(6) For these properties, the leases are written on a gross basis.

(7) For this property, leases of approximately 16,000 square feet are written on a full service gross basis and approximately 107,000 square feet is written on a triple net basis.

(8) For this property, leases of approximately 41,000 rentable square feet are written on a full service gross basis, and approximately 105,000 rentable square feet is written on a gross basis.

(9) As of December 31, 2013, we have executed but not yet commenced one lease for approximately 48,000 square feet on a triple net basis.

(10) For this property, leases of approximately 82,000 rentable square feet are written on a modified gross basis, and approximately 22,000 rentable square feet is written on a gross basis.

(11) As of December 31, 2013, we have executed but not yet commenced one lease for approximately 131,000 square feet on a modified net basis.

(12) For this property, leases of approximately 123,000 rentable square feet are written on a modified net basis, and approximately 46,000 rentable square feet is written on a modified gross basis.

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

(14) For this property, leases of approximately 402,000 rentable square feet are written on a triple net basis, and approximately 78,000 rentable square feet is written on a full service gross basis.

Completed and In-Process Redevelopment Projects

During the year ended December 31, 2013, we completed the following redevelopment project, which was added to our stabilized portfolio:

Completed Redevelopment Project	Construction Period Start Date	Completion Date	Stabilization Date [1]	Rentable Square Feet	% Leased	
3880 Kilroy Airport Way Long Beach, California	3Q 2011	4Q 2012	4Q 2013	98,243	100	%

As of December 31, 2013, we had the following redevelopment project in lease up.

In-Process Redevelopment Project	Estimated Construction Period Start Date	Completion Date	Estimated Stabilization Date [1]	Estimated Rentable Square Feet	% Leased	
Project In Lease-Up [2] 360 Third Street San Francisco, California [3][4]	4Q 2011	1Q 2013	1Q 2014	410,000	96	%

(1) Based on management's estimation of the earlier of stabilized occupancy of 95% or one year from the date of substantial completion.
(2) Lease-up properties represent properties recently redeveloped that have not reached 95% occupancy and are within one year following cessation of major construction activities.
(3) As of March 31, 2013, the building improvements were substantially complete. As of December 31, 2013, the building occupancy was 78%.
(4) During the fourth quarter of 2013, the Company acquired the land underlying the ground lease for $27.5 million.

Completed and In-Process and Future Development Pipeline and Other Land Holdings

During the year ended December 31, 2013, we completed the following development project, which was added to our stabilized portfolio of operating properties:

Completed Development Project	Construction Period Start Date	Completion / Stabilization Date	Rentable Square Feet	% Leased	
331 Fairchild Drive San Francisco, California	4Q 2012	4Q 2013	87,565	100	%

The following table sets forth certain information relating to our in-process development pipeline as of December 31, 2013.

In-Process Development Projects	Estimated Construction Period Start Date	Estimated Stabilization Date	Estimated Rentable Square	Office % Leased

		Completion Date		Feet	
UNDER CONSTRUCTION:					
San Francisco Bay Area, California					
690 E. Middlefield Road, Mountain View	2Q 2012	1Q 2015	1Q 2015	341,000	100%
350 Mission Street, San Francisco (1)	4Q 2012	1Q 2015	1Q 2016	450,000	100%
555 N. Mathilda Avenue, Sunnyvale	4Q 2012	3Q 2014	4Q 2014	587,000	100%
333 Brannan Street, San Francisco (2)	4Q 2013	3Q 2015	3Q 2015	185,000	100%
Crossing/900, Redwood City (3)	4Q 2013	3Q 2015	3Q 2016	300,000	—%
Los Angeles, California					
Columbia Square, Hollywood (4)	2Q 2013 – 4Q 2013	3Q 2014 – 2Q 2016	1Q 2015 – 2Q 2017	675,000	—%
SUBTOTAL:				2,538,000	62%

(1) In January 2014, the Company obtained full entitlements to increase this project from a 27-story office tower to a 30-story office tower.

(2) In January 2014, we signed a 182,000 square foot, twelve-year lease with Dropbox for the entirety of this project.

(3) In October 2013, the Company acquired a 2.0 acre undeveloped land parcel for $17.0 million, completing the final phase of the land assemblage for this project.

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(4) In the second quarter of 2013, the Company commenced redevelopment of the historical buildings encompassing approximately 100,000 rentable square feet. In the fourth quarter of 2013, the Company commenced development of the second phase of its 675,000 square foot mixed-use project, which encompasses office, multi-family and retail components.

The following table sets forth certain information relating to our future development pipeline as of December 31, 2013.

Location	Estimated Rentable Square Feet
FUTURE DEVELOPMENT PIPELINE:	
Los Angeles, California	
Academy Project, Hollywood (1)	475,000
San Diego, California	
9455 Towne Centre Drive, San Diego (2)	150,000
Carlsbad Oaks – Lots 4, 5, 7 & 8, Carlsbad	288,000
The Heights at Del Mar, Del Mar	75,000 – 90,000
One Paseo, Del Mar (3)	500,000
Pacific Corporate Center – Lot 8, Sorrento Mesa	170,000
Rancho Bernardo Corporate Center, I-15 Corridor	320,000 – 1,000,000
Santa Fe Summit – Phase II and III, 56 Corridor	600,000
Sorrento Gateway – Lot 2, Sorrento Mesa	80,000
SUBTOTAL:	2,658,000 – 3,353,000

(1) The Company acquired the property during the fourth quarter of 2013 and added to the Company's future development pipeline upon acquisition. The Company is planning to demolish the existing structures and is currently pursuing mixed-use entitlements for this project.

(2) The Company is planning to demolish the existing two-story 45,195 rentable square foot office building and is currently pursuing entitlements to build a new five-story 150,000 rentable square foot building.

(3) Estimated rentable square feet reflects existing office entitlements. The Company is currently pursuing mixed-use entitlements for this project, which would increase the estimated rentable square feet.

The following table sets forth certain information about our other land holdings as of December 31, 2013.

Other Land Holdings	Gross Site	Estimated Rentable	Total Costs as of
Project	Acreage	Square Feet	12/31/2013 (1)
17150 Von Karman, Irvine, California	8.5	N/A	$8.2

(1) Represents cash paid and costs incurred as of December 31, 2013. Includes existing investment at the commencement of redevelopment.

During the fourth quarter of 2011, the Company completed demolition of the industrial building at 17150 Von Karman. Simultaneously, the Company successfully obtained entitlements to reposition this site for residential use in preparation of a possible land sale. The Company's ultimate decision to sell this site and the timing of any potential future sale is dependent upon market conditions and other factors.

Significant Tenants

The following table sets forth information about our 15 largest tenants based upon annualized base rental revenues, as defined below, as of December 31, 2013.

Tenant Name	Annualized Base Rental Revenue(1) (in thousands)	Percentage of Total Annualized Base Rental Revenue(1)	Lease Expiration Date
DIRECTV, LLC	$ 23,760	6.1%	September 2027
Bridgepoint Education, Inc.	15,066	3.8%	Various (4)
Intuit, Inc.	13,489	3.4%	August 2017
Delta Dental of California	10,798	2.8%	May 2018
AMN Healthcare, Inc.	8,341	2.1%	July 2018
Scan Group (2)(3)	7,100	1.8%	Various (5)
Group Health Cooperative	6,372	1.6%	September 2017
Neurocrine Biosciences, Inc.	6,366	1.6%	December 2019
Microsoft Corporation	6,256	1.6%	Various (6)
Fish & Richardson P.C.	6,071	1.6%	October 2018
Splunk, Inc.	5,413	1.4%	February 2019
Wells Fargo (2)	5,300	1.3%	Various (7)
Scripps Health	5,199	1.3%	June 2021
BP Biofuels	5,158	1.3%	Various (8)
Lucile Salter Packard Children's Hospital at Stanford	5,111	1.3%	September 2020
Total	$ 129,800	33.0%	

(1) Annualized base rental revenue includes the impact of straight-lining rent escalations and the amortization of free rent periods and excludes the impact of the following: amortization of deferred revenue related tenant-funded tenant improvements, amortization of above/below market rents, amortization for lease incentives due under existing leases, and expense reimbursement revenue. Excludes month-to-month leases and vacant space as of December 31, 2013.

