KILROY REALTY CORP
Form 10-K
February 26, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(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, 2007

OR

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

For the transition period from _________ to _________

Commission file number 1-12675

KILROY REALTY CORPORATION

(Exact name of registrant as specified in its charter)

Maryland	**95-4598246**
(State or other jurisdiction of incorporation or organization)	**(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:

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

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

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

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

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately $2,316,995,333 based on the closing price on the New York Stock Exchange for such shares on June 30, 2007.

As of February 25, 2008, 32,891,492 shares of common stock, par value $.01 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Company s Proxy Statement with respect to its 2008 Annual Meeting of Stockholders to be filed not later than 120 days after the end of the registrant s fiscal year are incorporated by reference into Part III of this Form 10-K.

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Unless otherwise indicated or unless the context requires otherwise, all references in this report to we, us, our or the Company mean Kilroy Realty Corporation, including our consolidated subsidiaries.

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PART I

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

ITEM 1. BUSINESS

The Company

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

As of December 31, 2007, our stabilized portfolio of operating properties was comprised of 86 office buildings (the Office Properties) and 43 industrial buildings (the Industrial Properties), which encompassed an aggregate of approximately 8.1 million and 3.9 million rentable square feet, respectively. As of December 31, 2007, the Office Properties were approximately 93.7% leased to 314 tenants, and the Industrial Properties were approximately 94.7% leased to 64 tenants. All of our properties are located in Southern California.

Our stabilized portfolio excludes development and redevelopment properties currently under construction and lease-up properties. 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. As of December 31, 2007, our in-process development and redevelopment properties included three buildings that were under construction and three lease-up properties, which will encompass an aggregate of approximately 611,000 rentable square feet of new office space. All of the development and redevelopment properties are in the San Diego region of Southern California, except for one redevelopment property, which is in El Segundo, California.

We own our interests in all of our properties through Kilroy Realty, L.P., a Delaware limited partnership (the Operating Partnership), and Kilroy Realty Finance Partnership, L.P., a Delaware limited partnership (the Finance Partnership). We conduct substantially all of our activities through the Operating Partnership in which, as of December 31, 2007, we owned an approximate 93.7% general partnership interest. The remaining 6.3% limited partnership interest in the Operating Partnership was owned by certain of our executive officers and directors, certain of their affiliates, and other outside investors. Kilroy Realty Finance, Inc., one of our wholly-owned subsidiaries, is the sole general partner of the Finance Partnership and owns a 1.0% general partnership interest. The Operating Partnership owns the remaining 99.0% limited partnership interest of the Finance Partnership. We conduct substantially all of our development activities through Kilroy Services, LLC (KSLLC), a wholly-owned subsidiary of the Operating Partnership. Unless otherwise indicated, all references to we, us, our or the Company include the Operating Partnership, the Finance Partnership, KSLLC, Kilroy Realty Finance, Inc., and all other wholly-owned subsidiaries, which include Kilroy Realty Partners LP (KRPLP), Kilroy Realty TRS, Inc., KRCC LLC, Kilroy RB LLC and Kilroy RB II LLC.

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The following diagram illustrates the structure of Kilroy Realty Corporation and our subsidiaries as of December 31, 2007:

Available Information; Website Disclosure; Corporate Governance Documents

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

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

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

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

Attention: Investor Relations

Kilroy Realty Corporation

12200 West Olympic Boulevard, Suite 200

Los Angeles, CA 90064

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Current Year Highlights

In 2007, we continued to successfully attain our primary business objectives, which included the following:

- Commenced leases on more than 1.7 million rentable square feet of office and industrial space in our stabilized portfolio with average generally accepted accounting principles (GAAP) rent increases of 15% over the expired GAAP rents for the same space. For further discussion on the change in rental rates, see Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations Factors That May Influence Future Results of Operations.
- Added five buildings to our stabilized office portfolio, which we developed for a total investment of approximately $212 million. These buildings encompass approximately 784,000 rentable square feet and were 100% leased at December 31, 2007.
- Raised approximately $460 million of capital through the issuance of exchangeable unsecured senior notes at a coupon rate of 3.25%, which contributed to the decrease in our weighted-average interest rate during 2007.
- Improved the quality of our portfolio through the reinvestment of approximately $134 million of capital obtained from the sale of non-strategic assets into assets we are developing or redeveloping in Southern California.
- Acquired one property for a redevelopment opportunity in San Diego for a purchase price of approximately $25 million. The acquisition included two existing office buildings, which we redeveloped in 2007.
- Acquired three parcels of land for future office development in San Diego for an aggregate purchase price of approximately $132 million.
- Commenced construction on one property in San Diego, which we are developing for a total estimated investment of $22 million. This building will encompass an aggregate of approximately 51,000 rentable square feet of medical office space.
- Achieved a 94% occupancy rate as of December 31, 2007 in our stabilized portfolio.
- Increased our annual common stock dividend by approximately 4.7% to $2.22 per share at December 31, 2007, compared to $2.12 per share at December 31, 2006.

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 as operating revenues less property and related expenses (property expenses, real estate taxes, provision for bad debts and ground leases) before depreciation, and funds from operations (FFO), 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 GAAP net income available for common stockholders), as well as maximization of long-term stockholder value including:

- the quality and location of our properties;

- our ability to efficiently manage our assets as a low cost provider of commercial real estate through our seasoned management team possessing core capabilities in all aspects of real estate ownership, including property management, leasing, marketing, financing, accounting, legal, construction management and new development;
- the growth of our development pipeline;
- our pursuit of redevelopment opportunities in land-constrained markets; and
- our access to development and leasing opportunities as a result of our extensive experience and significant working relationships with major Southern California corporate tenants, municipalities and landowners given our 60-year presence in the Southern California market.

Operating Strategies. We focus on enhancing long-term growth in net operating income and FFO from our properties by:

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

Development Strategies. We and our predecessors have developed office and industrial properties primarily located in Southern California since 1947. As of December 31, 2007, our development pipeline included 116.7 acres of undeveloped land, with which we believe we will have the potential to develop over two million rentable square feet of office space. Our strategy with respect to development is to:

- maintain a disciplined approach to development by focusing on pre-leasing, phasing and cost control;
- continue to execute our build-to-suit program in which we develop properties to be leased by specific, committed tenants providing for lower-risk development;
- be the premier provider of two- to four-story campus style office buildings in Southern California;
- reinvest capital from dispositions of non-strategic assets into new, state-of-the-market development assets with higher cash flows and rates of return; and

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

We may engage in the additional development or redevelopment of office and/or industrial properties, primarily in Southern California, when market conditions support a favorable risk-adjusted return on such development or redevelopment. We expect that our significant working relationships with tenants, municipalities, and landowners in Southern California will give us further access to development opportunities. There can be no assurance, however, that we will be able to successfully develop or redevelop any of our properties or that we will have access to additional development or redevelopment opportunities.

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

- maintain financial flexibility and the ability to access a variety of capital sources;

- maintain a staggered debt maturity schedule to limit risk exposure at any particular point in the capital and credit market cycles;

- complete financing in advance of the need for capital; and

- manage interest rate exposure.

We utilize multiple sources of capital, including borrowings under our unsecured credit facility, the issuance of debt or equity securities and other bank and/or institutional borrowings and dispositions of non-strategic assets. There can be no assurance, however, that we will be able to obtain capital as needed on terms favorable to us or at all.

Significant Tenants

As of December 31, 2007, our ten largest office tenants in terms of annualized base rental revenues represented approximately 31.5% of total annualized base rental revenues, and our ten largest industrial tenants in terms of annualized base rental revenues represented approximately 5.3% of total annualized base rental revenues, defined as annualized monthly contractual rents from existing tenants at December 31, 2007 determined on a straight-line basis over the term of the related lease in accordance with GAAP. Of this amount, our largest tenant, Intuit Inc. (Intuit), leased an aggregate of approximately 627,100 rentable square feet of office space under five separate leases, representing 7.2% of our total annualized base rental revenues at December 31, 2007.

As of December 31, 2007, our eighth largest office tenant, Scripps Health, leased an aggregate of approximately 112,100 rentable square feet. In July 2006, we executed a new lease agreement with Scripps Health for a property we are developing in San Diego encompassing approximately 146,200 rentable square feet. Upon commencement of the term of that new lease, which is anticipated to occur during the third quarter of 2008, Scripps Health is projected to become our second largest tenant based on its percentage of our projected total annualized base rental revenues.

Our ten largest office tenants based on annualized base rental revenues at December 31, 2007 are:

- Intuit Inc.
- Cardinal Health, Inc.
- AMN Healthcare
- DIRECTV Group, Inc.
- The Boeing Company
- Fish & Richardson
- Favrille, Inc.
- Scripps Health
- Verenium Corporation

- Accredited Home Lenders, Inc.

Our ten largest industrial tenants based on annualized base rental revenues at December 31, 2007 are:

- Mattel, Inc.
- Celestica California, Inc.
- NBTY Manufacturing, LLC
- Extron Electronics, Inc.
- Eagle Ridge Manufacturing
- Targus, Inc.
- Progressive Marketing Products, Inc.
- Ricoh Electronics, Inc.
- Arrow Industries, Inc.[1]
- Printrak International Inc.

(1) In December 2007, Arrow Industries, Inc. (Arrow) notified us that it would like to terminate its lease, which represents 0.3% of our total annualized base rental revenues at December 31, 2007. As of the date of this report, Arrow is still bound by the terms and conditions of its lease with us.

For further information on the composition of our tenant base, see Item 2: Properties Tenant Information.

Competition

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

Segment and Geographic Financial Information

For financial information about our two reportable segments, Office Properties and Industrial Properties, see Note 19 to our consolidated financial statements.

All of our business is conducted in the United States, in Southern California. For information about our revenues and long-lived assets and other financial information, see our consolidated financial statements included in this report.

Employees

As of December 31, 2007, we employed 148 people through the Operating Partnership, KSLLC and Kilroy Realty TRS, Inc. We believe that relations with our employees are good.

Government Regulations Relating to the Environment

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

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

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

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Use of hazardous materials by some of our tenants. Some of our tenants routinely 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, 2007, less than 5% of our tenants, representing less than 10% of the aggregate square footage of our properties, handled hazardous substances and/or wastes on our properties as part of their routine operations. These tenants are primarily involved in the life sciences and the light industrial and warehouse business. We are not aware of any material noncompliance, liability or claim relating to hazardous or toxic substances or petroleum products in connection with any of our properties, and management does not believe that on-going activities by our tenants will have a material adverse effect on our operations.

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

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

ITEM 1A. RISK FACTORS

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

General economic conditions may adversely affect our financial condition and results of operations. Periods of economic slowdown or recession in the United States and in other countries, declining demand for leased office or industrial properties or rising interest rates, fluctuations in availability and cost of construction materials and labor resulting from increased worldwide demand, or the public perception that any of these events may occur, could result in a general decline in rents or an increased incidence of defaults under existing leases at our properties, either of which could adversely affect our financial condition, results of operations, cash flow, quoted trading prices of our securities and ability to satisfy our debt service obligations and to pay distributions to our stockholders.

Our operations depend upon the Southern California economy. As of December 31, 2007, all of our properties and all of our in-process and future development and redevelopment properties are located in Southern California. Our ability to make expected distributions to stockholders depends on our ability to generate FFO in excess of scheduled principal payments on debt, payments on the preferred limited partnership units issued by the Operating Partnership, distributions to preferred stockholders and capital expenditure requirements.

Events and conditions applicable to owners and operators of real property that are beyond our control may decrease funds available for distribution and the value of our properties. These events include:

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

The geographical concentration of our properties may expose us to greater economic risks than if we owned properties in several geographic regions. Any adverse economic or real estate developments in the Southern California region could adversely impact our financial condition, results from operations, cash flows, quoted trading prices of our securities and ability to satisfy our debt service obligations and to pay distributions to our stockholders.

We depend on significant tenants. As of December 31, 2007, our ten largest office tenants represented approximately 31.5% of total annualized base rental revenues, and our ten largest industrial tenants represented approximately 5.3% of total annualized base rental revenues. Of this amount, our largest tenant, Intuit, leased an aggregate of approximately 627,100 rentable square feet of office space under five separate leases, representing 7.2% of our total annualized base rental revenues at December 31, 2007. See further discussion on the composition of our tenants by industry and our largest tenants under Item 1. Business Significant Tenants and Item 2. Properties Tenant Information, respectively.

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

Downturn in tenants businesses may reduce our cash flow. For the year ended December 31, 2007, we derived approximately 98.7% of our revenues from continuing operations from rental income and tenant reimbursements. A tenant may experience a downturn in its business, which may weaken its financial condition and result in its failure to make timely rental payments. In the event of default by a tenant, we may experience delays in enforcing our rights as landlord and may incur substantial costs in protecting our investment.

The bankruptcy or insolvency of a major tenant also may adversely affect the income produced by our properties. If any tenant becomes a debtor in a case under the Bankruptcy Code, we cannot evict the tenant solely because of the bankruptcy. In addition, the bankruptcy court might permit the tenant to reject and terminate its lease with us. Our claim against the tenant for unpaid and future rent would 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 from operations, cash flows, the quoted trading prices of our securities and our ability to satisfy our debt service obligations and to pay distributions to stockholders.

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We may be unable to renew leases or re-lease available space. As of December 31, 2007, we had office and industrial space available for lease representing approximately 6.0% of the total square footage of our properties. In addition, leases representing approximately 12.5% and 17.7% of the leased square footage of our properties are scheduled to expire in 2008 and 2009, respectively. Above market rental rates on some of our properties may force us to renew or re-lease expiring leases at rates below current lease rates. Management believes that the average rental rates for our properties, including leases scheduled to expire in 2008, are approximately 15% below the current average quoted market rates, although individual properties within any particular submarket presently may be leased at, above or below the current market rental rates within that submarket. We cannot give any assurance that leases will be renewed or that available space will be re-leased at rental rates equal to or above the current rental rates. If the average rental rates for our properties decrease or existing tenants do not renew their leases, our financial position, results of operations, cash flows, the quoted trading prices of our securities and our ability to satisfy our debt service obligations and pay distributions to our stockholders could be adversely affected.

We are subject to governmental regulations that may affect the development, redevelopment and use of our properties. In addition to the governmental regulations relating to the environment described in Item 1 Government Regulations Relating to the Environment above, we are subject to additional governmental regulations that may have a material adverse effect on our financial condition, results of operations, and cash flows, quoted trading prices of our securities and our ability to satisfy our debt service obligations and make distributions to stockholders.

Our properties are subject to regulation under federal laws, such as the Americans with Disabilities Act of 1990 (the ADA) under which all public accommodations must meet federal requirements related to access and use by disabled persons, and state and local laws addressing earthquake, fire and life safety requirements. Although we believe that our properties substantially comply with present 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, quoted trading prices of our securities and ability to satisfy our debt service obligations and make distributions to stockholders could be adversely affected.

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

Increasing utility costs in California may have an adverse effect on our operating results and occupancy levels. The State of California continues to address issues related to the supply of electricity, water and natural gas. In recent years, shortages of electricity have resulted in increased costs for consumers and certain interruptions in service. Increased consumer costs and consumer perception that the State is not able to effectively manage its utility needs may reduce demand for leased space in California office and industrial properties. A significant reduction in demand for office and industrial space could adversely affect our future financial condition, results of operations, cash flows, quoted trading prices of our securities and ability to satisfy our debt service obligations and to pay distributions to stockholders.

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Our debt level reduces cash available for distribution and may expose us to the risk of default under our debt obligations. Payments of principal and interest on borrowings may leave us with insufficient cash resources to operate our properties or to pay the distributions necessary to maintain our REIT qualification. Our level of debt and the limitations imposed by our debt agreements may have important 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 flow 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 with cross default provisions could result in a default on other indebtedness.

If one or more of these events were to occur, our financial condition, results of operations, cash flows, quoted trading prices of our securities and ability to satisfy our debt service obligations and to pay distributions to stockholders could be adversely affected. In addition, foreclosures could create taxable income without accompanying cash proceeds, a circumstance which could require us to pay income or excise tax notwithstanding our tax status as a REIT under the Internal Revenue Code of 1986, as amended (Internal Revenue Code). As of December 31, 2007, we had approximately $1.1 billion aggregate principal amount of indebtedness, $81.5 million of which is contractually due prior to December 31, 2008. Our total debt and preferred equity represented 40.6% of our total market capitalization at December 31, 2007. See Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for a presentation of our market capitalization.

We face significant competition, which may decrease the occupancy and rental rates of our properties. We compete with several developers, owners and operators of office, industrial and other commercial real estate, many of which own properties similar to ours in the same submarkets in which our properties are located but which have lower occupancy rates than our properties. For instance, occupancy rates for our Del Mar stabilized office property portfolio in San Diego County at December 31, 2007 was 99.8% in comparison to 87.2% for the Del Mar submarket in total. We believe that our higher occupancy rates mean that, on average, our competitors have more space currently available for lease than we do. As a result, 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. Leases representing approximately 140,000 rentable square feet, or 9.0% of our Del Mar stabilized office property portfolio, are scheduled to expire in 2008. As a result, our financial condition, results of operations and cash flows, quoted trading prices of our securities and ability to satisfy our debt service obligations and pay distributions to stockholders may be adversely affected.