(2) The Company has entered into leases with various affiliates of the tenant.

(3) In December 2013, Scan Group renewed and expanded their lease at Kilroy Airport Center in Long Beach, CA. As of December 31, 2013 revenue recognition had not commenced for the expansion premises. The annualized base rental revenue and rentable square feet presented in this table include the projected annualized base rental revenue of approximately $1.7 million and rentable square feet of approximately 50,000 for the expansion premises.

(4) The Bridgepoint Education Inc. leases, which contribute $1.0 million, $6.3 million and $7.8 million, expire in February 2017, July 2018 and September 2018, respectively.

(5) The Scan Group leases, which contribute $0.5 million and $6.6 million, expire in June 2015 and April 2026, respectively.

(6) The Microsoft Corporation leases, which contribute $3.1 million and $3.1 million, expire in December 2014 and February 2019, respectively.

(7) The Wells Fargo leases, which contribute $0.3 million, $0.2 million, $0.4 million, $0.07 million, $2.0 million, $0.05 million, $0.08 million, and $2.2 million expire in August 2015, June 2016, July 2016, January 2017, September 2017, February 2018, February 2019, and November 2019, respectively.

(8) The BP Biofuel leases, which contribute $2.9 million and $2.3 million, expire in November 2015 and March 2017, respectively.

The following pie chart sets forth the composition of our tenant base by industry and as a percentage of our annualized base rental revenue based on the Standard Industrial Classifications as of December 31, 2013.

Lease Expirations

The following table sets forth a summary of our lease expirations for each of the next ten years beginning with 2014, assuming that none of the tenants exercise renewal options or termination rights. See further discussion of our lease expirations under “Item 1A. Risk Factors.”

Lease Expirations (1)

Year of Lease Expiration	# of Expiring Leases	Total Square Feet	% of Total Leased Square Feet	Annualized Base Rent (000’s)(2)	% of Total Annualized Base Rent(2)	Annualized Rent per Square Foot (2)
2014	105	1,153,089	9.9 %	$ 31,236	7.9 %	$27.09
2015	107	1,539,015	13.3 %	44,479	11.3 %	28.90
2016	83	870,819	7.5 %	23,318	5.9 %	26.78
2017	92	1,735,945	15.0 %	56,731	14.4 %	32.68
2018	54	1,545,020	13.3 %	63,276	16.1 %	40.95
2019	46	1,165,713	10.0 %	44,072	11.2 %	37.81
2020	36	1,409,407	12.1 %	47,157	12.0 %	33.46
2021	13	349,823	3.0 %	15,951	4.1 %	45.60
2022	11	185,994	1.6 %	7,076	1.8 %	38.04
2023	11	399,496	3.5 %	15,920	4.0 %	39.85
2024 and beyond	16	1,258,027	10.8 %	44,434	11.3 %	35.32
Total(3)	574	11,612,348	100.0 %	$ 393,650	100.0 %	$33.90

(1) Excludes lease expirations for properties held for sale at December 31, 2013.

(2) Annualized base rent includes the impact of straight-lining rent escalations and the amortization of free rent periods and excludes the impact of the following: amortization of deferred revenue related tenant-funded tenant improvements, amortization of above/below market rents, amortization for lease incentives due under existing leases, and expense reimbursement revenue. Additionally, the underlying leases contain various expense structures including full service gross, modified gross and triple net. Amounts represent percentage of total portfolio annualized contractual base rental revenue.

(3) The information presented for all lease expiration activity reflects leasing activity through December 31, 2013 for our stabilized portfolio. For leases that have been renewed early or space that has been re-leased to a new tenant, the expiration date and annualized base rent information presented takes into consideration the renewed or re-leased lease terms. Excludes space leased under month-to-month leases, vacant space, and lease renewal options not executed as of December 31, 2013.

Secured Debt

As of December 31, 2013, the Operating Partnership had nine outstanding mortgage notes payable, which were secured by certain of our properties. Our secured debt represents an aggregate indebtedness of approximately $545.9 million. See additional information regarding our secured debt in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Liquidity and Capital Resources —Liquidity Sources,” Notes 6 and 7 to our consolidated financial statements, and Schedule III —Real Estate and Accumulated Depreciation included with this report. Management believes that, as of December 31, 2013, the value of the properties securing the applicable secured obligations in each case exceeded the principal amount of the outstanding obligation.

ITEM 3. LEGAL PROCEEDINGS

We and our properties are subject to routine litigation incidental to our business. As of December 31, 2013, we are not a defendant in, and our properties are not subject to, any legal proceedings that we believe, if determined adversely to us, would have a material adverse effect upon our financial condition, results of operations, or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

None.

PART II

ITEM 5. MARKET FOR KILROY REALTY CORPORATION'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Company's common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "KRC." As of the date this report was filed, there were approximately 56 registered holders of the Company's common stock. The following table illustrates the high, low, and closing prices by quarter, as well as dividends declared, during 2013 and 2012 as reported on the NYSE.

2013	High	Low	Close	Per Share Common Stock Dividends Declared
First quarter	$53.99	$47.86	$52.40	$0.3500
Second quarter	59.58	50.11	53.01	0.3500
Third quarter	55.80	47.73	49.95	0.3500
Fourth quarter	54.04	48.89	50.18	0.3500
2012	High	Low	Close	Per Share Common Stock Dividends Declared
First quarter	$46.61	$37.92	$46.61	$0.3500
Second quarter	48.58	44.84	48.41	0.3500
Third quarter	49.88	44.78	44.78	0.3500
Fourth quarter	47.52	42.47	47.37	0.3500

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

MARKET FOR KILROY REALTY, L.P.'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

There is no established public trading market for the Operating Partnership's common units. As of the date this report was filed, there were 22 holders of record of common units (including through the Company's general partnership interest).

The following table reports the distributions per common unit declared during the years ended December 31, 2013 and 2012.

2013	Per Unit Common Unit Distribution Declared
First quarter	$0.3500
Second quarter	0.3500
Third quarter	0.3500
Fourth quarter	0.3500
2012	Per Unit Common Unit Distribution

	Declared
First quarter	$0.3500
Second quarter	0.3500
Third quarter	0.3500
Fourth quarter	0.3500

During 2013 and 2012, the Operating Partnership redeemed 16,303 and 10,000 common units, respectively, for the same number of shares of the Company’s common stock.

PERFORMANCE GRAPH

The following line graph compares the change in cumulative stockholder return on shares of the Company's common stock to the cumulative total return of the NAREIT All Equity REIT Index, the Standard & Poor's 500 Stock Index, and the SNL REIT Office Index for the five-year period ended December 31, 2013. We include an additional index, the SNL REIT Office Index, to the performance graph since management believes it provides additional information to investors about our performance relative to a more specific peer group. The SNL REIT Office Index is a published and widely recognized index that comprises 21 office equity REITs, including us. The graph assumes the investment of $100 in us and each of the indices on December 31, 2008 and, as required by the SEC, the reinvestment of all distributions. The return shown on the graph is not necessarily indicative of future performance.