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

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Earthquake damage to our properties could have an adverse effect on our financial condition and operating results. As of December 31, 2007, all of our properties are located in Southern California. We carry earthquake insurance on our properties in an amount and with deductibles that management believes are commercially reasonable. However, the amount of our earthquake insurance coverage may not be sufficient to cover losses from earthquakes. In addition, our earthquake insurance policies include substantial self-insurance portions and we may discontinue earthquake insurance on some or all of our properties in the future if the cost of premiums for earthquake insurance exceeds the value of the coverage discounted for the risk of loss. If we experience a loss that is uninsured or which exceeds policy limits, we could lose the capital invested in the damaged properties as well as the anticipated future cash flows from those properties. In addition, if the damaged properties are subject to recourse indebtedness, we would continue to be liable for the indebtedness, even if the properties were irreparable.

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

- the potential inability to acquire a desired property because of competition from other real estate investors with significant capital, including both publicly traded REITs and institutional investment funds;
- the possibility that, even if we enter into agreements for the acquisition of office and industrial properties, such acquisitions may never close since they remain subject to customary conditions to closing including the completion of due diligence investigations to management s satisfaction;
- we may be unable to finance acquisitions on favorable terms;
- we may spend more than budgeted amounts to make necessary improvements or renovations to acquired properties; and
- we may lease acquired properties at below expected rental rates.

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, quoted trading prices of our securities and ability to satisfy our debt service obligations and pay distributions to stockholders could be adversely affected.

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

- we may be unable to lease developed or redeveloped properties at expected rental rates or within projected 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 development or redevelopment properties that we may not complete; and
- we may encounter delays or refusals in obtaining all necessary zoning, land use, building, occupancy, and other required governmental permits and authorizations.

If one or more of these events were to occur in connection with our development or redevelopment properties currently under construction or planned for development, our financial condition, results of operations, cash flows, quoted trading prices of our securities, and ability to satisfy our debt service obligations and pay distributions to our stockholders could be adversely affected.

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While we primarily develop and redevelop office properties in Southern California markets, we may in the future develop or redevelop properties for retail or other use and expand our business to other geographic regions where we expect the development 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 other property types or outside markets, which could adversely affect our ability to develop properties or to achieve expected performance.

We could default on leases for land on which some of our properties are located. As of December 31, 2007, we owned one office complex located on various parcels, which we lease individually on a long-term basis. 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 and all of its options, 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 flows, quoted trading prices of our securities and ability to satisfy our debt service obligations and pay distributions to stockholders. As of December 31, 2007, we had approximately 949,000 aggregate rentable square feet, or 7.9% of our total portfolio, of rental space located on these leased parcels. The leases for the land under the one office complex at the Kilroy Airport Center in Long Beach, California expire in 2084.

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 Internal Revenue Code generally imposes a 100% prohibited transaction tax on profits we derive from sales of properties held primarily for sale to customers in the ordinary course of business, which effectively limits our ability to sell properties other than on a selected basis. These restrictions on our ability to sell our properties could have an adverse effect on our financial position, results from operations, cash flows, quoted trading prices of our securities, ability to satisfy our debt service obligations and repay indebtedness and ability to pay distributions to stockholders.

Common limited partners of the Operating Partnership have limited approval rights, which may prevent us from completing a change of control transaction that may be in the best interests of stockholders. We may not withdraw from the Operating Partnership or transfer its general partnership interest or admit another general partner without the approval of the holders of a majority of the common limited partnership units, except in the case of a termination transaction that requires the approval of the holders of 60% of the common units, including the common units held by us in our capacity as general partner. The right of common limited partners to vote on these transactions could limit our ability to complete a change of control transaction that might otherwise be in the best interest of our stockholders.

Limited partners of the Operating Partnership must approve the dissolution of the Operating Partnership and the disposition of properties they contributed. For as long as limited partners own at least 5% of all of the common units of the Operating Partnership, we must obtain the approval of limited partners holding a majority of the common units before we may dissolve the partnership. As of December 31, 2007, limited partners owned approximately 6.3% of the outstanding interests in the Operating Partnership. In addition, the Operating Partnership has agreed to use commercially reasonable efforts to minimize the tax consequences to common limited partners resulting from the repayment, refinancing, replacement or restructuring of debt, or any sale, exchange or other disposition of any of our other assets. The exercise of one or more of these approval rights by the limited partners could delay or prevent us from completing a transaction that may be in the best interest of our stockholders.

The Chairman of our Board of Directors and our President and Chief Executive Officer each have substantial influence over our affairs. John B. Kilroy, Sr. is the Chairman of the Board of Directors and the father of John B. Kilroy, Jr., our President and Chief Executive Officer. Each is a member of our Board of Directors, and together, as of December 31, 2007, they beneficially owned 330,315 shares of common stock and an aggregate of 1,430,970 units of the Operating Partnership s common limited partnership units, which are redeemable in exchange for, at our option, an equal number of shares of our common stock, representing a total

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beneficial ownership of approximately 5.2% of the total outstanding shares of common stock as of December 31, 2007, assuming the exchange, at our option, of the common limited partnership units held by Messrs. Kilroy into shares of our common stock.

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

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

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

- no more than 50% in value of our capital stock may be owned, actually or constructively, by five or fewer individuals, including some entities, during the last half of a taxable year;

- subject to exceptions, our common stock must be held by a minimum of 100 persons for at least 335 days of a 12-month taxable year, or a proportionate part of a short taxable year; and

- if we, or any entity which owns 10% or more of our capital stock, actually or constructively own 10% or more of one of our tenants, or a tenant of any partnership in which we are a partner, then any rents that we receive from that tenant in question will not be qualifying income for purposes of the Internal Revenue Code s REIT gross income tests, regardless of whether we receive the rents directly or through a partnership.

Our charter also establishes clear ownership limits to protect our REIT status. No single stockholder may own, either actually or constructively, absent a waiver from the Board of Directors, more than 7.0% (by value or by number of shares, whichever is more restrictive) of our common stock outstanding. Similarly, absent a waiver from the Board of Directors, no single holder of our 7.45% Series A Cumulative Redeemable Preferred stock (the Series A Preferred Stock) and 9.25% Series D Cumulative Redeemable Preferred stock (the Series D Preferred Stock), if issued, may actually or constructively own any class or series of our preferred stock, so that their total capital stock ownership would exceed 7.0% by value of our total outstanding shares of capital stock; no single holder of our Series B Junior Participating Preferred stock (the Series B Preferred Stock), if issued, may actually or constructively own more than 7.0% (by value or by number of shares, whichever is more restrictive) of our Series B Preferred Stock; no single holder of our 7.8% Series E Cumulative Redeemable Preferred stock (the Series E Preferred Stock) may actually or constructively own more than 9.8% (by value or by number of shares, whichever is more restrictive) of our Series E Preferred Stock; and no single holder of our 7.5% Series F Cumulative Redeemable Preferred stock (the Series F Preferred Stock) may actually or constructively own more than 9.8% (by value or by number of shares, whichever is more restrictive) of our Series F Preferred Stock.

The Board of Directors may waive the ownership limits if it is satisfied that the excess ownership would not jeopardize our REIT status and if it believes that the waiver would be in our best interests. The Board of

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Directors has waived the ownership limits with respect to John B. Kilroy, Sr., John B. Kilroy, Jr., members of their families and some of their affiliated entities. These named individuals and entities may own either actually or constructively, in the aggregate, up to 19.6% of our outstanding common stock.

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

Our charter contains provisions that may delay, defer, or prevent a change of control transaction:

Our Board of Directors is divided into classes that serve staggered terms. Our Board of Directors is divided into three classes with staggered terms. The staggered terms for directors may reduce the possibility of a tender offer or an attempt to complete a change of control transaction even if a tender offer or a change of control is in our stockholders interest;

We could issue preferred stock without stockholder approval. Our charter authorizes our Board of Directors to issue up to 30,000,000 shares of preferred stock, including convertible preferred stock, without stockholder approval. The Board of Directors may establish the preferences, rights and other terms, including the right to vote and the right to convert into common stock any shares issued. The issuance of preferred stock could delay or prevent a tender offer or a change of control even if a tender offer or a change of control was in our stockholders interest. The Operating Partnership has issued 1,500,000 7.45% Series A Cumulative Redeemable Preferred units (the Series A Preferred Units), which in the future may be redeemed for cash or, at our option, for an equal number of shares of Series A Preferred Stock. In addition, we have designated and authorized the issuance of up to 400,000 shares of Series B Preferred Stock and 900,000 shares of Series D Preferred Stock. As of December 31, 2007, 5,060,000 shares of our preferred stock are issued and outstanding, consisting of 1,610,000 shares of our Series E Preferred Stock and 3,450,000 shares of our Series F Preferred Stock; and

We have a stockholders rights plan. Each share of our common stock includes the right to purchase one-hundredth (1/100) of a share of our Series B Preferred Stock. The rights have anti-takeover effects and would cause substantial dilution to a person or group that attempts to acquire us on terms that our Board of Directors does not approve. We may redeem the shares for $.01 per right, prior to the time that a person or group has acquired beneficial ownership of 15% or more of our common stock. Therefore, the rights should not interfere with any merger or business combination approved by our Board of Directors.

The staggered terms for directors, provisions for removal of directors, future issuance of additional common or preferred stock and our stockholders rights plan may delay or prevent a change of control over the Company, even if a change of control might be beneficial to our stockholders, deter tender offers that may be beneficial to our stockholders, or limit stockholders opportunity to receive a potential premium for their shares if an investor attempted to gain shares beyond our ownership limits or otherwise to effect a change of control.

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

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income and would be subject to federal income tax at regular corporate rates;

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

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

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

Qualification as a REIT involves the application of highly technical and complex Internal Revenue 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 Internal Revenue Code is greater in the case of a REIT that holds its assets through a partnership. The determination of various factual matters and circumstances not entirely within our control may affect our ability to qualify as a REIT. For example, in order to qualify as a REIT, at least 95% of our gross income in any year must be derived from qualifying sources. Also, we must make distributions to stockholders aggregating annually at least 90% of our net taxable income, excluding capital gains. In addition, legislation, new regulations, administrative interpretations or court decisions may adversely affect our investors or our ability to qualify as a REIT for federal income tax purposes or the desirability of an investment in a REIT relative to other investments. Although management believes that we are organized and operate in a manner to qualify as a REIT, we cannot be certain that we have been or will continue to be organized or be able to operate in a manner to qualify or remain qualified as a REIT for federal income tax purposes.

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

Our growth depends on external sources of capital that are outside of our control. We are required under the Internal Revenue Code to distribute at least 90% of our taxable income, determined without regard to the dividends-paid deduction and excluding any net capital gain. Because of this distribution requirement, we may not be able to fund future capital needs, including any necessary acquisition financing, from operating cash flow. Consequently, management relies on third-party sources of capital to fund our capital needs. We may not be able to obtain the financing on favorable terms or at all. Any additional debt we incur will increase our leverage. Access to third-party sources of capital depends, in part, on general market conditions, the market s perception of our growth potential, our current and expected future earnings, our cash flow and cash distributions, and the quoted market prices of our securities. If we cannot obtain capital from third-party sources, we may not be able to acquire properties when strategic opportunities exist, satisfy our debt service obligations or make the cash distributions to stockholders necessary to maintain our qualification as a REIT.

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

We are not limited in our ability to incur debt. Our financing policies and objectives are determined by our Board of Directors. Our goal is to limit our dependence on leverage and maintain a conservative ratio of debt to total market capitalization. However, our organizational documents do not limit the amount or percentage of indebtedness, funded or otherwise, that we may incur. At December 31, 2007, we had approximately $1.1 billion aggregate principal amount of indebtedness outstanding, which represented 34.4% 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 40.6% at December 31, 2007. See Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources for a presentation of our market capitalization. This ratio may be increased or decreased without the consent of our stockholders. Increases in the amount of debt outstanding would result in an increase in our debt service, which could adversely affect cash flow and our ability to make distributions to stockholders. Higher leverage also increases the risk of default on our obligations and limits our ability to obtain additional financing in the future.

We may issue additional shares of capital stock without stockholder approval, which may dilute stockholder investment. We may issue shares of our common stock, preferred stock or other equity or debt securities without stockholder approval. Similarly, we may cause the Operating Partnership to offer its common or preferred units for contributions of cash or property without approval by the limited partners of the Operating Partnership or our stockholders. Further, under certain circumstances, we may issue shares of our common stock in exchange for the 3.250% Exchangeable Senior Notes Due 2012 issued by the Operating Partnership (the Notes). Existing stockholders have no preemptive rights to acquire any of these securities, and any issuance of equity securities under these circumstances may dilute a stockholder s investment.

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

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

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

Sales of a substantial number of shares of our securities, or the perception that this could occur, could result in decreasing the quoted market price per share for our securities. Management cannot predict whether future issuances of shares of our common stock or the availability of shares for resale in the open market will result in decreasing the market price per share of our common stock.

As of December 31, 2007, 32,765,893 shares of our common stock and 5,060,000 shares of our preferred stock, consisting of 1,610,000 shares of our Series E Preferred Stock and 3,450,000 shares of our Series F Preferred Stock, were issued and outstanding, and we had reserved for future issuance the following shares of common stock: 2,189,325 shares issuable upon the exchange, at our option, of common limited partnership units; 1,166,602 shares issuable under the Company s 2006 Incentive Award Plan; and 1,000,000 shares issuable under the Company s Dividend Reinvestment and Direct Stock Purchase Plan. During the year ended December 31, 2007, we filed a registration statement that was automatically effective and registered 6,269,570 shares of our common stock that may be issued in exchange for the Notes. In addition, during the year ended December 31, 2006, we filed a registration statement that was automatically effective and registered an unspecified amount of equity securities that we may sell in primary offerings. Consequently, if and when the shares are issued, they may be freely traded in the public markets.

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Future terrorist activity or engagement in war by the United States may have an adverse affect on our financial condition and operating results. Future terrorist attacks in the United States, such as the attacks that occurred in New York and Washington, D.C. on September 11, 2001 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 and industrial leased space, delay the time in which our new or renovated properties reach stabilized occupancy, increase our operating expenses, such as those attributable to increased physical security for our properties, and limit our access to capital or increase our cost of raising capital.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

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ITEM 2. PROPERTIES

General

As of December 31, 2007, our stabilized portfolio of operating properties was comprised of 86 Office Properties and 43 Industrial Properties, which encompassed an aggregate of approximately 8.1 million and 3.9 million rentable square feet, respectively. As of December 31, 2007, the Office Properties were approximately 93.7% leased to 314 tenants, and the Industrial Properties were approximately 94.7% leased to 64 tenants. All of our properties are located in Southern California.

Our stabilized portfolio excludes development and redevelopment properties currently under construction and lease-up properties. 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. As of December 31, 2007, our in-process development and redevelopment properties included three buildings that were under construction and three lease-up properties, which will encompass an aggregate of approximately 611,000 rentable square feet of new office space. All of the development and redevelopment properties are in the San Diego region of Southern California, except for one redevelopment property, which is in El Segundo, California.

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

We believe that all of our properties are well-maintained and do not require significant capital improvements. As of December 31, 2007, we managed all of our properties through internal property managers.

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Office and Industrial Properties

The following table sets forth certain information relating to each of the stabilized Office Properties and Industrial Properties owned as of December 31, 2007. We own all of our interests in the Office Properties and Industrial Properties through the Operating Partnership and the Finance Partnership. The seven office buildings located at Kilroy Airport Center in Long Beach, California all are held subject to leases for the land that expire in 2084.

Property Location	No. of Buildings	Year Built/ Renovated	Net Rentable Square Feet	Percentage Occupied at 12/31/07(1)	Annualized Base Rental Revenue ($000 s)(2)	Average Base Rental Revenue Per Sq. Ft. ($)(3)
Office Properties:						
Los Angeles County						
Calabasas Park Centre, Calabasas, California						
23925 Park Sorrento	1	2001	11,789	100.0%	$ 421	$ 35.71
23975 Park Sorrento	1	2001	100,592	86.7%	3,044	35.81
24025 Park Sorrento	1	2000	102,264	100.0%	3,515	34.37
26541 Agoura Road Calabasas, California	1	1988	90,366	100.0%	2,551	28.34
Kilroy Airport Center, El Segundo, California						
2250 E. Imperial Highway	1	1983	293,261	100.0%	8,774	30.13
2260 E. Imperial Highway(4)	1	1983	286,151	100.0%	5,409	18.90
2240 E. Imperial Highway(5)		1983/2007	15,719	100.0%	478	30.41
Imperial & Sepulveda, El Segundo, California						
909 N. Sepulveda Blvd.	1	1972/2004	241,607	85.2%	4,669	22.67
999 N. Sepulveda Blvd.	1	1962/2003	127,901	98.5%	2,557	22.06
Kilroy Airport Center, Long Beach, California						
3900 Kilroy Airport Way	1	1987	126,840	100.0%	2,495	19.74
3880 Kilroy Airport Way(4)	1	1987	98,243	100.0%	1,328	13.52
3760 Kilroy Airport Way	1	1989	165,278	88.8%	3,572	24.92
3780 Kilroy Airport Way	1	1989	219,745	89.6%	5,150	26.72
3750 Kilroy Airport Way(6)	1	1989	10,457	100.0%	137	19.85
3800 Kilroy Airport Way	1	2000	192,476	91.3%	5,053	28.76
3840 Kilroy Airport Way	1	1999	136,026	100.0%	3,538	26.01
Westside Media Center, Los Angeles, California						
12200 W. Olympic Blvd.	1	2000	150,302	99.7%	4,415	37.61
12100 W. Olympic Blvd.	1	2002	150,167	100.0%	5,125	34.13
12312 W. Olympic Blvd(4)	1	1950/1998	78,000	100.0%	1,782	22.85
1633 26th Street Santa Monica, California	1	1972/1997	44,915	100.0%	1,152	25.65
2100 Colorado Avenue Santa Monica, California(4)	3	1992	94,844	100.0%	2,791	29.43
3130 Wilshire Blvd. Santa Monica, California	1	1969/1998	89,017	98.9%	2,495	28.56
501 Santa Monica Blvd. Santa Monica, California	1	1974	73,115	98.3%	2,488	34.96
Subtotal/Weighted Average Los Angeles County	24		2,899,075	96.1%	72,939	26.75
Orange County						
La Palma Business Center, Anaheim, California						
4175 E. La Palma Avenue	1	1985	43,263	94.1%	821	20.17
8101 Kaiser Blvd. Anaheim, California	1	1988	59,790	100.0%	1,544	25.82
Kilroy Center, Brea, California						
601 Valencia Avenue	1	1982	60,891	100.0%	791	12.99
603 Valencia Avenue	1	2005	45,900	100.0%	993	21.63
111 Pacifica Irvine, California	1	1991	67,496	100.0%	1,867	29.52

Subtotal/Weighted Average Orange County	5		277,340	99.1%	6,016	22.24
San Diego County						
Del Mar Corporate Center, San Diego, California						
12340 El Camino Real(7)	1	2002	87,405	100.0%	$ 3,866	$ 44.23
12390 El Camino Real(7)	1	2000	72,332	100.0%	3,069	42.43
12348 High Bluff Drive San Diego, California(7)	1	1999	38,710	93.5%	1,096	30.27
Kilroy Centre Del Mar, San Diego, California						
3579 Valley Centre Drive(7)	1	1999	52,375	100.0%	1,777	33.93
3611 Valley Centre Drive(7)	1	2000	130,178	100.0%	4,621	37.36
3661 Valley Centre Drive(7)	1	2001	129,752	100.0%	4,006	30.87

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Property Location	No. of Buildings	Year Built/ Renovated	Net Rentable Square Feet	Percentage Occupied at 12/31/07(1)	Annualized Base Rental Revenue ($000 s)(2)	Average Base Rental Revenue Per Sq. Ft. ($)(3)
3721 Valley Centre Drive(7)	1	2002	114,780	100.0%	3,767	32.82
3811 Valley Centre Drive(9)	1	2000	112,067	100.0%	5,199	46.39
12225/12235 El Camino Real San Diego, California(8)	2	1998	115,513	100.0%	3,198	27.69
12400 High Bluff Drive San Diego, California(7)	1	2003	208,464	100.0%	9,897	47.48
6215/6220 Greenwich Drive San Diego, California(4)	2	1996	212,214	33.5%	1,334	18.79
15051 Avenue of Science San Diego, California(9)	1	2001	70,617	100.0%	2,035	28.82
15073 Avenue of Science San Diego, California(9)	1	2001	46,759	100.0%	1,233	26.37
15378 Avenue of Science San Diego, California(9)	1	1984	68,910	100.0%	978	14.19
15434/15445 Innovation Drive San Diego, California(10)	2	2000	103,000	0%		
15231 Avenue of Science San Diego, California(9)	1	2005	65,638	100.0%	1,882	28.67
15253 Avenue of Science San Diego, California(9)	1	2005	37,437	100.0%	1,069	28.55
15333 Avenue of Science San Diego, California(9)	1	2006	78,880	100.0%	2,110	26.75
13500/13520 Evening Creek Drive North San Diego, California(11)	2	2004	281,830	79.8%	7,178	32.19
Santa Fe Summit Phase I, San Diego, California						
7525 Torrey Sante Fe	1	2007	103,979	100.0%	3,040	29.24
7535 Torrey Sante Fe	1	2007	130,243	100.0%	3,785	29.06
7545 Torrey Sante Fe	1	2007	130,354	100.0%	3,779	28.99
7555 Torrey Sante Fe	1	2007	101,236	100.0%	3,304	32.64
10020 Pacific Mesa, San Diego, California	1	2007	318,000	100.0%	7,683	24.16
4939/4955 Directors Place San Diego, California(9)	2	2002	136,908	100.0%	5,157	37.67
5005/5010 Wateridge Vista Drive San Diego, California(4)	2	1999	172,778	100.0%	3,509	20.31
10421 Pacific Center Court, San Diego, California(9)	1	2002	79,871	100.0%	4,490	56.22
10243 Genetic Center Drive, San Diego, California(9)	1	2001	102,875	100.0%	3,518	34.20
10390 Pacific Center Court, San Diego, California(9)	1	2002	68,400	100.0%	2,771	40.51
6055 Lusk Avenue, San Diego, California(4)	1	1997	93,000	100.0%	1,554	16.71
6260 Sequence Drive, San Diego, California(9)	1	1997	130,536	100.0%	1,717	13.15
6290/6310 Sequence Drive, San Diego, California(12)	2	1997	152,415	41.0%	1,200	19.23
6340/6350 Sequence Drive, San Diego, California(13)	2	1998	199,000	100.0%	2,737	13.75
Pacific Corporate Center, San Diego, California(14)	6	1995	332,542	100.0%	5,930	17.83
5717 Pacific Center, San Diego, California	1	2001/2005	67,995	100.0%	1,503	22.10
4690 Executive Drive, San Diego, California(15)	1	1999	47,636	100.0%	1,053	22.11
9455 Towne Center Drive, San Diego, California(4)	1	1998	45,195	100.0%	668	14.78
9785/9791 Towne Center Drive, San Diego, California(4)	2	1999	126,000	100.0%	2,290	18.17

Subtotal/Weighted Average San Diego County	52		4,565,824	91.4%	118,003	28.34
Other						
5151-5155 Camino Ruiz, Camarillo, California(16)	4	1982	265,372	100.0%	3,161	11.91
2829 Townsgate Road, Thousand Oaks, California	1	1990	81,158	98.1%	2,339	29.38
Subtotal/Weighted Average Other	5		346,530	99.6%	5,500	15.94
TOTAL/WEIGHTED AVERAGE OFFICE PROPERTIES	86		8,088,769	93.7%	202,458	26.97

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Property Location	No. of Buildings	Year Built/ Renovated	Net Rentable Square Feet	Percentage Occupied at 12/31/07(1)	Annualized Base Rental Revenue ($000 s)(2)	Average Base Rental Revenue Per Sq. Ft. ($)(3)
Industrial Properties:						
Los Angeles County						
2031 E. Mariposa Avenue, El Segundo, California	1	1954	192,053	100.0%	2,960	15.41
Subtotal/Weighted Average Los Angeles County	1		192,053	100.0%	2,960	15.41
Orange County						
1000 E. Ball Road, Anaheim, California	1	1956	100,000	100.0%	757	7.57
1230 S. Lewis Road, Anaheim, California	1	1982	57,730	100.0%	388	6.72
1250 N. Tustin Avenue, Anaheim, California	1	1984	84,185	100.0%	753	8.94
3125 E. Coronado Street, Anaheim, California	1	1970	144,000	100.0%	1,087	7.55
3130/3150 Miraloma, Anaheim, California(17)	1	1970	144,000	100.0%	838	5.82
3250 E. Carpenter, Anaheim, California	1	1998	41,225	100.0%	314	7.62
3340 E. La Palma Avenue, Anaheim, California	1	1966	153,320	100.0%	798	5.20
5115 E. La Palma Avenue, Anaheim, California	1	1967/1998	286,139	100.0%	1,484	5.19
5325 E. Hunter Avenue, Anaheim, California	1	1983	110,487	100.0%	564	5.10
Anaheim Technology Center, Anaheim, California	5	1999	597,147	100.0%	3,672	6.15
La Palma Business Center, Anaheim, California						
4155 E. La Palma Avenue(18)	1	1985	74,618	100.0%	873	11.70
4123 E. La Palma Avenue(19)	1	1985	70,863	100.0%	711	10.03
Brea Industrial Complex, Brea, California(20)	7	1981	277,456	100.0%	2,322	8.37
Brea Industrial Lambert Road, Brea, California(21)	2	1999	178,811	100.0%	1,326	7.42
1675 MacArthur, Costa Mesa, California	1	1986	50,842	100.0%	625	12.29
25202 Towne Center Drive, Foothill Ranch, California	1	1998	303,533	100.0%	2,501	8.24
12400 Industry Street, Garden Grove, California(22)	1	1972	64,200	100.0%		
12681/12691 Pala Drive, Garden Grove, California(9)	1	1970	84,700	100.0%	664	7.84
7421 Orangewood Avenue, Garden Grove, California	1	1981	82,602	100.0%	643	7.78
Garden Grove Industrial Complex, Garden Grove, California(23)	6	1971	275,971	100.0%	2,079	7.53
17150 Von Karman, Irvine, California(24)	1	1977	157,458	0%		
2055 S.E. Main Street, Irvine, California(25)	1	1973	47,583	0%		
1951 E. Carnegie, Santa Ana, California	1	1981	100,000	100.0%	810	8.10
2525 Pullman, Santa Ana, California	1	2002	103,380	100.0%	586	5.67
14831 Franklin Avenue, Tustin, California	1	1978	36,256	100.0%	279	7.70
2911 Dow Avenue, Tustin, California	1	1998	51,410	100.0%	393	7.64
Subtotal/Weighted Average Orange County	42		3,677,916	94.4%	24,467	7.18
TOTAL/WEIGHTED AVERAGE INDUSTRIAL PROPERTIES	43		3,869,969	94.7%	27,427	7.62
TOTAL/WEIGHTED AVERAGE ALL PROPERTIES	129		11,958,738	94.0%	$ 229,885	$ 20.70

(1) Based on all leases at the respective properties in effect at December 31, 2007. Includes month-to-month leases at December 31, 2007.

(2) Calculated as contractual base rental revenues as of December 31, 2007, determined in accordance with GAAP, annualized to reflect a twelve-month period. Annualized base rental revenues excludes the amortization of deferred revenue recorded for tenant-funded tenant improvements. Unless otherwise indicated, leases at the Industrial Properties are written on a triple net basis and leases at the Office Properties are written on a full service gross basis, with the landlord obligated to pay the tenant s proportionate share of taxes, insurance and operating expenses up to the amount incurred during the Base Year or Expense Stop. Each tenant pays its pro rata share of increases in expenses above the Base Year or Expense Stop. Excludes month-to-month leases and vacant space at December 31, 2007.

(3) Calculated as annual base rent divided by net rentable square feet leased at December 31, 2007. Excludes month-to-month leases and vacant space at December 31, 2007.

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

(5) We recently completed the redevelopment of this property, and only 15,700 rentable square feet are included in our stabilized portfolio. The remainder of the property will remain in lease-up until the earlier of stabilized occupancy (95%) or one year after cessation of major construction activities.

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

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

(8) For this property, leases of approximately 55,000 rentable square feet are written on a modified gross basis, and leases of approximately 61,000 rentable square feet are written on a triple net basis.

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

(10) Leases representing 100% of this property expired in the second half of 2007. The property is currently being marketed for lease.

(11) In February 2008, we signed a lease with Bridgepoint Education, Inc. for the entire 13500 Evening Creek Drive building. See additional information regarding Bridgepoint Education, Inc. under Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations Factors That May Influence Future Results of Operations.

(12) For this property, the lease is written on a triple net basis. The approximately 90,000 rentable square feet that was vacant as of December 31, 2007 has been re-leased, and the tenant is expected to take occupancy during the first quarter of 2008.

(13) For this property, a lease of approximately 133,000 rentable square feet is written on a triple net basis, and a lease of approximately 66,000 rentable square feet is written on a modified net basis.

(14) For this property, leases of approximately 205,000 rentable square feet are written on a modified net basis, a lease of approximately 90,000 rentable square feet is written on a gross basis, and a lease of approximately 38,000 rentable square feet is written on a full service gross basis.

(15) For this property, leases of approximately 36,000 rentable square feet are written on a modified net basis, and leases of approximately 11,000 rentable square feet are written on a modified gross basis.

(16) For this property, leases of approximately 205,000 rentable square feet are written on a triple net basis, and leases of approximately 60,000 rentable square feet are written on a full service gross basis.

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

(18) For this property, leases of approximately 47,000 rentable square feet are written on a full service gross basis, and leases of approximately 27,000 rentable square feet are written on a triple net basis.

(19) For this property, a lease of approximately 15,000 rentable square feet is written on a modified gross basis, and a lease of approximately 56,000 rentable square feet is written on a triple net basis.

(20) The seven properties at the Brea Industrial Complex were built between 1981 and 1985. For these properties, leases of approximately 192,000 rentable square feet are written on a triple net basis, and approximately 79,000 rentable square feet are written on a modified gross basis.

(21) For these properties, leases of approximately 142,000 rentable square feet are written on a modified net basis, and a lease of approximately 37,000 rentable square feet is written on a modified gross basis.

(22) For this property, 64,200 rentable square was occupied at December 31, 2007 on a month-to-month basis.

(23) The six properties at the Garden Grove Industrial Complex were built between 1971 and 1985. For these properties, leases of approximately 231,000 rentable square feet are written on a triple net basis, and approximately 45,000 rentable square feet are written on a modified gross basis.

(24) We are currently pursuing a strategy to potentially re-entitle this property and change its legal entitlement from industrial use to medium density residential use.

(25) A lease encompassing the entire building was executed during the fourth quarter of 2007. The tenant is expected to take occupancy during the first quarter of 2008.

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Development and Redevelopment

For information regarding our in-process development and redevelopment properties as of December 31, 2007, refer to Item 7: Management s Discussion of Financial Condition and Results of Operations Factors That May Influence Future Results of Operations Development and redevelopment programs.

Tenant Information

The following table sets forth information about our ten largest office and industrial tenants as of December 31, 2007, based upon annualized rental revenues at December 31, 2007.

Tenant Name	Annualized Base Rental Revenues(1) (in thousands)	Percentage of Total Annualized Base Rental Revenues(1)	Initial Lease Date(2)	Lease Expiration Date
Office Properties:				
Intuit Inc.	$ 17,793	7.2%	November 1997	Various(3)
Cardinal Health, Inc.	9,256	3.8	July 2007	August 2017
AMN Healthcare	8,341	3.4	July 2003	July 2018
DIRECTV Group, Inc.	8,037	3.3	November 1996	July 2014
The Boeing Company	6,593	2.7	August 1984	Various(4)
Fish & Richardson	6,071	2.5	October 2003	October 2018
Favrille, Inc.	5,588	2.3	November 2005	June 2025
Scripps Health(5)	5,199	2.1	July 2004	June 2021
Verenium Corporation	5,158	2.1	November 2000	Various(6)
Accredited Home Lenders, Inc.	5,164	2.1	December 2005	May 2016
Total Office Properties	$ 77,200	31.5%		
Industrial Properties:				
Mattel, Inc.	$ 2,960	1.2%	May 1990	October 2016
Celestica California, Inc.	2,501	1.0	May 1998	May 2008
NBTY Manufacturing, LLC	1,484	0.6	August 1998	July 2008
Extron Electronics, Inc.	1,145	0.5	February 1995	Various(7)
Eagle Ridge Manufacturing	1,087	0.4	October 2007	November 2012
Targus, Inc.	1,053	0.4	December 1998	March 2009
Progressive Marketing Products, Inc.	838	0.3	August 2002	September 2012
Ricoh Electronics, Inc.	810	0.3	February 1998	February 2008
Arrow Industries, Inc.(8)	798	0.3	October 2001	September 2011
Printrak International Inc.	753	0.3	May 1998	May 2010
Total Industrial Properties	$ 13,429	5.3%		

(1) Reflects annualized contractual base rental revenue calculated on a straight-line basis as of December 31, 2007, in accordance with GAAP.

(2) Represents the date of the first relationship between the tenant and us or our predecessor.

(3) The Intuit leases of 71,000, 90,238 and 465,812 rentable square feet expire in August 2009, July 2014 and August 2017, respectively.

(4) The Boeing Company leases of 113,242, 286,151 and 65,447 rentable square feet expire in March 2009, July 2010 and October 2010, respectively.

(5) In addition, Scripps Health has pre-leased an office building encompassing 146,156 rentable square feet at one of our development properties. The lease is expected to commence in the third quarter of 2008. See additional information regarding Scripps Health under Item 1: Business Significant Tenants.

(6) The Verenium Corporation leases of 76,246 and 60,662 rentable square feet expire in November 2015 and March 2017, respectively.

(7) The Extron Electronics leases of 100,000 and 57,730 rentable square feet expire in April 2015 and February 2015, respectively.

(8) In December 2007, Arrow notified us that it would like to terminate its lease. As of the date of this report, Arrow is still bound by the terms and conditions of its lease with us.