ITEM 6. SELECTED FINANCIAL DATA – KILROY REALTY CORPORATION

The following tables set forth selected consolidated financial and operating data on an historical basis for the Company. The following data should be read in conjunction with our financial statements and notes thereto and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included below in this report.

The consolidated balance sheet data as of December 31, 2013 and 2012 and the consolidated statement of operations data for the years ended December 31, 2013, 2012 and 2011 have been derived from the historical consolidated financial statements of Kilroy Realty Corporation audited by Deloitte & Touche LLP, an independent registered public accounting firm. The consolidated balance sheet data as of December 31, 2011, 2010 and 2009 and the consolidated statement of operations data for the years ended December 31, 2010 and 2009 have been derived from the historical consolidated financial statements of Kilroy Realty Corporation and adjusted to present the income from operating properties that were sold during the year ended December 31, 2013 or classified as held for sale at December 31, 2013, as income from discontinued operations and for the impact of subsequent accounting changes requiring retrospective application, if any.

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

	Year Ended December 31,				
	2013	2012	2011	2010	2009
Statements of Operations Data:					
Total revenues from continuing operations	$465,098	$381,000	$310,424	$232,683	$206,587
Income (loss) from continuing operations	15,837	(3,505)	(15,584)	(6,729)	7,709
Income from discontinued operations	28,728	280,606	83,073	26,615	30,306
Net income available to common stockholders	30,630	249,826	50,819	4,512	21,794
Per-Share Data:					
Weighted average shares of common stock outstanding – basic	77,343,853	69,639,623	56,717,121	49,497,487	38,705,101
Weighted average shares of common stock outstanding – diluted	79,108,878	69,639,623	56,717,121	49,497,487	38,732,126
Income (loss) from continuing operations available to common stockholders per share of common stock – basic	$0.01	$(0.37)	$(0.55)	$(0.45)	$(0.22)
Income (loss) from continuing operations available to common stockholders per share of common stock – diluted	$0.01	$(0.37)	$(0.55)	$(0.45)	$(0.22)
Net income available to common stockholders per share – basic	$0.37	$3.56	$0.87	$0.07	$0.53
Net income available to common stockholders per share – diluted	$0.36	$3.56	$0.87	$0.07	$0.53
Dividends declared per common share	$1.40	$1.40	$1.40	$1.40	$1.63

	December 31, 2013	2012	2011	2010	2009
Balance Sheet Data:					
Total real estate held for investment, before accumulated depreciation and amortization	$5,264,947	$4,757,394	$3,798,690	$3,216,871	$2,520,083
Total assets	5,111,028	4,616,084	3,446,795	2,816,565	2,084,281
Total debt	2,204,938	2,040,935	1,821,286	1,427,776	972,016
Total noncontrolling interest – preferred units (1)	—	—	73,638	73,638	73,638
Total preferred stock	192,411	192,411	121,582	121,582	121,582
Total equity (2)	2,516,160	2,235,933	1,327,482	1,117,730	883,838
Other Data:					
Funds From Operations (3) (4)	$218,621	$165,455	$136,173	$106,639	$107,159
Cash flows provided by (used in):					
Operating activities	$240,576	$180,724	$138,256	$119,827	$124,965
Investing activities	(506,520)	(706,506)	(634,283)	(701,774)	(50,474)
Financing activities	284,621	537,705	485,964	586,904	(74,161)
Office Property Data: (5)					
Rentable square footage	12,736,099	13,249,780	11,421,112	10,395,208	8,708,466
Occupancy	93.4%	92.8%	90.1%	87.5%	80.6%

(1) Represents the redemption value, less issuance costs of our 1,500,000 7.45% Series A Cumulative Preferred Units ("Series A Preferred Units"). The Series A Preferred Units were redeemed in 2012.

(2) Includes the noncontrolling interest of the common units of the Operating Partnership and Redwood City Partners, LLC (a consolidated subsidiary created on June 27, 2013, see Note 3 "Acquisitions" to our consolidated financial statements included in this report for additional information).

(3) We calculate FFO in accordance with the White Paper on FFO approved by the Board of Governors of NAREIT. The White Paper defines FFO as net income or loss calculated in accordance with GAAP, excluding extraordinary items, as defined by GAAP, gains and losses from sales of depreciable real estate and impairment write-downs associated with depreciable real estate, plus real estate-related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets), and after adjustment for unconsolidated partnerships and joint ventures. Our calculation of FFO includes the amortization of deferred revenue related to tenant-funded tenant improvements and excludes the depreciation of the related tenant improvement assets.

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

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

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

Noncash adjustments to arrive at FFO were as follows: noncontrolling interest in earnings of the Operating Partnership, depreciation and amortization of real estate assets, and net gain (loss) from dispositions of operating properties. For additional information, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations —Non-GAAP Supplemental Financial Measure: Funds From Operations” including a reconciliation of the Company’s GAAP net income available for common stockholders to FFO for the periods presented.

(4) FFO includes amortization of deferred revenue related to tenant-funded tenant improvements of $10.7 million, $9.1 million, $9.3 million, $9.7 million and $9.8 million for the years ended December 31, 2013, 2012, 2011, 2010 and 2009, respectively.

(5) Occupancy percentages and total square feet reported are based on the company’s stabilized office portfolio for the periods presented.

SELECTED FINANCIAL DATA – KILROY REALTY, L.P.

The following tables set forth selected consolidated financial and operating data on an historical basis for the Operating Partnership. The following data should be read in conjunction with our financial statements and notes thereto and "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included below in this report.

The consolidated balance sheet data as of December 31, 2013 and 2012 and the consolidated statement of operations data for the years ended December 31, 2013, 2012 and 2011 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. The consolidated balance sheet data as of December 31, 2011, 2010 and 2009 and the consolidated statement of operations data for the years ended December 31, 2010 and 2009 have been derived from the historical consolidated financial statements of Kilroy Realty, L.P. and adjusted to present the income from operating properties that were sold during the year ended December 31, 2013 or classified as held for sale at December 31, 2013, as income from discontinued operations, and for the impact of subsequent accounting changes requiring retrospective application, if any.

Kilroy Realty, L.P. Consolidated
(in thousands, except unit, per unit, square footage and occupancy data)

	Year Ended December 31,				
	2013	2012	2011	2010	2009
Statements of Operations Data:					
Total revenues from continuing operations	$465,098	$381,000	$310,424	$232,683	$206,587
Income (loss) from continuing operations	15,837	(3,505)	(15,584)	(6,729)	7,709
Income from discontinued operations	28,728	280,606	83,073	26,615	30,306
Net income available to common unitholders	31,091	255,375	51,764	4,528	22,618
Per Unit Data:					
Weighted average common units outstanding – basic	79,166,260	71,403,258	58,437,444	51,220,618	40,436,196
Weighted average common units outstanding – diluted	80,931,285	71,403,258	58,437,444	51,220,618	40,463,221
Income (loss) from continuing operations available to common unitholders per common unit – basic	$0.01	$(0.37)	$(0.56)	$(0.45)	$(0.22)
Income (loss) from continuing operations available to common unitholders per common unit – diluted	$0.01	$(0.37)	$(0.56)	$(0.45)	$(0.22)
Net income available to common unitholders per unit – basic	$0.37	$3.56	$0.86	$0.07	$0.53
Net income available to common unitholders per unit – diluted	$0.36	$3.56	$0.86	$0.07	$0.53
Distributions declared per common unit	$1.40	$1.40	$1.40	$1.40	$1.63

	December 31,				
	2013	2012	2011	2010	2009
Balance Sheet Data:					
Total real estate held for investment, before accumulated depreciation and amortization	$5,264,947	$4,757,394	$3,798,690	$3,216,871	$2,520,083
Total assets	5,111,028	4,616,084	3,446,795	2,816,565	2,084,281
Total debt	2,204,938	2,040,935	1,821,286	1,427,776	972,016
Series A redeemable preferred units (1)	—	—	73,638	73,638	73,638
Total preferred capital	192,411	192,411	121,582	121,582	121,582
Total capital (2)	2,516,160	2,235,933	1,327,482	1,117,730	883,838

Other Data:					
Cash flows provided by (used in):					
Operating activities	240,576	180,724	138,256	119,827	124,965
Investing activities	(506,520)	(706,506)	(634,283)	(701,774)	(50,474)
Financing activities	284,621	537,705	485,964	586,904	(74,161)
Office Property Data: (3)					
Rentable square footage	12,736,099	13,249,780	11,421,112	10,395,208	8,708,466
Occupancy	93.4%	92.8%	90.1%	87.5%	80.6%

(1) Represents the redemption value, less issuance costs of the Operating Partnership's issued and outstanding 1,500,000 Series A Preferred Units. All Series A Preferred Units were redeemed in 2012.