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At December 31, 2007, our tenant base was comprised of the following industries, based on Standard Industrial Classifications, broken down by percentage of total portfolio base rental revenue: professional and business services, 35.8%; manufacturing, 19.8%; finance, insurance and real estate, 15.0%; education, health and other services, 14.2%; information technology, 10.5%; wholesale and retail trade, 2.1%; construction, 1.4%; government, 0.8%; and leisure and hospitality, 0.4%. The following is a list comprised of a representative sample of 25 of our tenants whose annualized base rental revenues were individually less than 1.0% of our total annualized base rental revenue at December 31, 2007:

- Bridgepoint Education, Inc.
- Carlson Marketing Worldwide
- Clean Cut Technologies, LLC
- Compuware Corporation
- Crane Morley Inc.
- Data Select Systems, Inc.
- Devry, Inc.
- Eichlay Engineers Inc.
- Innovative Medical Management
- Intellidot Corporation
- Leviton Manufacturing Co., Inc.
- Lynden, Inc.
- Mentor Graphics Corporation
- Needelman Asset Management
- New Zealand Tourism Board
- One Service International, Inc.
- Outdoor Dimensions Inc.
- ProQuest Business Solutions, Inc.
- Qualcomm Inc.
- REMC Enterprises, Inc.
- Ring Financial, Inc.
- Seventh Street Development
- Shea Homes
- Wachovia Securities
- Wixen Music Publishing Inc.

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Lease Expirations

The following table sets forth a summary of our lease expirations for the Office Properties and Industrial Properties for each of the next ten years beginning with 2008, assuming that none of the tenants exercise renewal options or termination rights. See further discussion of our lease expirations under Item 1A: Risk Factors.

Year of Lease Expiration	Number of Expiring Leases(1)	Net Rentable Area Subject to Expiring Leases (Sq. Ft.)(2)	Percentage of Leased Square Feet Represented by Expiring Leases(3)	Annualized Base Rental Revenue Under Expiring Leases (000 s)(4)	Average Annualized Rental Revenue Per Net Rentable Square Foot Represented by Expiring Leases
Office Properties:					
2008	59	509,022	6.8%	$ 10,928	$ 21.47
2009	76	1,239,568	16.5	29,414	23.73
2010	71	1,193,026	15.9	30,584	25.64
2011	50	448,306	6.0	9,775	21.80
2012	41	552,591	7.4	15,321	27.73
2013	15	415,517	5.5	8,939	21.51
2014	21	704,545	9.4	18,694	26.53
2015	11	343,972	4.6	10,641	30.94
2016	9	421,006	5.6	11,360	26.98
2017	13	1,088,694	14.5	30,169	27.71
2018 and beyond	11	590,427	7.8	26,633	45.11
	377	7,506,674	100.0%	$ 202,458	$ 26.97
Industrial Properties:					
2008	12	877,303	24.4%	$ 6,334	$ 7.22
2009	14	731,502	20.3	4,609	6.30
2010	15	413,485	11.5	3,250	7.86
2011	10	408,402	11.3	3,156	7.73
2012	10	591,672	16.4	4,112	6.95
2013					
2014	1	49,178	1.4	420	8.54
2015	3	213,306	5.9	1,629	7.64
2016	2	233,278	6.5	3,274	14.03
2017					
2018 and beyond	1	82,602	2.3	643	7.78
	68	3,600,728	100.0%	$ 27,427	$ 7.62
Total Portfolio	445	11,107,402	100.0%	$ 229,885	$ 20.70

(1) Includes tenants only. Excludes leases for parking and month-to-month tenants. Some tenants have multiple leases.

(2) Excludes space leased under month-to-month leases and vacant space at December 31, 2007.

(3) Based on total leased square footage for the respective stabilized portfolios as of December 31, 2007.

(4) Determined based upon aggregate base rental revenue to be received over the lease term divided by the lease term in months multiplied by 12, including all leases executed on or before December 31, 2007.

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Secured Debt

At December 31, 2007, the Operating Partnership had seven outstanding mortgage notes payable and one secured line of credit, representing aggregate indebtedness of approximately $395.9 million, which were secured by certain of our properties. (See Note 9 to our consolidated financial statements and Schedule III Real Estate and Depreciation included with this report.) Management believes that, as of December 31, 2007, the value of the properties securing the respective secured obligations in each case exceeded the principal amount of the outstanding obligation.

ITEM 3. LEGAL PROCEEDINGS

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

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

No matters were submitted to a vote of stockholders during the fourth quarter of the year ended December 31, 2007.

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PART II

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

Our common stock is traded on the New York Stock Exchange (NYSE) under the symbol KRC. The following table illustrates the high, low and closing prices by quarter during 2007 and 2006 as reported on the NYSE. On December 31, 2007, there were approximately 151 registered holders of our common stock.

2007	High	Low	Close	Per Share Common Stock Dividends Declared
First quarter	$ 89.80	$ 72.70	$ 73.75	$ 0.5550
Second quarter	76.92	69.48	70.84	0.5550
Third quarter	73.20	56.79	60.63	0.5550
Fourth quarter	68.29	52.66	54.96	0.5550

2006	High	Low	Close	Per Share Common Stock Dividends Declared
First quarter	$ 77.74	$ 63.45	$ 77.26	$ 0.5300
Second quarter	76.00	65.33	72.25	0.5300
Third quarter	79.44	70.72	75.34	0.5300
Fourth quarter	83.42	71.53	78.00	0.5300

We pay distributions to common stockholders quarterly each January, April, July and October at the discretion of the Board of Directors. Distribution amounts depend on our FFO (as defined under Item 1: Business Business and Growth Strategies), financial condition and capital requirements, the annual distribution requirements under the REIT provisions of the Internal Revenue Code and such other factors as the Board of Directors deems relevant.

During the years ended December 31, 2007 and 2006, we issued 129,204 and 1,350,986 shares of common stock, respectively, in redemption of 129,204 and 1,350,986 common limited partnership units of the Operating Partnership by limited partners. The issuance was not dilutive to capitalization or distributions as the common shares were issued on a one-for-one basis pursuant to the terms set forth in the partnership agreement of the Operating Partnership, and the partnership units share in distributions with the common stock.

During the years ended December 31, 2007 and 2006, we accepted the return, at the current quoted market price, of 31,515 and 40,875 shares of our common stock, respectively, from certain key employees in accordance with the provisions of our incentive stock plan to satisfy minimum statutory tax-withholding requirements related to shares that vested during this period.

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PERFORMANCE GRAPH

The following line graph compares the change in cumulative stockholder return on our shares of common stock to the cumulative total return of the NAREIT All Equity REIT Index, the Standard & Poor s 500 Stock Index, and the SNL REIT Office Index for the five-year period ended December 31, 2007. 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 16 office equity REITs, including us. The graph assumes the investment of $100 in us and each of the indices on December 31, 2002 and, as required by the SEC, the reinvestment of all distributions. The return shown on the graph is not necessarily indicative of future performance.

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(1) This index is published by SNL Financial LC and includes 15 other office REITs and us.

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ITEM 6. SELECTED FINANCIAL DATA

Kilroy Realty Corporation Consolidated

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

	Year Ended December 31,				
	2007	2006	2005	2004	2003
Statements of Operations Data:					
Rental income	$ 229,672	$ 216,745	$ 205,070	$ 182,461	$ 163,943
Tenant reimbursements	25,322	22,440	20,270	18,549	17,068
Other property income	3,478	2,356	771	1,080	23,873
Total revenues	258,472	241,541	226,111	202,090	204,884
Property expenses	43,306	39,700	36,061	30,276	27,495
Real estate taxes	19,539	18,149	16,334	15,220	13,943
Provision for bad debts	473	744	(668)	832	1,393
Ground leases	1,582	1,583	1,207	976	912
General and administrative expenses	36,580	22,800	66,456	34,021	20,095
Interest expense	37,502	43,541	38,956	33,678	30,056
Depreciation and amortization	72,815	68,830	64,273	54,820	52,016
Total expenses	211,797	195,347	222,619	169,823	145,910
Interest and other investment income	1,606	1,653	604	521	196
Net settlement receipts (payments) on interest rate swaps		991	364	(2,893)	(3,218)
(Loss) gain on derivative instruments		(818)	378	3,099	704
Total other income (expense)	1,606	1,826	1,346	727	(2,318)
Income from continuing operations before minority interests	48,281	48,020	4,838	32,994	56,656
Minority interests:					
Distributions on Cumulative Redeemable Preferred units	(5,588)	(5,588)	(5,588)	(9,579)	(13,163)
Original issuance costs of redeemed preferred units				(1,200)	(945)
Minority interest in (earnings) loss of Operating Partnership attributable to continuing operations	(2,129)	(2,514)	1,193	(2,344)	(5,582)
Total minority interests	(7,717)	(8,102)	(4,395)	(13,123)	(19,690)
Income from continuing operations	40,564	39,918	443	19,871	36,966
Discontinued operations:					
Revenues from discontinued operations	10,312	22,788	16,734	23,585	26,356
Expenses from discontinued operations	(6,521)	(8,625)	(9,780)	(13,374)	(14,842)
Net gain on dispositions of discontinued operations	74,505	31,259	30,764	6,148	3,642
Impairment loss on property held for sale				(726)	
Minority interest in earnings of Operating Partnership attributable to discontinued operations	(5,038)	(3,476)	(4,342)	(1,963)	(2,006)
Total income from discontinued operations	73,258	41,946	33,376	13,670	13,150
Net income	113,822	81,864	33,819	33,541	50,116
Preferred dividends	(9,608)	(9,608)	(9,608)	(3,553)	(349)
Net income available for common stockholders	$ 104,214	$ 72,256	$ 24,211	$ 29,988	$ 49,767
Share Data:					
Weighted average shares outstanding basic	32,379,997	31,244,062	28,710,726	28,244,459	27,526,684

Weighted average shares outstanding diluted	32,526,723	31,389,999	28,710,726	28,422,027	27,737,791
Income (loss) from continuing operations per common share basic	$ 0.96	$ 0.97	$ (0.32)	$ 0.58	$ 1.33
Income (loss) from continuing operations per common share diluted	$ 0.95	$ 0.96	$ (0.32)	$ 0.57	$ 1.32
Net income per common share basic	$ 3.22	$ 2.31	$ 0.84	$ 1.06	$ 1.81
Net income per common share diluted	$ 3.20	$ 2.30	$ 0.84	$ 1.06	$ 1.79
Dividends declared per common share	$ 2.22	$ 2.12	$ 2.04	$ 1.98	$ 1.98

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	Kilroy Realty Corporation Consolidated December 31,				
	2007	2006	2005	2004	2003
Balance Sheet Data:					
Total real estate held for investment, before accumulated depreciation and amortization	$ 2,368,556	$ 2,040,761	$ 1,953,971	$ 1,863,230	$ 1,735,796
Total assets	2,068,720	1,799,352	1,674,474	1,609,024	1,516,428
Total debt	1,107,002	879,198	842,282	801,441	761,048
Total liabilities	1,263,481	1,011,790	1,031,106	929,348	849,683
Total minority interests	111,947	113,266	124,100	133,129	183,712
Total stockholders equity	693,292	674,296	519,268	546,547	483,033
Other Data:					
Funds From Operations(1)	$ 110,584	$ 118,184	$ 63,603	$ 87,643	$ 110,758
Cash flows provided by (used in):					
Operating activities	147,500	61,570	116,002	120,513	124,399
Investing activities	(244,802)	(136,193)	(75,682)	(123,271)	(67,463)
Financing activities	97,086	82,690	(41,292)	(2,281)	(62,821)
Office Properties:					
Rentable square footage	8,088,769	7,835,040	7,948,152	7,674,424	7,316,187
Occupancy	93.7%	95.8%	92.5%	94.0%	87.6%
Industrial Properties:					
Rentable square footage	3,869,969	3,869,969	4,587,491	4,602,605	4,878,603
Occupancy	94.7%	95.8%	99.3%	95.5%	94.5%

(1) We calculate FFO in accordance with the White Paper on FFO approved by the Board of Governors of NAREIT. The White Paper defines FFO as net income or loss calculated in accordance with GAAP, excluding extraordinary items, as defined by GAAP, and gains and losses from sales of depreciable operating property, plus real estate-related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets), and after adjustment for unconsolidated partnerships and joint ventures. Other REITs may use different methodologies to calculate FFO, and accordingly, our FFO may not be comparable to other REITs.

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.

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 to be insufficient by themselves. Because FFO excludes depreciation and amortization of real estate assets, we believe that FFO along with the required GAAP presentations provides a more complete measurement of our performance relative to our competitors and a more appropriate basis on which to make decisions involving operating, financing and investing activities than the required GAAP presentations alone would provide.

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

Non-cash adjustments to arrive at FFO were as follows: in all periods, minority interest in earnings of the Operating Partnership, depreciation and amortization of real estate assets and net gain (loss) from dispositions of operating properties. For additional information, see Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations Non-GAAP Supplemental Financial Measure: Funds From Operations including a reconciliation of our GAAP net income available for common stockholders to FFO for the years ended December 31, 2007, 2006, 2005, 2004 and 2003.

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

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

Overview and Background

We own, operate, and develop office and industrial real estate in Southern California. We operate as a self-administered REIT. We own our interests in all of our properties through the Operating Partnership and the Finance Partnership and conduct substantially all of our operations through the Operating Partnership. We owned a 93.7% and 93.3% general partnership interest in the Operating Partnership as of December 31, 2007 and 2006, respectively.

Critical Accounting Policies

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

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

The following critical accounting policies discussion reflects what we believe are the more 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

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in the footnotes to our consolidated financial statements and to provide additional insight into the information used by management when evaluating significant estimates, assumptions and judgments. For further discussion of our significant accounting policies, see Note 2 to our consolidated financial statements included in this report.

Rental revenue recognition

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

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

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

In addition, we also record the cost of certain tenant improvements paid for or reimbursed by tenants when we conclude that we are the owner of such tenant improvements using the factors discussed above. For these tenant-funded tenant improvements, we record the amount funded or reimbursed by tenants as deferred revenue, which is amortized and recognized as rental revenue over the term of the related lease beginning upon substantial completion of the leased premises. During the years ended December 31, 2007, 2006 and 2005, we recorded $41.1 million, $5.9 million and $1.4 million, respectively, of tenant-funded tenant improvements, primarily at certain of our in-process development and redevelopment properties, and we recognized $4.3 million, $2.3 million and $2.2 million, respectively, of non-cash rental revenue related to the amortization of deferred revenue recorded in connection with these tenant-funded tenant improvements.

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

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

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Tenant reimbursement revenue

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

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

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

Our historical experience for the years ended December 31, 2006 and 2005 has been that our final reconciliation and billing process resulted in final amounts that approximated the total annual tenant reimbursement revenues recognized. We are currently in the process of performing our 2007 final reconciliations.

Allowances for uncollectible current tenant receivables and deferred rent receivables

Tenant receivables and deferred rent receivables are carried net of the allowances for uncollectible current tenant receivables and deferred rent receivables.

Current tenant receivables consist primarily of amounts due for contractual lease payments and reimbursements of common area maintenance expenses, property taxes and other expenses recoverable from tenants. Management s determination of the adequacy of the allowance for uncollectible current tenant receivables is performed using a methodology that incorporates both 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. 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. Our allowance also includes a reserve based on historical loss trends, which is not associated with any specific tenant. This reserve as well as our specific identification reserve is re-evaluated 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.

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. Given the longer-term nature of these types of receivables, management s determination of the adequacy of the allowance for deferred rent receivables is based primarily on historical loss experience and current economic conditions. In addition, management evaluates the allowance for deferred rent receivables using a specific identification methodology for our significant tenants, assessing each tenant s financial condition and its ability to meet its lease obligations.

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Our determination of the adequacy of these allowances requires significant judgment and estimates about matters that are uncertain at the time the estimates are made. For example, the factors that we consider and re-evaluate on a quarterly basis with respect to our allowances include 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.

For the years ended December 31, 2007, 2006 and 2005, we recorded a total provision for bad debts for both current tenant receivables and deferred rent receivables of approximately 0.2%, 0.3% and (0.3)% of recurring rental revenue. Included in these provision amounts for 2005 is the reversal of approximately $750,000 of the allowance through the provision for bad debts due to the collection of two of the four annual installment payments due under the 2002 settlement agreement with Peregrine Systems, Inc. (Peregrine). In addition, also included in the provision for bad debts in 2005 is the reversal of approximately $1.3 million of the allowance related to the remaining future annual installment payments due under the 2002 settlement agreement due to our re-evaluation of Peregrine s financial condition after Peregrine was acquired by Hewlett-Packard Company. Excluding the effect of Peregrine on the provision for bad debts, for the year ended December 31, 2005, we recorded a provision for bad debts of approximately 0.6% of recurring revenue.

Excluding the effect of the Peregrine reserves discussed above, 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, 2007, 2006 and 2005. If our estimates were not accurate and we had to change our allowances by 1% of recurring revenue, the impact to our net income available to common stockholders would be approximately $2.6 million, $2.5 million and $2.4 million for the years ended December 31, 2007, 2006 and 2005, respectively.

Cost capitalization and depreciation

We capitalize costs associated with development and redevelopment activities, capital improvements, tenant improvements and leasing activities.

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

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

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

Evaluation of asset impairment

We evaluate a property for potential impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. Examples of events or changes in circumstances where we would evaluate impairment include:

- changes in demand for the asset either due to issues specific to the asset such as inability to lease at close to market rents or due to changes in market vacancy rates, new supply or other market conditions;

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- instances of physical damage to the asset;
- indications that the useful life of the asset has changed;
- an increase in capitalization rates which would signal a decrease in the estimated value at disposition; and
- when we classify a property as held for sale

When evaluating properties to be held and used for potential impairment, we first compare the net carrying value of the property to the property s estimated undiscounted future cash flows over the anticipated holding period. If the estimated undiscounted future cash flows are less than the net carrying value of the property, we then perform an impairment loss evaluation. We do not perform an impairment loss evaluation or record an impairment loss if the estimated undiscounted future cash flows are greater than the carrying value of the property. We also perform impairment loss evaluations for all properties classified as held for sale.