(2) Includes the noncontrolling interests in consolidated subsidiaries and Redwood City Partners, LLC (a consolidated subsidiary created on June 27, 2013, see Note 3 "Acquisitions" to our consolidated financial statements included in this report for additional information).

(3) Occupancy percentages and total square feet reported are based on the company's stabilized office portfolio for the periods presented.

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

The following discussion relates to our consolidated financial statements and should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report. The results of operations discussion is combined for the Company and the Operating Partnership because there are no material differences in the results of operations between the two reporting entities.

Forward-Looking Statements

Statements contained in this "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" that are not historical facts may be forward-looking statements, including statements or information concerning projected future occupancy and rental rates, lease expirations, debt maturity, potential investments, strategies such as capital recycling, development and redevelopment activity, projected construction costs, dispositions, future executive incentive compensation, pending, potential or proposed acquisitions and other forward-looking financial data, as well as the discussion in "—Factors That May Influence Future Results of Operations", "—Liquidity and Capital Resource of the Company", and "—Liquidity and Capital Resources of the Operating Partnership." Forward-looking statements can be identified by the use of words such as "believes," "expects," "projects," "may," "will," "should," "seeks," "approximately," "intends," "plans," "pro forma," "estimates" or "anticipates" and the negative of these wor phrases and similar expressions that do not relate to historical matters. Forward-looking statements are based on our current expectations, beliefs and assumptions, and are not guarantees of future performance. Forward-looking statements are inherently subject to uncertainties, risks, changes in circumstances, trends and factors that are difficult to predict, many of which are outside of our control. Accordingly, actual performance, results and events may vary materially from those indicated in the forward-looking statements, and you should not rely on the forward-looking statements as predictions of future performance, results or outcomes. Numerous factors could cause actual future events to differ materially from those indicated in forward-looking statements, including, among others:

- global market and general economic conditions and their effect on our liquidity and financial conditions and those of our tenants;
- adverse economic or real estate conditions in California and Washington including with respect to California's continuing budget deficits;
- risks associated with our investment in real estate assets, which are illiquid, and with trends in the real estate industry;
- defaults on or non-renewal of leases by tenants;
- any significant downturn in tenants' businesses;
- our ability to re-lease property at or above current market rates;
- costs to comply with government regulations, including environmental remediations;
- the availability of cash for distribution and debt service and exposure of risk of default under debt obligations;
- significant competition, which may decrease the occupancy and rental rates of properties;
- potential losses that may not be covered by insurance;

- the ability to successfully complete acquisitions and dispositions on announced terms;
- the ability to successfully operate acquired properties;
- the ability to successfully complete development and redevelopment properties on schedule and within budgeted amounts;

- defaults on leases for land on which some of our properties are located;
- adverse changes to, or implementations of, applicable laws, regulations or legislation;
- environmental uncertainties and risks related to natural disasters; and
- the Company's ability to maintain its status as a REIT.

The factors included in this report are not exhaustive and additional factors could adversely affect our business and financial performance. For a discussion of additional risk factors, see the factors included in this report under the caption "Item 1A. Risk Factors," and in our other filings with the SEC. All forward-looking statements are based on currently available information and speak only as of the date of this report. We assume no obligation to update any forward-looking statement that becomes untrue because of subsequent events, new information or otherwise, except to the extent we are required to do so in connection with our ongoing requirements under federal securities laws.

Company Overview

We are a self-administered REIT active in premier office submarkets along the West Coast. We own, develop, acquire and manage real estate assets, consisting primarily of Class A properties in the coastal regions of Los Angeles, Orange County, San Diego County, the San Francisco Bay Area and greater Seattle, which we believe have strategic advantages and strong barriers to entry. We own our interests in all of our real estate assets through the Operating Partnership and the Finance Partnership. We conduct substantially all of our operations through the Operating Partnership. We owned a 97.8% and 97.6% general partnership interest in the Operating Partnership as of December 31, 2013 and 2012, respectively. All our properties are held in fee except for the eleven office buildings which are held subject to long-term ground leases for the land (See Note 15 "Commitments and Contingencies" to our consolidated financial statements included in this report for additional information regarding our ground lease obligations).

2013 Highlights

We made significant progress on several fronts during 2013, and are well-positioned for continued long-term growth through our strong leasing performance, well timed acquisitions, development and redevelopment efforts, ongoing capital recycling program and successful financing activities.

Leasing. During 2013, we executed new and renewal office leases on 2.2 million square feet, marking the sixth consecutive year that KRC has achieved full-year leasing of two million square feet. As a result of our consistent and successful leasing efforts, occupancy in our stabilized office portfolio increased to 93.4% as of December 31, 2013, up from 92.8% as of December 31, 2012.

Operating Property Acquisitions. We remain a disciplined buyer of office properties and continue to focus on value-add opportunities in West Coast markets populated by knowledge and creative based tenants in a variety of industries, including technology, media, healthcare, entertainment and professional services. During 2013, we acquired two office buildings in greater Seattle and two office buildings and an undeveloped land parcel in the Del Mar submarket of San Diego County encompassing approximately 540,000 rentable square feet for a total purchase price of approximately $296.4 million (see Note 3 "Acquisitions" to our consolidated financial statements included in this report for more information).

Development. During 2013, we continued our focus on value-add and highly accretive development opportunities and expanded our future development pipeline through targeted acquisitions of development opportunities on the West

Coast. In 2013, we acquired two land sites in Redwood City, California and formed a new consolidated subsidiary, Redwood City Partners, LLC (see Note 3 “Acquisitions” to our consolidated financial statements included in this report for more information) and in the fourth quarter we commenced construction of an approximately 300,000 square foot office space (the “Crossing/900” project) at these sites.

Additionally, in December 2013, we acquired the Academy Project, a Los Angeles development opportunity, located in the Hollywood submarket, and added it to our future development pipeline. Following an anticipated 18 to 24 month entitlement process, we plan to develop a mixed-use, media-oriented campus that will include approximately 475,000 square feet of low- and mid-rise office space, apartments and retail space.

During 2013, we completed one development project, 331 Fairchild Drive in the San Francisco Bay Area with a total investment of approximately $44.7 million and added this property to our stabilized portfolio.

As of December 31, 2013, the Company had six development projects under construction, four of which are 100% preleased. These six projects aggregate approximately 2.5 million square feet of space, and the company estimates its total investment in these projects will be approximately $1.5 billion. The total estimated investment includes lease commissions and excludes tenant improvement overages. Scheduled completion dates range from 2014 to 2016. See "—Factors that May Influence Future Operations – In-Process and Future Development Pipeline" for additional information.

Redevelopment. During 2013, we moved one redevelopment project, 3880 Kilroy Airport Way in the Long Beach submarket of Los Angeles from our lease-up portfolio to our stabilized portfolio. This project has a total investment of approximately $19.7 million and was 100% leased at stabilization. See "—Factors that May Influence Future Operations – Redevelopment" for additional information.

Capital Recycling Program. We have continued to utilize our capital recycling program to provide additional capital to fund potential acquisitions, to finance development and redevelopment expenditures, to potentially repay long-term debt and for other general corporate purposes. Our general strategy is to target the disposition of mature properties or those that have limited upside for us and redeploy some or all of the capital into acquisitions where we can add additional value to generate higher returns (see "—Factors that May Influence Future Operations" for additional information).

In connection with this strategy, during 2013, we completed the sale of three office buildings to unaffiliated third parties in three separate transactions. Gross sales proceeds totaled approximately $56.9 million of which $32.2 million was held at qualified intermediaries at December 31, 2013 for potential future Section 1031 Exchanges. In February 2014, we successfully completed one of the the Section 1031 Exchanges and the $32.2 million cash proceeds were released from the qualified intermediary. In addition, as of December 31, 2013, we classified 12 properties located in San Diego, California as properties held for sale and included the results for these properties in discontinued operations in our consolidated financial statements for all periods presented. The sale of these properties closed on January 9, 2014 for total gross sales proceeds of approximately $294.7 million (see Note 23 "Subsequent Events" to our consolidated financial statements included in this report for additional information).

Financings. In addition to obtaining funding from our capital recycling program, we successfully completed a variety of financing and capital raising activities to fund our continued growth. See "—Liquidity and Capital Resources of the Operating Partnership" for additional information.

Critical Accounting Policies

The preparation of financial statements in conformity with GAAP requires us 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 our management team to make significant estimates and/or assumptions about matters that are uncertain at the time the estimates and/or assumptions are made or where we are required to make significant judgments and assumptions with respect to the practical application of accounting principles in our 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 “Basis of Presentation & Significant Accounting Policies” to our consolidated financial statements included in this report.

Rental Revenue Recognition

Rental revenue is our principal source of revenue. The timing of when we commence rental revenue recognition depends largely on our conclusion as to whether we are or the tenant is the owner for accounting purposes of the tenant improvements at the leased property. When we conclude that we are the owner of tenant improvements for accounting purposes, we record the cost to construct the tenant improvements as an asset, and we commence rental revenue recognition when the tenant takes possession of or controls 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, 2013, 2012, and 2011, we capitalized $15.1 million, $24.0 million, and $4.3 million, respectively, of tenant-funded tenant improvements. Leases at our development and redevelopment properties generally have higher tenant-funded tenant improvements and we expect the trend to increase as our development and redevelopment activities increase. For those periods, we also recognized $10.7 million, $9.1 million, and $9.3 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 determination 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 can also have a significant effect on the timing of our overall revenue recognition.

Tenant Reimbursement Revenue

Reimbursements from tenants consist of amounts due from tenants for common area maintenance, real estate taxes, and other recoverable costs, including capital expenditures. Calculating tenant reimbursement revenue requires an in-depth analysis of the complex terms of each 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 tenant reimbursable costs are incurred 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, 2013, 2012, and 2011 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 costs recoverable from tenants. Deferred rent receivables represent the amount by which the cumulative straight-line rental revenue recorded to date exceeds cash rents billed to date under the lease agreement. As of December 31, 2013 and 2012, current receivables were carried net of an allowance for uncollectible tenant receivables amount of $2.1 million and $2.6 million, respectively, for each period and deferred rent receivables were carried net of an allowance for deferred rent of $2.1 million and $2.6 million, respectively.

Management’s determination of the adequacy of the allowance for uncollectible 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, 2013, 2012, and 2011, we recorded a total provision for bad debts for both current tenant receivables and deferred rent receivables of approximately 0.1%, 0.0%, and 0.2%, respectively, of rental 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, 2013, 2012, and 2011. In the event our estimates were not accurate and we had to change our allowances by 1% of revenue from continuing operations, the potential impact to our net income available to common stockholders would be approximately $4.7 million, $3.8 million, and $3.1 million for the years ended December 31, 2013, 2012, and 2011, respectively.

Acquisitions

We record the acquired tangible and intangible assets and assumed liabilities of acquisitions of all operating properties and those development and redevelopment opportunities that meet the accounting criteria to be accounted for as business combinations at fair value at the acquisition date. We assess and consider fair value based on estimated cash flow projections that utilize available market information and discount and/or capitalization rates that we deem appropriate. Estimates of future cash flows are based on a number of factors including historical operating results, known and anticipated trends, and market and economic conditions. The acquired assets and assumed liabilities for an operating property acquisition generally include but are not limited to: land and improvements, buildings and improvements, construction in progress and identified tangible and intangible assets and liabilities associated with in-place leases, including tenant improvements, leasing costs, value of above-market and below-market operating leases and ground leases, acquired in-place lease values and tenant relationships, if any.

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

The fair value of the above-market or below-market component of an acquired in-place operating lease is based upon the present value (calculated using a market discount rate) of the difference between (i) the contractual rents to be paid pursuant to the lease over its remaining non-cancellable lease term and (ii) management's estimate of the rents that would be paid using fair market rental rates and rent escalations at the date of acquisition measured over the remaining non-cancellable term of the lease for above-market operating leases and the initial non-cancellable term plus the term of any below-market fixed rate renewal options, if applicable, for below-market operating leases. The amounts recorded for above-market operating leases are included in deferred leasing costs and acquisition-related intangible assets, net on the balance sheet and are amortized on a straight-line basis as a reduction of rental income over the remaining term of the applicable leases. The amounts recorded for below-market operating leases are included in deferred revenue and acquisition-related liabilities, net on the balance sheet and are amortized on a straight-line basis as an increase to rental income over the remaining term of the applicable leases plus the term of any below-market fixed rate renewal options, if applicable. Our below-market operating leases generally do not include fixed rate or below-market renewal options.

The fair value of acquired in-place leases is derived based on management's assessment of lost revenue and costs incurred for the period required to lease the "assumed vacant" property to the occupancy level when purchased. This fair value is based on a variety of considerations including, but not necessarily limited to: (1) the value associated with avoiding the cost of originating the acquired in-place leases; (2) the value associated with lost revenue related to tenant reimbursable operating costs estimated to be incurred during the assumed lease-up period; and (3) the value associated with lost rental revenue from existing leases during the assumed lease-up period. Factors considered by us in performing these analyses include an estimate of the carrying costs during the expected lease-up periods, current market conditions, and costs to execute similar leases. In estimating carrying costs, we include real estate taxes, insurance and other operating expenses, and estimates of lost rental revenue during the expected lease-up periods based on current market demand at market rates. In estimating costs to execute similar leases, we consider leasing commissions, legal and other related expenses. The amount recorded for acquired in-place leases is included in deferred leasing costs and acquisition-related intangible assets, net on the balance sheet and amortized as an increase to depreciation and amortization expense over the remaining term of the applicable leases. If a lease were to be terminated or if termination were determined to be likely prior to its contractual expiration (for example resulting from bankruptcy), amortization of the related unamortized in-place lease intangible would be accelerated.

The determination of the fair value of any debt assumed in connection with a property acquisition is estimated by discounting the future cash flows using interest rates available for the issuance of debt with similar terms and remaining maturities.

The determination of the fair value of the acquired tangible and intangible assets and assumed liabilities of operating property acquisitions requires us to make significant judgments and assumptions about the numerous inputs discussed above. The use of different assumptions in these fair value calculations could significantly affect the reported amounts of the allocation of our acquisition related assets and liabilities and the related depreciation and amortization expense recorded for such assets and liabilities. In addition, because the value of above and below market leases are amortized as either a reduction or increase to rental income, respectively, our judgments for these intangibles could have a significant impact on our reported rental revenues and results of operations.