Our impairment loss evaluation compares the net carrying value of the property to the property s estimated fair value, which may be based on estimated discounted future cash flow calculations or third party valuations or appraisals. We recognize an impairment loss if the amount of the asset s net carrying value 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 impairment calculations contain uncertainties because they require management to make assumptions and to apply judgment to estimate future cash flows and asset fair values, including forecasting useful lives of the assets and selecting the discount or capitalization rate that reflects the risk inherent in future cash flows. Estimating projected cash flows requires assumptions related to future rental rates, tenant allowances, operating expenditures, property taxes, capital improvements and occupancy levels. We are also required to make a number of assumptions relating to future economic and market events and prospective operating trends. Determining the appropriate capitalization rate also requires significant judgment and is typically based on many factors including the prevailing rate for the market or submarket, as well as the quality and location of the properties. Further, capitalization rates can fluctuate due to a variety of factors in the overall economy or within local markets. If the actual net cash flows or actual market capitalization rates significantly differ from our estimates, the impairment evaluation for an individual asset could be materially affected. We did not record any impairment losses during the years ended December 31, 2007, 2006 and 2005.

Factors That May Influence Future Results of Operations

Rental income. The amount of net rental income generated by our properties depends principally on our ability to maintain the occupancy rates of currently leased space and to lease currently available space, newly developed or redeveloped properties and space available from unscheduled lease terminations. The amount of rental income we generate also depends on our ability to maintain or increase rental rates in our submarkets. Negative trends in one or more of these factors could adversely affect our rental income in future periods.

Rental rates. For leases that commenced during the year ended December 31, 2007, the change in rental rate was an increase of 15.2% on a GAAP basis and an increase of 3.4% on a cash basis. The change in rental rate on a cash basis is calculated as the change between the initial stated rent for a new or renewed lease and the ending stated rent for the expiring lease for the same space, whereas the change in rental rate on a GAAP basis compares the average rents over the term of the lease for each lease. Both calculations exclude leases for which the space was vacant longer than one year. We believe that at December 31, 2007 the average rental rates for our properties were approximately 15% below the current average quoted market rates, although individual properties within any particular submarket presently may be leased either above, below or at the current quoted market rates within that submarket. We cannot give any assurance that leases will be renewed or that available space will be re-leased at rental rates equal to or above the current quoted market rates.

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Scheduled lease expirations. In addition to the 714,700 square feet, or 6.0%, of currently available space in our stabilized portfolio, leases representing approximately 12.5% and 17.7% of the leased square footage of our stabilized portfolio are scheduled to expire during 2008 and 2009, respectively. The leases scheduled to expire in 2008 and the leases scheduled to expire in 2009 represent approximately 1.7 million square feet of office space, or 17.5%, of our total annualized base rental revenue, and 1.6 million square feet of industrial space, or 4.8%, of our total annualized base rental revenue, respectively. We have re-leased approximately 592,300, or 42.7%, of the net rentable square feet scheduled to expire in 2008 as of the date of this report. We believe that the average rental rates for leases scheduled to expire in 2008 and in 2009 are approximately 10% to 15% and 15% to 20%, respectively, below the current average quoted market rates, although individual properties within any particular submarket presently may be leased either above, below or at the current quoted market rates within that submarket. Our ability to re-lease available space depends upon the market conditions in the specific submarkets in which our properties are located.

Submarket Information

Los Angeles County. Our Los Angeles stabilized office portfolio of 2.9 million rentable square feet was 96.1% occupied with approximately 112,100 vacant rentable square feet as of December 31, 2007, compared to 92.8% occupied with approximately 209,600 vacant rentable square feet as of December 31, 2006. As of December 31, 2007 and 2006, our Los Angeles stabilized industrial property of approximately 192,100 rentable square feet was 100% occupied. As of December 31, 2007, leases representing an aggregate of approximately 133,900 and 594,600 rentable square feet were scheduled to expire in 2008 and in 2009, respectively, in this region. The aggregate rentable square feet scheduled to expire in 2008 and in 2009 represents approximately 25.0% of the total occupied rentable square feet in this portfolio at December 31, 2007 and 8.2% of the annualized base rental revenues for our total portfolio.

San Diego County. Our San Diego stabilized office portfolio was 91.4% occupied with approximately 393,400 vacant rentable square feet as of December 31, 2007, compared to 98.6% occupied with approximately 53,700 vacant rentable square feet as of December 31, 2006. The decrease in occupancy primarily relates to three properties at which leases for a total of 310,000 rentable square feet expired during the third quarter of 2007. A lease at one of the properties representing approximately 90,000 vacant rentable square feet in this region had been executed as of the date of this report and the tenant is expected to take occupancy during the first quarter of 2008. As of December 31, 2007, leases representing an aggregate of approximately 253,700 and 511,600 rentable square feet are scheduled to expire in 2008 and in 2009, respectively, in this region. The aggregate rentable square feet scheduled to expire in 2008 and in 2009 represents approximately 18.4% of the total occupied rentable square feet in this region at December 31, 2007 and 7.2% of the annualized base rental revenues for our total portfolio. We continue development and redevelopment of office properties in San Diego County and continue to seek economically attractive development opportunities in this region. See additional information regarding our development and redevelopment properties under the caption Development and redevelopment programs.

Given the geographic concentration of our development program in San Diego County, our operating results may be affected by (i) the city of San Diego s current financial difficulties and ongoing investigations with respect to the city s finances, (ii) the city of San Diego s General Plan and Land Use update, (iii) the city of San Diego s zoning ordinance updates and (iv) recent storm water runoff regulations and other pending ordinances currently under consideration by the city, county and state water agencies and other agencies. Any of these factors may affect the city of San Diego s ability to finance capital projects and may impact real estate development, entitlements, costs of development and market conditions in this important submarket. As of the date of this report, we have not experienced any material adverse effects arising from these factors.

Orange County. As of December 31, 2007, our Orange County stabilized industrial portfolio was 94.4% occupied with approximately 207,000 vacant rentable square feet, compared to 95.6% occupied with approximately 163,500 vacant rentable square feet as of December 31, 2006. Our Orange County stabilized office portfolio of approximately 277,300 rentable square feet was 99.1% occupied with approximately 2,600 vacant rentable square feet as of December 31, 2007, compared to 98.3% occupied with approximately 4,700 vacant rentable square feet as of December 31, 2006. The decrease in occupancy in our stabilized industrial portfolio is primarily due to the vacancy of one industrial building, encompassing approximately 47,600 rentable square feet at December 31, 2007. This building has been re-leased, and the tenant is expected to take occupancy during the first quarter of 2008. Also included in our Orange County industrial portfolio is one vacant building encompassing approximately 157,500 rentable square feet. We are in the process of re-entitling this property for residential use. We expect the re-entitlement to be completed in 2008 and, if successful, will evaluate the strategic options for the property, including the potential disposition of the asset. As of December 31, 2007, leases representing an aggregate of approximately 957,200 and 855,300 rentable square feet were scheduled to expire in 2008 and in 2009, respectively, in this region. The aggregate rentable square feet scheduled to expire in 2008 and in 2009 represents approximately 49.2% of the total occupied rentable square feet in this region at December 31, 2007 and 6.6% of the annualized base rental revenues for our total portfolio.

Sublease space. Of our leased space at December 31, 2007, approximately 608,100 rentable square feet, or 5.1%, of the square footage in our stabilized portfolio, was available for sublease, compared to 516,700 rentable square feet, or 4.4%, at December 31, 2006. Of the 5.1% of available sublease space in our stabilized portfolio at December 31, 2007, approximately 1.2% was vacant space, and the remaining 3.9% was occupied. Approximately 41%, 38% and 18% of the available sublease space as of December 31, 2007 is located in the San Diego, Orange County and Los Angeles submarkets, respectively. Of the approximately 608,100 rentable square feet available for sublease at December 31, 2007, approximately 112,000 rentable square feet representing six leases are scheduled to expire in 2008, and approximately 7,400 rentable square feet representing two leases are scheduled to expire in 2009.

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

Information regarding significant tenants

Intuit Inc. During 2007, we completed construction of a four-building office complex in the 56 Corridor submarket in San Diego County (the 56 Corridor) which encompasses approximately 465,800 rentable square feet. The complex was pre-leased to Intuit under a ten-year lease agreement. Intuit began occupying the four buildings during the third quarter of 2007, at which time Intuit became our largest tenant based on its percentage of our total annualized base rental revenues. See Item 2: Properties Tenant Information for additional information.

Scripps Health We are currently developing a new six-story office building, encompassing approximately 146,200 rentable square feet, for Scripps Health, our eighth largest tenant as of December 31, 2007. The additional lease with Scripps Health is expected to commence in the third quarter of 2008, at which time Scripps Health is projected to become our second largest tenant based on its percentage of our projected total annualized base rental revenues.

Bridgepoint Education, Inc. In February 2008, we signed two lease agreements with Bridgepoint Education, Inc. (Bridgepoint) totaling approximately 289,700 rentable square feet. Commencing in stages between July 2008 and September 2008, Bridgepoint will lease 100% of the approximately 147,500 rentable square feet at Kilroy Sabre Springs Phase III, which is currently under construction. In July 2009, Bridgepoint will expand its occupancy at 13500 Evening Creek Drive from approximately 119,800 rentable square feet at December 31, 2007 to approximately 142,200 rentable square feet. Both leases are scheduled to expire in June 2018. Bridgepoint is projected to become our second largest tenant in July 2009, based on its percentage of our projected total annualized base rental revenues.

Development and redevelopment programs. We believe that a significant portion of our potential growth over the next several years will continue to come from our development pipeline. We have continued to aggressively seek and obtain development opportunities throughout Southern California and specifically in our core markets, such as the San Diego County region. We have made significant progress in expanding our development program through targeted acquisitions of properties and undeveloped land and new lease transactions.

In the first quarter of 2007, we acquired two parcels of undeveloped land encompassing approximately 42.5 gross acres in two separate transactions. These parcels are located in San Diego County in the 56 Corridor and Carlsbad submarkets. In the fourth quarter of 2007, we acquired one parcel of undeveloped land encompassing approximately 23.0 gross acres. This parcel is located in San Diego County in the Del Mar submarket. (See Note 3 to our consolidated financial statements included with this report for additional information regarding these acquisitions). These strategic acquisitions increase the total gross site acreage of our future development pipeline to 116.7 acres, with which we believe we will have the potential to develop over two million rentable square feet of office space.

The following table sets forth certain information regarding our office development properties in-process as of December 31, 2007.

Development Properties

Project Name / Submarket / City	Completion/ Estimated Completion Date	Estimated Stabilization Date(1)	Square Feet Upon Completion	Total Estimated Investment(2)(3)	Total Costs as of December 31, 2007(3)(4)	Percentage Leased
				($ in millions)		
Properties In Lease-Up						
Sorrento Gateway-Lot 3 Sorrento Mesa San Diego, CA	4th Qtr 2007	4th Qtr 2008	55,500	$ 21.5	$ 15.1	0%
Properties Under Construction						
Kilroy Sabre Springs Phase III I-15 Corridor San Diego, CA	1st Qtr 2008	3rd Qtr 2008	147,533	65.6	43.0	100%(5)
ICC 15004 Innovation Drive I-15 Corridor San Diego, CA	3rd Qtr 2008	3rd Qtr 2008	146,156	51.6	42.8	100%(6)
Sorrento Gateway-Lot 1 Sorrento Mesa San Diego, CA	4th Qtr 2008	4th Qtr 2009	50,925	22.4	6.9	0%
Total			400,114	$ 161.1	$ 107.8	73%

(1) Based on management s estimation of the earlier of stabilized occupancy (95.0%) or one year from the date of substantial completion.

(2) Represents total projected development costs at December 31, 2007.

(3) Amounts exclude tenant-funded tenant improvements.

(4) Represents cash paid and costs incurred as of December 31, 2007.

(5) This building was leased to Bridgepoint in February 2008.

(6) This building was leased to Scripps Health in July 2006.

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We believe that another possible source of potential growth over the next several years is redevelopment opportunities within our existing portfolio. Redevelopment efforts can achieve similar returns to new development with reduced entitlement risk and shorter construction periods. Depending on market conditions, we will continue to pursue future redevelopment opportunities in our strategic submarkets where there is limited land for development.

At December 31, 2007, we had two office redevelopment properties in the lease-up phase. One of the redevelopment properties is located in El Segundo, California. Seventy-seven percent of this building had been leased to DIRECTV Group, Inc., and the lease commenced in July 2007. Prior to redevelopment, this property had been occupied by The Boeing Company and its predecessors for highly specialized use for over 20 years.

We acquired our other redevelopment property, which is located in the I-15 Corridor submarket of San Diego County, in the first quarter of 2007. The acquisition included two existing office buildings encompassing an aggregate of approximately 103,900 rentable square feet on 5.6 acres of land. Upon acquisition in the first quarter of 2007, we began redevelopment of the vacant buildings. (See Note 3 to our consolidated financial statements included with this report for additional information regarding this acquisition).

The following table sets forth certain information regarding our office redevelopment properties in-process as of December 31, 2007.

Redevelopment Properties

Property Name / Submarket / City	Completion Date	Estimated Stabilization Date(1)	Square Feet Upon Completion	Existing Invest-ment(2)	Estimated Redevelop-ment Costs	Total Estimated Investment(3)	Total Costs as of December 31, 2007(3)(4)	Percent Leased
				(in millions)				
Properties In Lease-up								
2240 E. Imperial Highway Kilroy Airport Center El Segundo, CA	3rd Qtr 2007	3rd Qtr 2008	107,041	$ 5.0	$ 16.4	$ 21.4	$ 18.0	77%
Sabre Springs Corporate Center I-15 Corridor San Diego, CA	4th Qtr 2007	4th Qtr 2008	103,900	24.7	10.3	35.0	29.8	19%
Total			210,941	$ 29.7	$ 26.7	$ 56.4	$ 47.8	49%

(1) Based on management s estimation of the earlier of stabilized occupancy (95.0%) or one year from the date of substantial completion.
(2) Represents the depreciated carrying value at the commencement of redevelopment for the space being redeveloped.
(3) Amounts exclude tenant-funded tenant improvements.
(4) Represents cash paid and costs incurred as of December 31, 2007, including the existing investment at commencement of redevelopment. See footnote (2) above.

We have a proactive planning process by which we continually evaluate the size, timing, costs and scope of our development and redevelopment programs and, as necessary, scale activity to reflect the economic conditions and the real estate fundamentals that exist in our strategic submarkets. However, we may be unable to lease committed development or redevelopment properties at expected rental rates or within projected timeframes or complete development or redevelopment properties on schedule or within budgeted amounts, which could adversely affect our financial condition, results of operations and cash flows.

Rising Construction Costs. As a result of increased worldwide demand, the availability of construction materials has become more limited, and the cost of such materials has increased significantly. The cost of skilled labor has also increased. A continued increase in the cost of construction materials, driven primarily by the volatility of the prices of underlying raw materials such as oil, cement and steel, and labor costs could adversely affect our expenditures for development and redevelopment costs and, consequently, our financial condition, results of operations and cash flows.

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

In the first quarter of 2008, our Executive Compensation Committee approved the 2008 Annual Bonus Program and the 2008 Annual Long-Term Incentive Program for executive management that will allow for executive management to receive bonus compensation for achieving certain specified corporate performance measures. The provisions of the 2008 programs were reported on Form 8-K filed with the SEC on January 31, 2008. As a result of the structure of these programs and other such programs that the Executive Compensation Committee may adopt in the future, accrued incentive compensation and compensation expense for these programs will be affected by our operating and development performance, financial results, the performance of our common stock and market conditions. Consequently, we cannot predict the amounts that will be recorded in future periods related to compensation programs.

Share-Based Compensation. As of December 31, 2007, there was $11.4 million of total unrecognized compensation cost related to outstanding nonvested shares issued under share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 1.8 years. Additional unrecognized compensation cost of $7.4 million related to 182,378 nonvested shares of common stock issued under share-based compensation arrangements subsequent to December 31, 2007 is expected to be recognized over a weighted-average period of 2.2 years. For additional information regarding our share-based incentive programs, see Note 13 to our consolidated financial statements. (See Note 13 to our consolidated financial statements included with this report for additional information regarding these programs).

Results of Operations

As of December 31, 2007, our stabilized portfolio was comprised of 86 Office Properties encompassing an aggregate of approximately 8.1 million rentable square feet, and 43 Industrial Properties encompassing an aggregate of approximately 3.9 million rentable square feet. Our stabilized portfolio of operating properties consists of all our properties, except for properties we recently developed or redeveloped that have not yet reached 95.0% occupancy and are within one year following cessation of major construction activity (lease-up properties), properties classified as held for sale and properties currently under construction.

As of December 31, 2007, the Office Properties and Industrial Properties represented approximately 88% and 12%, respectively, of our total annualized base rental revenue. For the year ended December 31, 2007, average occupancy in our stabilized portfolio was 93.4%, compared to 95.4% for the year ended December 31, 2006. Occupancy for our stabilized portfolio at December 31, 2007 was 94.0%, compared to 95.8% at December 31, 2006. As of December 31, 2007, we had approximately 714,700 rentable square feet of vacant space in our stabilized portfolio, compared to 494,700 rentable square feet as of December 31, 2006.

The following table reconciles the changes in the rentable square feet in our stabilized portfolio of operating properties from December 31, 2006 to December 31, 2007. Rentable square footage in our portfolio of stabilized properties increased by an aggregate of approximately 0.3 million rentable square feet, or 2.2%, to 12.0 million rentable square feet at December 31, 2007, as a result of the activity noted below.

	Office Properties		Industrial Properties		Total	
	Number of Buildings	**Rentable Square Feet**	**Number of Buildings**	**Rentable Square Feet**	**Number of Buildings**	**Rentable Square Feet**
Total at December 31, 2006	84	7,835,040	43	3,869,969	127	11,705,009
Properties added from the Development Portfolio	5	783,812			5	783,812
Dispositions[1]	(3)	(532,430)			(3)	(532,430)
Remeasurement		2,347				2,347
Total at December 31, 2007	86	8,088,769	43	3,869,969	129	11,958,738

(1) In accordance with Financial Accounting Standards No. 144 *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144) the operating results and gains (losses) on property sales of real estate assets sold are included in discontinued operations in the consolidated statement of operations. The above table excludes one office building and one industrial building that were classified as held for sale at December 31, 2006.

Management internally evaluates the operating performance and financial results of our portfolio based on Net Operating Income for the following segments of commercial real estate property: Office Properties and Industrial Properties. We define Net Operating Income as operating revenues from continuing operations (rental income, tenant reimbursements and other property income) less operating expenses from continuing operations (property expenses, real estate taxes, provision for bad debts and ground leases). The Net Operating Income segment information presented within this Management s Discussion and Analysis consists of the same Net Operating Income segment information disclosed in Note 19 to our consolidated financial statements in accordance with Statement of Financial Accounting Standards No. 131 Disclosures about Segments of an Enterprise and Related Information.

Year Ended December 31, 2007 Compared to Year Ended December 31, 2006

The following table reconciles our Net Operating Income by segment to our net income available for common stockholders for the years ended December 31, 2007 and 2006.

	Year Ended December 31,		Dollar	Percentage
	2007	2006	Change	Change
	($ in thousands)			
Net Operating Income, as defined				
Office Properties	$ 168,575	$ 154,132	$ 14,443	9.4%
Industrial Properties	24,997	27,233	(2,236)	(8.2)
Total portfolio	193,572	181,365	12,207	6.7
Reconciliation to Net Income Available for Common Stockholders:				
Net Operating Income, as defined for reportable segments	193,572	181,365	12,207	6.7
Other expenses:				
General and administrative expenses	36,580	22,800	13,780	60.4
Interest expense	37,502	43,541	(6,039)	(13.9)
Depreciation and amortization	72,815	68,830	3,985	5.8
Total other income and expense	1,606	1,826	(220)	(12.0)
Income from continuing operations before minority interests	48,281	48,020	261	0.5
Minority interests attributable to continuing operations	(7,717)	(8,102)	385	4.8
Income from discontinued operations	73,258	41,946	31,312	74.6
Net income	113,822	81,864	31,958	39.0
Preferred dividends	(9,608)	(9,608)		0.0
Net income available for common stockholders	$ 104,214	$ 72,256	$ 31,958	44.2%

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Rental Operations

We evaluate the operations of our portfolio based on operating property type. The following tables compare the Net Operating Income for the Office Properties and for the Industrial Properties for the years ended December 31, 2007 and 2006.

Office Properties

	Total Office Portfolio				Core Office Portfolio(1)			
	2007	2006	Dollar Change	Percentage Change	2007	2006	Dollar Change	Percentage Change
				($ in thousands)				
Operating revenues:								
Rental income	$ 202,601	$ 187,535	$ 15,066	8.0%	$ 188,440	$ 186,274	$ 2,166	1.2%
Tenant reimbursements	21,804	18,581	3,223	17.3	19,723	18,138	1,585	8.7
Other property income	3,406	2,294	1,112	48.5	3,405	2,291	1,114	48.6
Total	227,811	208,410	19,401	9.3	211,568	206,703	4,865	2.4
Property and related expenses:								
Property expenses	40,675	36,742	3,933	10.7	39,929	35,918	4,011	11.2
Real estate taxes	16,825	15,305	1,520	9.9	15,356	15,231	125	0.8
Provision for bad debts	154	648	(494)	(76.2)	154	648	(494)	(76.2)
Ground leases	1,582	1,583	(1)	(0.1)	1,576	1,578	(2)	(0.1)
Total	59,236	54,278	4,958	9.1	57,015	53,375	3,640	6.8
Net Operating Income	$ 168,575	$ 154,132	$ 14,443	9.4%	$ 154,553	$ 153,328	$ 1,225	0.8%

(1) Office Properties owned and stabilized at January 1, 2006 and still owned and stabilized at December 31, 2007.

Total revenues from Office Properties increased $19.4 million, or 9.3%, to $227.8 million for the year ended December 31, 2007, compared to $208.4 million for the year ended December 31, 2006. Rental income from Office Properties increased $15.1 million, or 8.0%, to $202.6 million for the year ended December 31, 2007, compared to $187.5 million for the year ended December 31, 2006. Rental income generated by the Core Office Portfolio increased $2.2 million, or 1.2%, for the year ended December 31, 2007, compared to the year ended December 31, 2006. The increase in rental income from the Core Office Portfolio was primarily due to a $1.6 million increase in rental income from our 909 N. Sepulveda Blvd. property due to a 26.5% increase in average occupancy to 74.6% for the year ended December 31, 2007, from 48.1% for the year ended December 31, 2006, and a $0.9 million increase in amortization of deferred revenue related to tenant-funded tenant improvements. The above-mentioned year over year increases in Core Office Portfolio rental income were partially offset by a decrease in annual average occupancy in the Core Office Portfolio. Average occupancy in the Core Office Portfolio decreased 1.1% to 93.7% for the year ended December 31, 2007, from 94.8% for the year ended December 31, 2006. The remaining $12.9 million increase in total office portfolio rental income was attributable to a $12.6 million increase in rental income generated by the five office development properties that were added to the stabilized portfolio in the third quarter of 2007 and the office development property that was added to the stabilized portfolio in the fourth quarter of 2006 (the 2006 and 2007 Office Development Properties), and a $0.3 million increase in rental income generated by one property that was taken out of service in June 2006 and placed into lease-up in the third quarter of 2007 and a project consisting of two buildings that was acquired in the first quarter of 2007 and placed into lease-up in the fourth quarter of 2007 (the 2006 and 2007 Office Redevelopment Properties).

Tenant reimbursements from Office Properties increased $3.2 million, or 17.3%, to $21.8 million for the year ended December 31, 2007, compared to $18.6 million for the year ended December 31, 2006. An increase of $1.6 million, or 8.7%, was generated by the Core Office Portfolio due to an increase in reimbursable property expenses as discussed below. The remaining $1.6 million increase in total office portfolio tenant reimbursements was due to a $1.7 million increase generated by the 2006 and 2007 Office Development Properties offset by a $0.1 million decrease attributable to the 2006 and 2007 Office Redevelopment Properties.

Other property income from Office Properties increased $1.1 million, or 48.5%, to $3.4 million for the year ended December 31, 2007, compared to $2.3 million for the year ended December 31, 2006. Other property income for the year ended December 31, 2007 included $2.8 million in net lease termination fees from two early lease terminations at two of our Office Properties in San Diego. Other property income for the year ended December 31, 2006 included $1.8 million in net lease termination fees from two early lease terminations at two of our Office Properties in San Diego.

Total expenses from Office Properties increased $5.0 million, or 9.1%, to $59.2 million for the year ended December 31, 2007, compared to $54.2 million for the year ended December 31, 2006. Property expenses from Office Properties increased $3.9 million, or 10.7%, to $40.6 million for the year ended December 31, 2007, compared to $36.7 million for the year ended December 31, 2006. An increase of $4.0 million, or 11.2%, was generated by the Core Office Portfolio. This increase was primarily attributable to general inflationary increases in certain operating costs such as property management costs of $1.6 million, repairs and maintenance costs of $1.1 million, janitorial and other service-related costs of $0.6 million and also to an increase in electricity expense of $0.2 million due to an increase in rates. This increase was partially offset by a $0.1 decrease attributable to the 2006 and 2007 Office Redevelopment Properties.

Real estate taxes from Office Properties increased $1.5 million, or 9.9%, to $16.8 million for the year ended December 31, 2007, compared to $15.3 million for the year ended December 31, 2006. An increase of $1.3 million was attributable to the 2006 and 2007 Office Development Properties. The remaining $0.2 million increase was attributable to the Core Office Portfolio and the 2006 and 2007 Office Redevelopment Properties.

The provision for bad debts from Office Properties decreased $0.5 million, or 76.2%, for the year ended December 31, 2007, compared to the year ended December 31, 2006. The decrease is primarily due to the reversal of a tenant specific reserve that was previously recorded in a prior year and collected in 2007 as part of a settlement agreement with the former tenant. Excluding the reversal of a tenant-specific reserve, the provision for bad debts from Office Properties decreased $0.2 million, or 23.3%. We evaluate our reserve levels on a quarterly basis.

Net Operating Income from Office Properties increased $14.4 million, or 9.4%, to $168.5 million for the year ended December 31, 2007, compared to $154.1 million for the year ended December 31, 2006. Of this increase, $1.2 million was generated by the Core Office Portfolio. The remaining increase of $13.2 million was attributable to an increase of $12.6 million generated by the 2006 and 2007 Office Development Properties and an increase of $0.6 million attributable to the 2006 and 2007 Office Redevelopment Properties.

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Industrial Properties

	Total Industrial Portfolio				Core Industrial Portfolio(1)			
	2007	2006	Dollar Change	Percentage Change	2007	2006	Dollar Change	Percentage Change
				($ in thousands)				
Operating revenues:								
Rental income	$ 27,071	$ 29,210	$ (2,139)	(7.3)%	$ 27,071	$ 28,130	$ (1,059)	(3.8)%
Tenant reimbursements	3,518	3,859	(341)	(8.8)	3,518	3,559	(41)	(1.2)
Other property income	72	62	10	16.1	72	62	10	16.1
Total	30,661	33,131	(2,470)	(7.5)	30,661	31,751	(1,090)	(3.4)
Property and related expenses:								
Property expenses	2,631	2,958	(327)	(11.1)	2,651	2,902	(251)	(8.6)
Real estate taxes	2,714	2,844	(130)	(4.6)	2,714	2,635	79	3.0
Provision for bad debts	319	96	223	232.3	319	96	223	232.3
Total	5,664	5,898	(234)	(4.0)	5,684	5,633	51	0.9
Net Operating Income	$ 24,997	$ 27,233	$ (2,236)	(8.2)%	$ 24,977	$ 26,118	$ (1,141)	(4.4)%

(1) Industrial Properties owned and stabilized at January 1, 2006 which are still owned and stabilized at December 31, 2007.

Total revenues from Industrial Properties decreased $2.5 million, or 7.5%, to $30.6 million for the year ended December 31, 2007, compared to $33.1 million for the year ended December 31, 2006. Rental income from Industrial Properties decreased $2.1 million, or 7.3%, to $27.1 million for the year ended December 31, 2007, compared to $29.2 million for the year ended December 31, 2006. Rental income generated by the Core Industrial Portfolio decreased $1.1 million, or 3.8%, for the year ended December 31, 2007, compared to the year ended December 31, 2006 primarily due to decreased occupancy in the Orange County industrial portfolio. Average occupancy in the Core Industrial Portfolio decreased 5.5% to 92.1% for the year ended December 31, 2007, compared to 97.6% for the year ended December 31, 2006. The decrease was the result of three buildings encompassing approximately 349,000 rentable square feet. Of the approximately 349,000 rentable square feet, 144,000 rentable square feet had been re-leased and was occupied at December 31, 2007, and approximately 47,500 rentable square feet had been re-leased but the tenant had not taken occupancy at December 31, 2007. The remaining $1.0 million decrease in total industrial portfolio rental income was attributable to one industrial building that was moved from our stabilized portfolio to the redevelopment portfolio during 2006 (the Industrial Redevelopment Property). In the fourth quarter of 2006, the Industrial Redevelopment Property was taken out of service and removed from our stabilized portfolio as we are currently pursuing development or redevelopment plans for this property.

Tenant reimbursements from Industrial Properties decreased $0.3 million, or 8.8%, to $3.5 million for the year ended December 31, 2007, compared to $3.8 million for the year ended December 31, 2006. The decrease in tenant reimbursements was primarily attributable to the Industrial Redevelopment Property.

Total expenses from Industrial Properties decreased $0.2 million, or 4.0%, to $5.7 million for the year ended December 31, 2007, compared to $5.9 million for the year ended December 31, 2006. Property expenses from Industrial Properties decreased by $0.3 million, or 11.1%, to $2.6 million for the year ended December 31, 2007, compared to $2.9 million for the year ended December 31, 2006, primarily due to a credit of $0.7 million relating to a gain recognized in December 2007 for insurance proceeds received for one of our Industrial Properties that sustained damage due to a fire sprinkler rupture. (See Note 16 to our consolidated financial statements included with this report for additional information). This decrease was partially offset by a $0.4 million increase primarily attributable to higher fixed operating costs for the three Core Industrial Portfolio buildings, the impact of which on average annual occupancy was discussed above. Real estate taxes decreased $0.1 million, or 4.6%, for the year ended December 31, 2007, compared to the year ended December 31, 2006 primarily due to the Industrial Redevelopment Property, which was taken out of service in 2006. The provision for bad debts for

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Industrial Properties increased by $0.2 million, or 232.3%, for the year ended December 31, 2007, compared to the year ended December 31, 2006, primarily related to the provision for bad debts recorded for the deferred rent receivable for one tenant who notified us that it is having financial difficulties. This tenant was added to our watchlist during the quarter ended December 31, 2007. We evaluate our reserve levels on a quarterly basis.

Net Operating Income from Industrial Properties decreased $2.2 million, or 8.2%, to $25.0 million for the year ended December 31, 2007, compared to $27.2 million for the year ended December 31, 2006. Of this decrease, $1.1 million was attributable to the Core Industrial Portfolio, primarily due to a decrease in occupancy in the portfolio discussed above. The remaining decrease of $1.1 million was attributable to the Industrial Redevelopment Property.

Other Income and Expenses

General and administrative expenses increased $13.8 million, or 60.4%, to $36.6 million for the year ended December 31, 2007, compared to $22.8 million for the year ended December 31, 2006. The increase was mainly attributable to an $11.7 million increase in executive compensation primarily related to the increase in compensation expense recorded for the 2006 and 2007 incentive compensation programs. (See Note 13 to our consolidated financial statements included in this report for additional information regarding incentive compensation programs). The increase in executive compensation was partially a result of the timing of the approval of the 2006 executive incentive compensation programs. We began to accrue compensation expense associated with the 2006 Annual Long-Term Incentive Program and 2006 Annual Bonus Exceptional Performance Program in September 2006. Therefore, general and administrative expense for the year ended December 31, 2006 includes four months of amortization for these 2006 programs, whereas the year ended December 31, 2007 includes twelve months of amortization. We began to accrue for 2007 executive incentive compensation programs when they were approved in February 2007. The remaining increase in general and administrative expenses was due primarily to an increase in other compensation-related expenses.

Interest expense decreased $6.0 million, or 13.9%, to $37.5 million for the year ended December 31, 2007, compared to $43.5 million for the year ended December 31, 2006. The following table sets forth our gross interest expense and loan cost amortization from continuing operations net of capitalized interest and loan cost amortization for the years ended December 31, 2007 and 2006.

	2007	2006	Dollar Change	Percentage Change
		($ in thousands)		
Gross interest expense and loan cost amortization	$ 55,570	$ 54,850	$ 720	1.3%
Less: capitalized interest and loan cost amortization	(18,068)	(11,309)	(6,759)	59.8%
Interest expense	$ 37,502	$ 43,541	$ (6,039)	13.9%

The increase in gross interest expense and loan cost amortization is primarily attributable to an increase in our average debt balance associated with our development activities during 2007. This increase was largely offset by a decrease in our weighted-average interest rate during the year ended December 31, 2007, compared to the year ended December 31, 2006. Our weighted average interest rate including loan fees was 5.5% during the year ended December 31, 2007, compared to 6.3% during the year ended December 31, 2006. The increase in capitalized interest and loan cost amortization was primarily due to an increase in development activities and the resulting increase in the average balances eligible for capitalization during the year ended December 31, 2007, compared to the year ended December 31, 2006. This increase was partially offset by a decrease in our weighted-average interest rate during the year ended December 31, 2007, compared to the year ended December 31, 2006.

Depreciation and amortization increased $4.0 million, or 5.8%, to $72.8 million for the year ended December 31, 2007, compared to $68.8 million for the year ended December 31, 2006. This increase was primarily attributable to depreciation of the 2006 and 2007 Office Development Properties of $4.4 million and a

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$0.7 million increase related to depreciation of the Core Office Portfolio. These increases were partially offset by a $1.1 million decrease in depreciation resulting from reclassifying the 2006 Office Redevelopment Property and the Industrial Redevelopment Property from the stabilized portfolio to the redevelopment portfolio and ceasing depreciation on these assets.