Costs directly associated with all operating property acquisitions and those development and redevelopment acquisitions that meet the accounting criteria to be accounted for as business combinations are expensed as incurred. During the years ended December 31, 2013, 2012, and 2011, we expensed $2.0 million, $4.9 million and $4.1 million of acquisition costs respectively, based on the level of our acquisition activity during those years. Our acquisition expenses are directly related to our acquisition activity and if our acquisition activity was to increase or decrease, so would our acquisition costs. Costs directly associated with development acquisitions accounted for as asset acquisitions are capitalized as part of the cost of the acquisition. During the years ended December 31, 2013 and 2012, we capitalized $2.3 million and $0.7 million, respectively, of such acquisition costs. We did not capitalize any acquisition costs during the year ended December 31, 2011.

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 continued 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 property sales yields, continuous increases in property sales yields 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, including classifying a property as held for sale, or significant development delay;
- evidence of material physical damage to the property; and
- default by a significant tenant when any of the other indicators above are present.

When we evaluate for potential impairment our real estate assets to be held and used, 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 resulting from 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.

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 operating 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 these periods. We determined that for each of the properties held for sale, that the sale price less estimated costs to sell exceeded the carrying value and therefore we did not record any impairment losses for these properties.

Cost Capitalization and Depreciation

We capitalize costs associated with development and redevelopment activities, capital improvements, tenant improvements, and leasing activities. For the years ended December 31, 2013, 2012 and 2011, we capitalized $7.3 million, $3.1 million, and $1.7 million, respectively, of internal costs to our qualifying redevelopment and development projects.

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.

Share-Based Incentive Compensation Accounting

At December 31, 2013, the Company had one share-based incentive compensation plan, the Kilroy Realty 2006 Incentive Award Plan, which is described more fully in Note 12 “Share-Based Compensation” to our consolidated financial statements included in this report. The Executive Compensation Committee determines compensation for our Chief Executive Officer, Chief Operating Officer, Chief Investment Officer and Chief Financial Officer (“the Executive Officers”). Compensation cost for all share-based awards, including options, requires measurement at estimated fair value on the grant date and compensation cost is recognized over the service vesting period, which represents the requisite service period. The grant date fair value for compensation programs that contain market measures are performed using complex pricing valuation models that require the input of assumptions, including judgments to estimate expected stock price volatility, expected life, and forfeiture rate. Specifically, the grant date fair value of market measure-based share-based compensation programs are calculated using a Monte Carlo simulation pricing model and the grant date fair value of stock option grants are calculated using the Black-Scholes valuation model.

For the years ended December 31, 2013 and 2012, we recorded approximately $5.3 million and $3.9 million, respectively, of compensation expense related to programs that contained market measures and were therefore subject to such valuation models. If the valuation of the grant date fair value for such programs changed by 10%, the potential impact to our net income available to common stockholders would be approximately $0.5 million and $0.4 million for the years ended December 31, 2013 and 2012, respectively. There was no compensation expense related to market measure-based programs recorded for the years ended December 31, 2011 since our market measure-based share-based compensation programs and options were granted in 2012.

Factors That May Influence Future Results of Operations

Acquisitions. During 2013, we acquired two office buildings in greater Seattle and two office buildings in the Del Mar submarket of San Diego County for a total purchase price of approximately $296.4 million. Additionally, during 2013, we continued or focus on value-add and highly accretive development opportunities and expanded our future development pipeline through targeted acquisitions of development opportunities on the West Coast. During 2012, we acquired 14 office buildings in seven transactions with an aggregate purchase price of approximately $674.0 million and six development and redevelopment projects in six transactions with an aggregate purchase price of approximately $340.3 million. We generally finance our acquisitions through proceeds from the issuance of debt and equity securities, borrowings under our revolving credit facility, proceeds from our capital recycling program and the assumption of existing debt.

As a key component of our growth strategy, we continue to evaluate value-add acquisition opportunities (including undeveloped land, development and redevelopment opportunities and office properties). As a result, at any point in time we may have one or more potential acquisitions under consideration that are in varying stages of evaluation, negotiation or due diligence review, which may include potential acquisitions under contract. We remain a disciplined buyer of office properties and continue to focus on value add opportunities in West Coast markets populated by knowledge and creative based tenants in a variety of industries, including technology, media, healthcare, entertainment and professional services. We cannot provide assurance that we will complete these acquisitions. In the future, we may enter into agreements to acquire additional properties or undeveloped land, either as wholly owned properties or through joint ventures, and those agreements typically will be subject to the satisfaction of closing conditions. We cannot provide assurance that we will enter into any agreements to acquire properties or undeveloped land or that the potential acquisitions contemplated by any agreements we may enter into in the future will be completed. Costs associated with acquisitions accounted for as business combinations are expensed as incurred, and we may be unable to complete an acquisition after making a nonrefundable deposit or incurring acquisition-related costs. In addition, acquisitions are subject to various other risks and uncertainties. During the year ended December 31, 2013, we expensed approximately $2.0 million of third-party acquisition costs, and we anticipate that we may incur additional third-party acquisition costs during 2014. During the year ended December 31, 2013, we capitalized $2.3 million of acquisition costs directly associated with development acquisitions accounted for as asset acquisitions. We expect that during 2014 we will continue to pursue value-add property acquisitions that either add immediate Net Operating Income to our portfolio or play a strategic role in our future growth.

Capital Recycling Program. We continuously evaluate opportunities for the potential disposition of properties and undeveloped land in our portfolio with the intent of recycling the proceeds generated from the disposition of non-strategic properties or lower return assets into capital used to fund new operating and development acquisitions, to finance development and redevelopment expenditures, to repay long-term debt and for other general corporate purposes. As part of this strategy, we attempt to enter into Section 1031 Exchanges, when possible, to defer some or all of the taxable gains on the sales, if any, for federal and state income tax purposes.

In connection with this strategy, during 2013, we completed the sale of three office building to unaffiliated third parties in three separate transactions. Gross sales proceeds totaled approximately $56.9 million of which $32.2 million was held at qualified intermediaries at December 31, 2013 for potential future Section 1031 Exchanges. In February 2014, we successfully completed one of the the Section 1031 Exchanges and the $32.2 million cash proceeds were released from the qualified intermediary. In addition, as of December 31, 2013, we classified 12 properties located in San Diego, California as properties held for sale and included the results for these properties in discontinued operations in our consolidated financial statements for all periods presented. The sale of these properties closed on January 9, 2014 for total gross sales proceeds of approximately $294.7 million, which are being held by qualified intermediaries for potential future Section 1031 Exchanges as of the date of this report. We cannot assure you that any proceeds currently held by qualified intermediaries will be reinvested into qualifying replacement property or that the dispositions described above will qualify as Section 1031 Exchanges (see Note 23 “Subsequent Events” to our consolidated financial statements included in this report for additional information).

The timing of any potential future disposition transactions will depend on market conditions and other factors, including but not limited to our capital needs and our ability to defer some or all of the taxable gains on the sales. We cannot assure that we will dispose of any additional properties or that future acquisitions and/or dispositions, if any, will qualify as Section 1031 Exchanges.

Leasing Activity and Changes in 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, newly acquired properties with vacant space, 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 leasing activity for our stabilized portfolio during year ended December 31, 2013.