Total other income and expense decreased approximately $0.2 million, or 12.0%, to $1.6 million for the year ended December 31, 2007, compared to $1.8 million for the year ended December 31, 2006. The decrease related to the net other income recorded for our outstanding derivatives during the year ended December 31, 2006. We did not have any outstanding derivative instruments during the year ended December 31, 2007.

Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

The following table reconciles our Net Operating Income by segment to our net income available for common stockholders for the years ended December 31, 2006 and 2005.

	Year Ended December 31, 2006	Year Ended December 31, 2005	Dollar Change	Percentage Change
	($ dollars in thousands)			
Net Operating Income, as defined				
Office Properties	$ 154,132	$ 145,905	$ 8,227	5.6%
Industrial Properties	27,233	27,272	(39)	(0.1)
Total portfolio	181,365	173,177	8,188	4.7
Reconciliation to Net Income Available for Common Stockholders:				
Net Operating Income, as defined for reportable segments	181,365	173,177	8,188	4.7
Other expenses:				
General and administrative expenses	22,800	66,456	(43,656)	(65.7)
Interest expense	43,541	38,956	4,585	11.8
Depreciation and amortization	68,830	64,273	4,557	7.1
Total other income and expense	1,826	1,346	480	35.7
Income from continuing operations before minority interests	48,020	4,838	43,182	892.6
Minority interests attributable to continuing operations	(8,102)	(4,395)	(3,707)	84.3
Income from discontinued operations	41,946	33,376	8,570	25.7
Net income	81,864	33,819	48,045	142.1
Preferred dividends	(9,608)	(9,608)		0.0
Net income available for common stockholders	$ 72,256	$ 24,211	$ 48,045	198.4%

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Rental Operations

The following tables compare the Net Operating Income for the Office Properties and for the Industrial Properties for the years ended December 31, 2006 and 2005.

Office Properties

	Total Office Portfolio				Core Office Portfolio(1)			
	2006	**2005**	**Dollar Change**	**Percentage Change**	**2006**	**2005**	**Dollar Change**	**Percentage Change**
	($ dollars in thousands)							
Operating revenues:								
Rental income	$ 187,535	$ 176,393	$ 11,142	6.3%	$ 178,733	$ 172,050	$ 6,683	3.9%
Tenant reimbursements	18,581	16,710	1,871	11.2	17,450	15,157	2,293	15.1
Other property income	2,294	675	1,619	239.9	2,286	672	1,614	240.2
Total	208,410	193,778	14,632	7.6	198,469	187,879	10,590	5.6
Property and related expenses:								
Property expenses	36,742	33,544	3,198	9.5	33,793	31,858	1,935	6.1
Real estate taxes	15,305	13,717	1,588	11.6	14,216	13,231	985	7.4
Provision for bad debts	648	(595)	1,243	208.9	639	(642)	1,281	199.5
Ground leases	1,583	1,207	376	31.2	1,583	1,207	376	31.2
Total	54,278	47,873	6,405	13.4	50,231	45,654	4,577	10.0
Net Operating Income	$ 154,132	$ 145,905	$ 8,227	5.6%	$ 148,238	$ 142,225	$ 6,013	4.2%

(1) Stabilized Office Properties owned at January 1, 2005 and still owned and stabilized at December 31, 2007.

Total revenues from Office Properties increased $14.6 million, or 7.6%, to $208.4 million for the year ended December 31, 2006, compared to $193.8 million for the year ended December 31, 2005. Rental income from Office Properties increased $11.1 million, or 6.3%, to $187.5 million for the year ended December 31, 2006, compared to $176.4 million for the year ended December 31, 2005. Rental income generated by the Core Office Portfolio increased $6.7 million, or 3.9%, for the year ended December 31, 2006, compared to the year ended December 31, 2005. This increase was primarily due to an increase in occupancy in this portfolio and an increase in rental rates at our San Diego Office Properties. Average occupancy in the Core Office Portfolio increased 1.7% to 95.9% for the year ended December 31, 2006, compared to 94.2% for the same period in 2005. The remaining $4.4 million increase in total office portfolio rental income was attributable to a $5.4 million increase in rental income generated by two office development properties that were added to the stabilized portfolio in the fourth quarter of 2005 and two office redevelopment properties that were added to the stabilized portfolio in 2005 (the 2005 Office Development and Redevelopment Properties), a $0.4 million increase in rental income generated by one office building acquired in the second quarter of 2005 (the 2005 Office Acquisition Property), partially offset by a $1.4 million decrease resulting from the 2006 Office Redevelopment Property.

Tenant reimbursements from Office Properties increased $1.9 million, or 11.2%, to $18.6 million for the year ended December 31, 2006, compared to $16.7 million for the year ended December 31, 2005. An increase of $2.3 million, or 15.1%, was generated by the Core Office Portfolio and was primarily due to an increase in reimbursable property expenses related to an increase in occupancy. This increase was partially offset by a decrease of $0.7 million attributable to the 2006 Office Redevelopment Property taken out of service, offset by an increase of $0.3 million generated by the 2005 Office Acquisition Property and 2005 Office Development and Redevelopment Properties.

Other property income from Office Properties increased $1.6 million, or 239.9%, to $2.3 million for the year ended December 31, 2006, compared to $0.7 million for the year ended December 31, 2005. Other property

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income for the year ended December 31, 2006 included $1.8 million in net lease termination fees received from two early lease terminations at two of our Office Properties in San Diego. Other property income for both periods consisted primarily of lease termination fees and other miscellaneous income within the Core Office Portfolio.

Total expenses from Office Properties increased $6.4 million, or 13.4%, to $54.3 million for the year ended December 31, 2006, compared to $47.9 million for the year ended December 31, 2005. Property expenses from Office Properties increased $3.2 million, or 9.5%, to $36.7 million for the year ended December 31, 2006, compared to $33.5 million for the year ended December 31, 2005. An increase in property expenses of $1.9 million, or 6.1%, was generated by the Core Office Portfolio. This increase was primarily attributable to an increase in property management, janitorial and other contract service costs related primarily to an increase of occupancy at our Los Angeles Office Properties and renegotiated third-party service contracts. An increase of $1.4 million in property expense was attributable to the 2005 Office Development and Redevelopment Properties and an increase of $0.2 million was attributable to the 2005 Office Acquisition Property, offset by a decrease of $0.3 million attributable to the 2006 Office Redevelopment Property taken out of service.

Real estate taxes from Office Properties increased $1.6 million, or 11.6%, to $15.3 million for the year ended December 31, 2006, compared to $13.7 million for the year ended December 31, 2005. Real estate taxes for the Core Office Portfolio increased $1.0 million, or 7.4%, for the year ended December 31, 2006, compared to the year ended December 31, 2005. In 2005, we received refunds of prior years real estate taxes as the result of successful appeals. The remaining increase of $0.6 million in real estate taxes was attributable to a $0.7 million increase generated by the 2005 Office Development and Redevelopment Properties and a $0.1 million increase from the 2005 Office Acquisition Property, offset by a decrease of $0.2 million attributable to the 2006 Office Redevelopment Property taken out of service.

The provision for bad debts from Office Properties increased $1.2 million for the year ended December 31, 2006, compared to the year ended December 31, 2005. During the fourth quarter of 2005, Peregrine was acquired by Hewlett-Packard Company; therefore, we re-evaluated the allowance related to the two remaining future annual installment lease termination payments. As a result, we reversed approximately $1.3 million of the allowance through the provision for bad debts in 2005. We evaluate our reserve levels on a quarterly basis.

Ground lease expense for Office Properties increased $0.4 million, or 31.2%, to $1.6 million for the year ended December 31, 2006, compared to $1.2 million for the year ended December 31, 2005. This increase is primarily attributable to scheduled fair market increases in ground rent expenses at one of our Core Office Portfolio properties, which was effective January 1, 2006.

Net Operating Income from Office Properties increased $8.2 million, or 5.6%, to $154.1 million for the year ended December 31, 2006, compared to $145.9 million for the year ended December 31, 2005. Of this increase, $6.0 million was generated by the Core Office Portfolio, primarily due to an increase in occupancy in this portfolio as mentioned above. An increase of $3.5 million was generated by the 2005 Office Development and Redevelopment Properties, and an increase of $0.3 million was generated by the 2005 Office Acquisition Property, partially offset by a decrease of $1.6 million attributable to the 2006 Office Redevelopment Property taken out of service.

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Industrial Properties

	Total Industrial Portfolio				Total Core Industrial Portfolio(1)			
	2006	2005	Dollar Change	Percentage Change	2006	2005	Dollar Change	Percentage Change
	($ dollars in thousands)							
Operating revenues:								
Rental income	$ 29,210	$ 28,677	$ 533	1.9%	$ 28,130	$ 28,309	$ (179)	(0.6)%
Tenant reimbursements	3,859	3,560	299	8.4	3,559	3,560	(1)	(0.0)
Other property income	62	96	(34)	(35.4)	62	96	(34)	(35.4)
Total	33,131	32,333	798	2.5	31,751	31,965	(214)	(0.7)
Property and related expenses:								
Property expenses	2,958	2,517	441	17.5	2,902	2,508	394	15.7
Real estate taxes	2,844	2,617	227	8.7	2,635	2,530	105	4.2
Provision for bad debts	96	(73)	169	231.5	96	(73)	169	231.5
Total	5,898	5,061	837	16.5	5,633	4,965	668	13.5
Net Operating Income	$ 27,233	$ 27,272	$ (39)	(0.1)%	$ 26,118	$ 27,000	$ (882)	(3.3)%

(1) Industrial Properties owned and stabilized at January 1, 2005 and still owned and stabilized at December 31, 2007.

Total revenues from Industrial Properties increased $0.8 million, or 2.5%, to $33.1 million for the year ended December 31, 2006, compared to $32.3 million for the year ended December 31, 2005. Rental income from Industrial Properties increased $0.5 million, or 1.9%, to $29.2 million for the year ended December 31, 2006, compared to $28.7 million for the year ended December 31, 2005. Rental income generated by the Core Industrial Portfolio decreased $0.2 million, or 0.6%, for the year ended December 31, 2006, compared to the year ended December 31, 2005. This decrease at the Core Industrial Portfolio was primarily due to a decrease in occupancy. Average occupancy in the Core Industrial Portfolio decreased 2.1% to 96.7% for the year ended December 31, 2006, compared to 98.8% for the year ended December 31, 2005. The decrease was primarily attributable to one industrial property located in Orange County. This decrease was offset by a $0.7 million increase in rental income generated by the Industrial Redevelopment Property during the third quarter.

Tenant reimbursements from Industrial Properties increased $0.3 million, or 8.4%, to $3.9 million for the year ended December 31, 2006, compared to $3.6 million for the year ended December 31, 2005. This increase was primarily due to the Industrial Redevelopment Property.

Total expenses from Industrial Properties increased $0.8 million, or 16.5%, to $5.9 million for the year ended December 31, 2006, compared to $5.1 million for the year ended December 31, 2005. Property expenses from Industrial Properties increased by $0.4 million, or 17.5%, to $2.9 million for the year ended December 31, 2006, compared to $2.5 million for the year ended December 31, 2005. The increase in property expenses is primarily due to a casualty loss at one of our properties in which the electrical components of the unoccupied property were removed and stolen. As of December 31, 2006, we were pursuing a strategy to potentially re-entitle the property to change its legal entitlements from industrial use to medium density residential use, and therefore we did not believe that it was probable that we would replace the stolen electrical components. We are still currently in the process of re-entitling the property and do not believe that it is probable that we will replace the stolen electrical components.

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Real estate taxes for the Industrial Properties increased $0.2 million, or 8.7%, for the year ended December 31, 2006, compared to the year ended December 31, 2005. The increase in property taxes was attributable to a $0.1 million increase in the Core Industrial Portfolio and a $0.1 million increase from the Industrial Redevelopment Property. The provision for bad debts for Industrial Properties increased $0.2 million, or 231.5%, for the year ended December 31, 2006, compared to the year ended December 31, 2005. During the year ended December 31, 2005, our reserve requirement decreased due to the collection of previously reserved receivables. We evaluate our reserve levels on a quarterly basis.

Net Operating Income from Industrial Properties remained consistent at approximately $27.2 million for the year ended December 31, 2006, compared to the same period in 2005.

Other Income and Expenses

General and administrative expenses decreased $43.7 million, or 65.7%, to $22.8 million for the year ended December 31, 2006, compared to $66.5 million for the year ended December 31, 2005. The decrease is primarily due to a $44.9 million decrease in incentive compensation that was driven by a special long-term incentive plan for our executive officers that ended on December 31, 2005. The amount payable under the plan was based on our absolute and relative stockholder returns. Compensation expense under this program was accounted for using variable plan accounting. (See Note 13 to our consolidated financial statements included in this report for additional information about the program). The decrease in general and administrative expenses was partially offset by an increase in compliance costs related to being a public company and payroll-related expenses.

Interest expense increased $4.5 million, or 11.8%, to $43.5 million for the year ended December 31, 2006, compared to $39.0 million for the year ended December 31, 2005. The following table sets forth our gross interest expense and loan cost amortization from continuing operations net of capitalized interest and loan cost amortization for the years ended December 31, 2006 and 2005.

	2006	2005	Dollar Change	Percentage Change
		($ in thousands)		
Gross interest expense and loan cost amortization	$ 54,850	$ 47,836	$ 7,014	14.7%
Less: capitalized interest and loan cost amortization	(11,309)	(8,880)	(2,429)	27.4
Interest expense	$ 43,541	$ 38,956	$ 4,585	11.8%

The increase in gross interest expense and loan cost amortization is primarily attributable to an increase in our weighted-average interest rate and an increase in our average debt balance during the year ended December 31, 2006, compared to the year ended December 31, 2005. Our weighted average interest rate including loan cost amortization was 6.3% during the year ended December 31, 2006, compared to 5.9% during the year ended December 31, 2005. The increase in capitalized interest and loan cost amortization was primarily due to an increase in development activities and the resulting increase in the average balances eligible for capitalization during the year ended December 31, 2006, compared to the year ended December 31, 2005.

Depreciation and amortization increased $4.6 million, or 7.1%, to $68.8 million for the year ended December 31, 2006, compared to $64.2 million for the year ended December 31, 2005. An increase of $1.8 million was generated by the Core Portfolio. This increase was mainly attributable to expenditures incurred subsequent to December 31, 2005 for capital improvements and tenant improvements. An increase of $2.9 million was attributable to the 2005 Office Development and Redevelopment Properties, the Industrial Redevelopment Property and the 2005 Office Acquisition Property, offset by a decrease of $0.1 million attributable to the 2006 Office Redevelopment Property taken out of service.

Total other income and expense increased approximately $0.5 million, or 35.7%, to $1.8 million for the year ended December 31, 2006, compared to $1.3 million for the year ended December 31, 2005. The increase in

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other income was due to $0.6 million of interest earned on the funds held at a qualified intermediary for a Section 1031 exchange (see Note 2 to our consolidated financial statements) and $0.5 million of interest income from our outstanding note receivable, which we issued in July 2005 in connection with a disposition. This increase was partially offset by a $0.6 million decrease related to our derivative instruments, which was comprised of a $1.2 million decrease in the periodic change in the fair value of the instruments as a result of the expiration of our two remaining derivative instruments in 2006, partially offset by an increase of $0.6 million in net settlement payments received from the counterparties of our interest rate swap agreements as a result of increasing interest rates.

Building and Lease Information

The following tables set forth certain information regarding our Office Properties and Industrial Properties at December 31, 2007:

Occupancy by Segment Type

Region	Number of Buildings	Square Feet Total	Occupancy
Office Properties:			
Los Angeles County	24	2,899,075	96.1%
Orange County	5	277,340	99.1
San Diego County	52	4,565,824	91.4
Other Counties	5	346,530	99.6
	86	8,088,769	93.7
Industrial Properties:			
Los Angeles County	1	192,053	100.0
Orange County	42	3,677,916	94.4
	43	3,869,969	94.7
Total portfolio	129	11,958,738	94.0%

Leasing Activity by Segment Type

For the Year Ended December 31, 2007

	Number of Leases(1)		Rentable Square Feet(1)					
	New	Renewal	New	Renewal	Changes in Rents(2)	Changes in Cash Rents(3)	Retention Rates(4)	Weighted Average Lease Term (in months)
Office Properties	50	42	455,246	738,147	15.1%	3.8%	54.3%	76
Industrial Properties	6	11	283,879	243,823	15.6%	1.3%	47.5%	55
Total portfolio	56	53	739,125	981,970	15.2%	3.4%	52.4%	69

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

(2) Calculated as the change between GAAP rents for new/renewed leases and the expiring GAAP rents for the same space. Excludes leases for which the space was vacant longer than one year.
(3) Calculated as the change between stated rents for new/renewed leases and the expiring stated rents for the same space. Excludes leases for which the space was vacant longer than one year.
(4) Calculated as the percentage of space either renewed or expanded into by existing tenants at lease expiration.