Information on Leases Commenced and Executed

For Leases Commenced [1]

	1st & 2nd Generation [2]				2nd Generation [2]				
	Number of Leases [3]		Rentable Square Feet [3]		TI/LC per Sq. Ft. [4]	Changes in Rents [5][6]	Changes in Cash Rents [7]	Retention Rates [8]	Weighted Average Lease Term (in months)
	New	Renewal	New	Renewal					
Year Ended December 31, 2013	110	83	1,089,121	1,188,308	37.34	19.3 %	8.3 %	58.7 %	75

For Leases Executed [1][9]

	1st & 2nd Generation [2]				2nd Generation [2]			
	Number of Leases [3]		Rentable Square Feet [3]		TI/LC per Sq. Ft. [4]	Changes in Rents [5][6]	Changes in Cash Rents [7]	Weighted Average Lease Term (in months)
	New	Renewal	New	Renewal				
Year Ended December 31, 2013	113	77	1,026,042	1,126,607	31.49	20.7 %	11.3 %	72

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(1) Includes leases commenced and executed for properties held for sale at December 31, 2013.

(2) 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.

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

(4) Amounts exclude tenant-funded tenant improvements.

(5) 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 the property was acquired.

(6) Excludes commenced and executed leases of approximately 593,000 and 455,000 rentable square feet, respectively, for the year ended December 31, 2013, for which the space was vacant longer than one year or being leased for the first time. Space vacant for more than one year is excluded from our change in rents calculations to provide a meaningful market comparison.

(7) 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 the property was acquired.

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

(9) For the year ended December 31, 2013, 16 new leases totaling 422,000 rentable square feet were signed but not commenced as of December 31, 2013.

As of December 31, 2013, we believe that the weighted average cash rental rates for our stabilized portfolio, including recently acquired operating properties are approximately 5% under 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.

In general, market rental rates have continued to increase in the majority of our submarkets over the last several quarters. Our rental rates and occupancy are impacted by general economic conditions, including the pace of regional economic growth and access to capital. Therefore, 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. The following table sets forth certain information regarding our lease expirations for our stabilized portfolio for the next five years.

Lease Expirations (1)

Year of Lease Expiration	Number of Expiring Leases	Total Square Feet	% of Total Leased Sq. Ft.		Annualized Base Rent (2)	% of Total Annualized Base Rent (2)		Annualized Base Rent per Sq. Ft. (2)
2014	105	1,153,089	9.9	%	$31,236	7.9	%	$27.09
2015	107	1,539,015	13.3	%	44,479	11.3	%	28.90
2016	83	870,819	7.5	%	23,318	5.9	%	26.78
2017	92	1,735,945	15.0	%	56,731	14.4	%	32.68
2018	54	1,545,020	13.3	%	63,276	16.1	%	40.95
Total	441	6,843,888	59.0	%	$219,040	55.6	%	$32.01

(1) Excludes lease expirations for properties held for sale at December 31, 2013. The information presented for all lease expiration activity reflects leasing activity through December 31, 2013 for our stabilized portfolio. For leases that have been renewed early or space that has been re-leased to a new tenant, the expiration date and annualized base rent information presented takes into consideration the renewed or re-leased lease terms. Excludes space leased under month-to-month leases, intercompany leases, vacant space, and lease renewal options not executed as of December 31, 2013.

(2) Annualized base rent includes the impact of straight-lining rent escalations and the amortization of free rent periods and excludes the impact of the following: amortization of deferred revenue related tenant-funded tenant improvements, amortization of above/below market rents, amortization for lease incentives due under existing leases, and expense reimbursement revenue. Additionally, the underlying leases contain various expense structures including full service gross, modified gross and triple net. Percentages represent percentage of total portfolio annualized contractual base rental revenue. For additional information on tenant improvement and leasing commission costs incurred by the Company for the current reporting period, please see further discussion under the caption “Information on Leases Commenced and Executed.”

In addition to the 0.8 million rentable square feet, or 6.6%, of currently available space in our stabilized portfolio, leases representing approximately 9.9% and 13.3% of the occupied square footage of our stabilized portfolio are scheduled to expire during 2014 and 2015, respectively. The leases scheduled to expire in 2014 and 2015 represent approximately 2.7 million rentable square feet or 19.2% of our total annualized base rental revenue. We believe that the weighted average cash rental rates are approximately 5% under the current average market rental rates for leases scheduled to expire during 2014 and 2015, although individual properties within any particular submarket presently may be leased either above, below, or at the current quoted market rates within that submarket, and the average rental rates for individual submarkets may be above, below, or at the average cash rental rate of our overall portfolio. Our ability to re-lease available space depends upon both general market conditions and the market conditions in the specific regions in which individual properties are located.

Redevelopment Projects

We believe that a portion of our potential long-term future growth will continue to come from redevelopment opportunities both through acquired properties and within our existing portfolio. Redevelopment opportunities are those projects in which we spend significant development and construction costs on existing or acquired buildings pursuant to a formal plan, the intended result of which is a higher economic return on the property. During the fourth quarter of December 31, 2013, we stabilized the following redevelopment project:

- 3880 Airport Way, Long Beach, submarket of Los Angeles, California on which we commenced redevelopment in the third quarter of 2011. This property, encompassing 98,243 rentable square feet, has a total investment of approximately $19.7 million, including $6.3 million net carrying value of the project at the commencement of redevelopment. The building was100% leased at December 31, 2013.

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As of December 31, 2013, we had one redevelopment project in lease-up.

- 360 Third Street, South of Market Area, submarket of San Francisco, California on which we commenced redevelopment in the fourth quarter of 2011. Redevelopment for this project was completed in the first quarter of 2013 and this property will move to our stabilized portfolio the first quarter of 2014. This project, which encompasses approximately 410,000 rentable square feet, will have a total estimated investment of approximately $186.1 million at completion. As of December 31, 2013, the project was 96% leased and 78% occupied. Included in our total investment is the purchase of the land underlying the ground lease for $27.5 million which closed in October 2013.

In-Process and Future Development Pipeline

We believe that a portion of our long-term future growth will also come from the completion of our under construction and in-process projects as well as executing on our future development pipeline, subject to market conditions. During 2012 and 2013, we increased our focus on value-add and highly accretive development opportunities and expanded our future development pipeline through targeted acquisitions of development opportunities on the West Coast.

We have a proactive planning process by which we continually evaluate the size, timing, costs and scope of our development program and, as necessary, scale activity to reflect the economic conditions and the real estate fundamentals that exist in our strategic submarkets. We expect to proceed in our development program with discipline and will be pursuing opportunities with attractive economic returns, in locations with transportation and retail amenities and in markets with strong fundamentals and visible demand. We plan to develop in phases as appropriate and we strongly favor starting projects that are pre-leased.

During the fourth quarter of December 31, 2013, we completed construction of the following development project:

- 331 Fairchild Drive, Mountain View, California, which we acquired in December 2012 and was 100% pre-leased. This property, encompassing 87,565 square feet, had a total investment of approximately $44.7 million. In October 2013, the project was substantially complete and the tenant took possession of the building.

As of December 31, 2013, our in-process development pipeline consisted of the following six projects under construction.

- 690 E. Middlefield Road, Mountain View, California, which we acquired in May 2012. The development project, which is 100% pre-leased to Synopsys, Inc., has a total estimated investment of approximately $196.9 million and is expected to encompass approximately 341,000 rentable square feet upon completion. Construction is currently in process and is expected to be completed in the first quarter of 2015.

- 350 Mission Street, South of Market Financial District, San Francisco, California, which we acquired in October 2012. Shortly after acquisition, we pre-leased the entire project to salesforce.com, inc. In the fourth quarter of 2013, we obtained full entitlements to increase this project from a 27-story building to a 30-story building which increased the square footage from 400,000 square feet to approximately 450,000 square feet. Salesforce.com will occupy the full 30-story building upon completion. The property is expected to be LEED platinum certified, the first ground up development property in the city expected to receive this designation. The development project has a total estimated investment of approximately $277.5 million. Construction is currently in process and is expected to be completed in phases during 2015.

- 555-599 N. Mathilda Avenue, Sunnyvale, California, which we acquired in December 2012. The project, which is comprised of one operating property and a future development site, is 100% pre-leased. Our plan at this project is to continue operating the existing building and develop an approximately 587,000 square foot office complex for LinkedIn, Inc., the tenant in the current existing building. The development project has a total estimated investment of approximately $314.8 million. Construction is currently in process and is expected to be completed in the third quarter of 2014.

- Columbia Square, in Hollywood, California, which we acquired in September 2012. The project is a historical media campus located in the heart of Hollywood, two blocks from the corner of Sunset Boulevard and Vine Street. During 2013, we commenced development on approximately 675,000 rentable square feet of a mixed-use project, which encompasses office, multi-family and retail components that we plan on completing in multiple phases. The project has a total estimated investment of approximately $392.5 million. Our plan is to create a mixed-use campus that preserves the historical character while establishing a new center for entertainment and media companies. Construction is currently in process and is expected to be completed in three phases between the third quarter of 2014 and the second quarter of 2016.

In December 2013, we announced that we will be collaborating with the Kor Group, a Los Angeles-based development and management firm that specializes in high-end residential and hospitality projects, on the project programming, design and branding of the residential component of Columbia Square. This portion of the project will be a mix of high-end long-term rentals and extended stay apartment homes that will cater to traveling business, entertainment and creative professionals. It will be the first luxury extended stay property to be located in the heart of Hollywood. Construction completion of this component is which is expected for the spring of 2016.

- 333 Brannan Street, South of Market Area, San Francisco, California, which we acquired in July 2012. In January 2014, six weeks after our ground breaking in the fourth quarter of 2013, we signed a 182,000 square foot, twelve-year lease with Dropbox for the entirety of this project. Dropbox is expected to take occupancy of the LEED platinum property at the completion of construction in the third quarter of 2015. The project has a total estimated investment of approximately $98.8 million. Construction is currently in process and is expected to be completed in the third quarter of 2015.

- Crossing/900, in Redwood City, California, which we entered into an agreement in June 2013 with a local partner and acquired a 0.35 acre land site, completing the first phase of the land assemblage for our plans to develop an approximate 300,000 square foot office project. In October 2013, the Company acquired a 2.0 acre undeveloped land parcel for $17.0 million, completing the final phase of the land assemblage for the project. The project has a total estimated investment of approximately $182.0 million and began construction in the fourth quarter of 2013.

In the future, we may also enter into agreements to acquire other development or redevelopment opportunities, either as wholly owned properties or through joint ventures and those agreements typically will be subject to the satisfaction of closing conditions. In addition, as of December 31, 2013, we had additional undeveloped land holdings, located primarily in various submarkets in San Diego County and Los Angeles with an aggregate cost basis of approximately $355.5 million and estimated rentable square feet of 2.7 million to 3.4 million.

This increase in our development and redevelopment activities will continue to cause an increase in the average development asset balances qualifying for interest and other carry cost capitalization in future periods. During the year ended December 31, 2013, we capitalized interest on in process development projects, redevelopment projects in lease-up, and development pipeline projects with an aggregate cost basis balance of approximately $1.0 billion at December 31, 2013, as it was determined these projects qualified for interest and other carry cost capitalization under GAAP. For the years ended December 31, 2013 and 2012, we capitalized $35.4 million and $19.8 million, respectively, of interest to our qualifying redevelopment and development projects. For the years ended December 31, 2013 and 2012, we capitalized $7.3 million and $3.1 million, respectively, of internal costs to our qualifying redevelopment and development projects.

Incentive Compensation. Our Executive Compensation Committee determines compensation, including cash bonuses and equity incentives, for our executive officers. For 2013, the annual cash bonus program was structured to allow the Executive Compensation Committee to evaluate a variety of key quantitative and qualitative metrics at the end of the year and make a determination based on the Company’s and management’s overall performance. Our Executive

Compensation Committee also grants equity incentive awards from time to time that include performance-based or market-measure based vesting requirements and/or time-based vesting requirements. As a result, accrued incentive compensation and compensation expense for future awards may be affected by our operating and development performance, financial results, stock price, performance against applicable performance-based vesting goals, market conditions and other factors. Consequently, we cannot predict the amounts that will be recorded in future periods related to such incentive compensation.

As of December 31, 2013, there was approximately $25.5 million of total unrecognized compensation cost related to outstanding nonvested shares of restricted common stock, RSUs and stock options issued under share-based compensation arrangements. Those costs are expected to be recognized over a weighted-average period of 2.2 years. The $25.5 million of unrecognized compensation cost does not reflect the future compensation cost for any potential share-based awards that may be issued. Share-based compensation expense for potential future awards could be affected by our operating and development performance, financial results, stock price, performance against applicable performance-based vesting goals, market conditions and other factors. In addition our Executive Compensation Committee granted restricted stock units in January 2014, and, if our stockholders do not approve an increase to the share limit under our 2006 Plan then these awards may be cash settled and will be subject to variable plan accounting until a sufficient amount of shares are authorized for issuance under the 2006 Plan to cover the payment of these awards. Consequently, we cannot predict the amounts that will be recorded in future periods for such awards. See Note 12 "Share-Based Compensation" to our consolidated financial statements included in this report for additional information regarding our share-based incentive compensation plan.

Stabilized Portfolio Information

As of December 31, 2013, our stabilized portfolio was comprised of 105 office properties encompassing an aggregate of approximately 12.7 million rentable square feet. Our stabilized portfolio includes all of our properties with the exception of undeveloped land, development and redevelopment properties currently under construction or committed for construction, "lease-up" properties and properties held-for-sale. We define lease-up properties as properties recently developed or redeveloped that have not yet reached 95% occupancy and are within one year following cessation of major construction activities. We define redevelopment properties as those properties for which we expect to spend significant development and construction costs on the existing or acquired buildings pursuant to a formal plan, the intended result of which is a higher economic return on the property. Our stabilized portfolio also excludes our future development pipeline, which is comprised of nine potential development sites, representing 120.9 gross acres of undeveloped land.

At December 31, 2013, our stabilized portfolio excluded 12 properties held for sale, one "lease-up" property and six development properties currently under construction.

The following table reconciles the changes in the rentable square feet in our stabilized portfolio of operating properties from December 31, 2012 to December 31, 2013:

	Number of Buildings	Rentable Square Feet
Total as of December 31, 2012	114	13,249,780
Acquisitions [1]	4	539,338
Completed development and redevelopment properties placed in-service	2	185,808
Dispositions and properties held for sale at December 31, 2013	(15)	(1,249,341)
Remeasurement	—	10,514
Total as of December 31, 2013	105	12,736,099

(1) Excludes development and redevelopment property acquisitions.

Occupancy Information

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

Stabilized Portfolio Occupancy

Region	Number of Buildings	Rentable Square Feet	Occupancy at [1] 12/31/2013		12/31/2012		12/31/2011	
Los Angeles and Ventura Counties	27	3,506,527	93.7	%	94.0	%	83.5	%
Orange County	3	437,603	92.8	%	92.0	%	93.4	%
San Diego County	48	4,367,713	90.8	%	90.7	%	92.5	%
San Francisco Bay Area	15	2,376,619	94.8	%	95.5	%	93.3	%
Greater Seattle	12	2,047,637	96.7	%	93.3	%	89.9	%
Total Stabilized Portfolio	105	12,736,099	93.4	%	92.8	%	90.1	%

	Average Occupancy Year Ended December 31, 2013	2012
Stabilized Portfolio		