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Liquidity and Capital Resources

Current Sources of Capital and Liquidity

We seek to create and maintain a capital structure that allows for financial flexibility and diversification of capital resources. Our primary source of liquidity to fund distributions, debt service, leasing costs and capital expenditures is net cash from operations. We believe that we will have sufficient capital resources to satisfy our liquidity needs over the next twelve-month period. Our primary sources of liquidity to fund development and redevelopment costs, potential undeveloped land and property acquisitions, temporary working capital and unanticipated cash needs are our $550 million unsecured line of credit (the Credit Facility), proceeds received from our property disposition program, construction loans and the public or private issuance of debt or equity securities. As of December 31, 2007, our total debt as a percentage of total market capitalization was 34.4%, and our total debt and liquidation value of our preferred equity as a percentage of total market capitalization was 40.6%.

In April 2007, we issued $460 million in aggregate principal amount of Notes. (See Note 9 to our consolidated financial statements included with this report for a complete discussion of the Notes). We used a portion of the net proceeds received from the Notes to repay the entire $331 million balance then-outstanding on the Credit Facility and to repay one variable-rate secured loan of $31 million that was originally scheduled to mature in January 2009. Additionally, we repaid two fixed-rate secured loans totaling $21 million that were contractually scheduled to mature in August 2007. As a result of these transactions, availability under the Credit Facility increased to $439 million at December 31, 2007, and our total weighted average interest rate decreased from 6.3% at December 31, 2006 to 5.2% at December 31, 2007.

As of December 31, 2007, we had borrowings of $111 million outstanding under the Credit Facility. The Credit Facility bears interest at an annual rate between LIBOR plus 0.85% and LIBOR plus 1.35%, depending upon our leverage ratio at the time of borrowing (5.96% at December 31, 2007). We expect to use the Credit Facility to finance development and redevelopment expenditures, to fund potential acquisitions and for other general corporate uses.

Factors That May Influence Future Sources of Capital and Liquidity

One of our fixed-rate mortgage notes payable has a principal balance of $73.4 million and is scheduled to mature in August 2008. We are currently working to obtain additional sources of refinancing. If we are unable to obtain additional sources of refinancing, we could be required to borrow up to $73.4 million from the Credit Facility to repay this loan.

Our Credit Facility, unsecured senior notes and certain other secured debt agreements contain covenants and restrictions requiring us to meet certain financial ratios and reporting requirements. Some of the more restrictive covenants include a maximum ratio of total debt to total assets, a maximum ratio of total secured debt to total assets, a fixed charge coverage ratio, a minimum consolidated tangible net worth, a limit of the ratio of development activities to total assets and a maximum ratio of dividend payments to FFO. Non-compliance with one or more of the covenants or restrictions could result in the full or partial principal balance of the associated debt becoming immediately due and payable. We were in compliance with all our debt covenants at December 31, 2007.

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The composition of our aggregate debt balances at December 31, 2007 and 2006 were as follows:

	Percentage of Total Debt		Weighted Average Interest Rate	
	December 31, 2007	December 31, 2006	December 31, 2007	December 31, 2006
Secured vs. unsecured:				
Secured	35.6%	52.2%	5.9%	6.0%
Unsecured	64.4	47.8	4.2	6.2
Fixed-rate vs. variable-rate:				
Fixed-rate	86.8	61.0	4.7	6.0
Variable-rate	13.2	39.0	5.9	6.2
Total debt/interest rate			4.8	6.1
Total debt/interest rate including loan costs			5.2	6.3

At December 31, 2007, 13.2% of our total debt required interest payments based on LIBOR rates. During 2007, one-month LIBOR decreased from 5.33% at December 31, 2006 to 4.60% at December 31, 2007. Although the interest payments on 86.8% of our debt are fixed at December 31, 2007, this 13.2% of our debt is exposed to fluctuations of the one-month LIBOR rate.

At December 31, 2007 and 2006, we had no outstanding derivative instruments and do not have immediate plans in place to obtain derivative instruments. However, management will continue to evaluate the various options available to minimize interest rate risk.

The following is our total market capitalization as of December 31, 2007:

	Shares/Units at December 31, 2007	Aggregate Principal Amount or $ Value Equivalent ($ in thousands)	% of Total Market Capitalization
Debt:			
Secured debt		$ 395,912	12.3%
Notes(1)		460,000	14.2
Unsecured senior notes		144,000	4.5
Credit Facility		111,000	3.4
Total debt		$ 1,110,912	34.4
Equity and Minority Interest:			
7.450% Series A Cumulative Redeemable Preferred Units(2)	1,500,000	$ 75,000	2.3
7.800% Series E Cumulative Redeemable Preferred Stock(3)	1,610,000	40,250	1.2
7.500% Series F Cumulative Redeemable Preferred Stock(3)	3,450,000	86,250	2.7
Common Units Outstanding(4)	2,189,325	120,325	3.7
Common Shares Outstanding(4)	32,765,893	1,800,813	55.7
Total equity		$ 2,122,638	65.6
Total Market Capitalization		$ 3,233,550	100.0%

(1) Represents gross aggregate principal amount before the effect of the unamortized discount of approximately $3.9 million at December 31, 2007.

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

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

(4) Value based on closing share price of $54.96 at December 31, 2007.

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Contractual Obligations

The following table provides information with respect to the maturities and scheduled principal repayments of our secured debt, Notes, unsecured senior notes and Credit Facility and scheduled interest payments of our fixed-rate and variable-rate debt at December 31, 2007 and provides information about the minimum commitments due in connection with our ground lease obligations and capital and development commitments at December 31, 2007. The table does not reflect available maturity extension options.

	Payment Due by Period				
	Less than 1 Year (2008)	1 3 Years (2009-2010)	3 5 Years (2011-2012)	More than 5 Years (After 2012)	Total
			(in thousands)		
Principal payments secured debt	$ 81,548	$ 123,220	$ 179,669	$ 11,475	$ 395,912
Principal payments Notes			460,000		460,000
Principal payments unsecured senior notes		61,000		83,000	144,000
Principal payments Credit Facility(1)		111,000			111,000
Interest payments fixed-rate debt(2)	43,737	73,352	49,377	12,606	179,072
Interest payments variable-rate debt(3)	8,194	10,796			18,990
Ground lease obligations(4)	1,260	2,375	1,969	62,437	68,041
Development and redevelopment commitments(5)	47,117	463			47,580
Capital commitments(6)	12,925				12,925
Total	$ 194,781	$ 382,206	$ 691,015	$ 169,518	$ 1,437,520

(1) Our Credit Facility has a one-year extension option.

(2) As of December 31, 2007, 86.8% of our debt was contractually fixed. The information in the table above reflects our projected interest rate obligations for these fixed-rate payments based on the contractual interest rates, interest payment dates and scheduled maturity dates.

(3) As of December 31, 2007, 13.2% of our debt bore interest at variable rates. The variable interest rate payments are based on LIBOR plus a spread that ranged from 0.75% to 0.95% at December 31, 2007. The information in the table above reflects our projected interest rate obligations for these variable-rate payments based on LIBOR at December 31, 2007, the scheduled interest payment dates and maturity dates. At December 31, 2007, one-month LIBOR was 4.60%.

(4) We have non-cancelable ground lease obligations for the Kilroy Airport Center in Long Beach, California with a lease period for Phases I, II, III and IV expiring in July 2084 (See Note 16 to our consolidated financial statements included with this report).

(5) Amounts represent contractual commitments for contracts and executed leases directly related to our in-process development and redevelopment properties at December 31, 2007. Costs include the remaining total estimated investment, excluding capitalized interest and development overhead, for pre-leased properties, and excluding capitalized interest, development overhead and potential future leasing costs and tenant improvements for properties not yet pre-leased. The timing of these expenditures may fluctuate based on the ultimate progress and status of development properties and leasing activity.

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

Capital Commitments

As of December 31, 2007, we had six in-process development and redevelopment properties. These properties have a total estimated investment of $218 million, including capitalized interest and development overhead, of which we have incurred approximately $156 million as of

December 31, 2007. Of the remaining estimated $62 million of costs yet to be incurred, we are currently contractually obligated to pay approximately $48 million over the next two years as shown in the table above. In addition, we currently project we could spend the remaining $14 million for these properties in 2008. Ultimate timing of these expenditures may fluctuate given the ultimate progress and status of the development properties and leasing activity. We may have additional commitments on other future development properties in our pipeline during 2008, depending upon market conditions. We continually evaluate the size, timing, costs and scope of our development and redevelopment programs and, as necessary, scale activity to reflect the economic conditions and the real estate fundamentals that exist in our strategic submarkets. See additional information regarding our in-process development portfolio under the caption -Development and Redevelopment and sources of capital under the caption -Liquidity and Capital Resources-*Current Sources of Capital and Liquidity* above.

As of December 31, 2007, we had executed leases that contractually committed us to pay approximately $9 million in unpaid leasing costs and tenant improvements, and we had executed contracts outstanding that contractually committed us to pay approximately $4 million in capital improvements. These total commitments of approximately $13 million are shown in the table above. In addition, we currently project we could spend approximately $26 million to $28 million in capital improvements, tenant improvements and leasing costs for properties within our stabilized portfolio in 2008, depending on leasing activity. Capital expenditures may fluctuate in any given period subject to the nature, extent and timing of improvements required to maintain our properties. Tenant improvements and leasing costs may also fluctuate in any given period depending upon factors such as the type of property, the term of the lease, the type of lease, the involvement of external leasing agents and overall market conditions.

Other Liquidity Needs

We are required to distribute 90% of our REIT taxable income (excluding capital gains) on an annual basis in order to qualify as a REIT for federal income tax purposes. Accordingly, we intend to continue to make, but have not contractually bound ourselves to make, regular quarterly distributions to common stockholders and common unitholders from cash flow from operating activities. All such distributions are at the discretion of the Board of Directors. We may be required to use borrowings under the Credit Facility, if necessary, to meet REIT distribution requirements and maintain our REIT status. We have historically distributed amounts in excess of our taxable income resulting in a return of capital to our stockholders, and currently have the ability to not increase our distributions to meet our REIT requirements for 2008. We consider market factors and our performance in addition to REIT requirements in determining our distribution levels. Amounts accumulated for distribution to stockholders are invested primarily in interest-bearing accounts and short-term interest-bearing securities, which are consistent with our intention to maintain our qualification as a REIT. Such investments may include, for example, obligations of the Government National Mortgage Association, other governmental agency securities, certificates of deposit and interest-bearing bank deposits. On January 18, 2008, we paid a regular quarterly cash dividend of $0.555 per common share to stockholders of record on December 31, 2007. This dividend is equivalent to an annual rate of $2.22 per share. In addition, we are required to make quarterly distributions to our Series A Preferred Unitholders and Series E and Series F Preferred Stockholders, which in aggregate total approximately $15 million of annualized preferred dividends and distributions.

Our Board of Directors has approved a share repurchase program, pursuant to which we are authorized to repurchase up to an aggregate of four million shares of our outstanding common stock. An aggregate of 1,227,500 shares currently remain eligible for repurchase under this program. We did not repurchase shares of common stock under this program during the year ended December 31, 2007. We may opt to repurchase shares of our common stock in the future depending upon market conditions.

We believe that we will have sufficient capital resources to satisfy our liquidity needs over the next twelve-month period. We expect to meet our short-term liquidity needs, which may include principal repayments of our debt obligations, capital and development expenditures, distributions to common and preferred stockholders and unitholders, and short-term acquisitions through retained cash flow from operations, proceeds from the disposition of non-strategic assets and borrowings under the Credit Facility.

We expect to meet our long-term liquidity requirements, which may include additional property and undeveloped land acquisitions and additional future development and redevelopment activity, through retained cash flow, borrowings under the Credit Facility, additional long-term secured and unsecured borrowings, proceeds from the disposition of non-strategic assets, issuance of common or preferred units of the Operating Partnership, and our potential issuance of debt or equity securities. We do not intend to reserve funds to retire

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existing debt upon maturity. We presently expect to refinance such debt at maturity or retire such debt through the issuance of equity securities, as market conditions permit.

Off-Balance Sheet Arrangements

As of December 31, 2007 and the date this report was filed, we do not have any off-balance sheet transactions, arrangements or obligations, including contingent obligations.

Historical Recurring Capital Expenditures, Tenant Improvements and Leasing Costs

The following tables set forth the capital expenditures, tenant improvements and leasing costs, excluding tenant-funded tenant improvements, for renewed and re-tenanted space within our stabilized portfolio for the three years ended December 31, 2007 on a per square foot basis.

	Year Ended December 31,		
	2007	2006	2005
Office Properties:			
Capital Expenditures:			
Capital expenditures per square foot	$ 0.82	$ 0.51	$ 0.39
Tenant Improvement and Leasing Costs(1):			
Replacement tenant square feet	405,868	326,169	298,066
Tenant improvements per square foot leased	$ 20.94	$ 12.06	$ 18.54
Leasing commissions per square foot leased	$ 10.99	$ 6.05	$ 7.95
Total per square foot	$ 31.93	$ 18.11	$ 26.49
Renewal tenant square feet	658,276	322,467	196,185
Tenant improvements per square foot leased	$ 6.15	$ 8.82	$ 11.69
Leasing commissions per square foot leased	$ 3.63	$ 5.85	$ 5.36
Total per square foot	$ 9.77	$ 14.66	$ 17.05
Total per square foot per year	$ 6.61	$ 5.11	$ 6.61
Average lease term (in years)	6.3	6.4	6.6
Industrial Properties:			
Capital Expenditures:			
Capital expenditures per square foot	$ 0.23	$ 0.16	$ 0.27
Tenant Improvement and Leasing Costs(1):			
Replacement tenant square feet	283,879	115,042	155,225
Tenant improvements per square foot leased	$ 3.08	$ 14.17	$ 2.10
Leasing commissions per square foot leased	$ 2.26	$ 2.67	$ 1.58
Total per square foot	$ 5.35	$ 16.84	$ 3.68
Renewal tenant square feet	243,823	637,356	610,504
Tenant improvements per square foot leased	$ 1.29	$ 1.28	$ 3.31
Leasing commissions per square foot leased	$ .64	$ 0.54	$ 0.48
Total per square foot	$ 1.94	$ 1.82	$ 3.80
Total per square foot per year	$ 1.58	$ 2.83	$ 1.25
Average lease term (in years)	4.6	6.6	6.0

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

Capital expenditures may fluctuate in any given period subject to the nature, extent and timing of improvements. Due to rising construction costs, we anticipate spending slightly more on gross capital expenditures during 2008 compared to 2007. We believe that all of our Office Properties and Industrial Properties are well maintained and do not require significant capital improvements.

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Tenant improvements and leasing costs may also fluctuate in any given year depending upon factors such as the property, the term of the lease, the type of lease, the involvement of external leasing agents and overall market conditions.

Historical Cash Flows

The principal sources of funding for our future development, redevelopment, acquisitions and capital expenditures are cash flow from operating activities, the Credit Facility, secured and unsecured debt financing and proceeds from our dispositions. Following is a summary of the sources and uses of cash for the year ended December 31, 2007, compared to the year ended December 31, 2006.

	Year Ended December 31,			
	2007	2006	Dollar Change	Percentage Change
	($ in thousands)			
Net cash provided by operating activities	$ 147,500	$ 61,570	$ 85,930	139.6%
Net cash used in investing activities	(244,802)	(136,193)	(108,609)	79.7
Net cash provided by financing activities	97,086	82,690	14,396	17.4

Operating Activities

Our net cash provided by operating activities increased by $85.9 million, or 139.6%, to $147.5 million for the year ended December 31, 2007, compared to $61.6 million for the year ended December 31, 2006. The change was primarily attributable to the following:

- A $71.7 million cash payment was made to our executive officers in January 2006, which represented the total amount earned under a special long-term compensation program (see Note 13 to our consolidated financial statements included in this report).
- Cash paid for interest (net of capitalized interest, which is included in investing activities) decreased by $9.4 million as compared to 2006.
- We had an increase in cash flow from property operations, which was partially offset by a decrease in cash received from lease termination fees as compared to 2006.

Investing Activities

Net cash used in investing activities increased $108.6 million, or 79.7%, to $244.8 million for the year ended December 31, 2007, compared to $136.2 million for the year ended December 31, 2006. The change was primarily attributable to the following:

- We had a net cash outlay of $154.0 million for property acquisitions in 2007. We had deposited $3.0 million into escrow for these acquisitions in 2006. We did not have any acquisitions in 2006.
- Our development expenditures increased by $73.0 million as compared to 2006.
- Our expenditures for operating properties increased by $5.6 million as compared to 2006.
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These cash outlays were partially offset by a $123.1 million increase in net proceeds received from dispositions in 2007 as compared to 2006.

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Financing Activities

Net cash provided by financing activities increased $14.4 million, or 17.4%, to $97.1 million for the year ended December 31, 2007, compared to $82.7 million for the year ended December 31, 2006. The change was primarily attributable to the following:

- We had an increase of approximately $185.8 million in net proceeds received from debt financing activities as compared to 2006, partially offset by $29.1 million in cash paid for the capped call options on common stock in connection with our issuance of exchangeable unsecured senior notes in 2007 (see Note 9 to our consolidated financial statements included in this report).

- We did not raise any equity capital during the year ended December 31, 2007. During the year ended December 31, 2006, we received approximately $136.1 million in net proceeds from the May 2006 public common stock offering (see Note 12 to our consolidated financial statements included in this report).

- These cash inflows were partially offset by a $5.8 million increase in dividends and distributions paid to common stockholders and common unitholders in 2007 as compared to 2006.

Non-GAAP Supplemental Financial Measure: Funds From Operations

We calculate FFO in accordance with the White Paper on FFO approved by the Board of Governors of NAREIT. The White Paper defines FFO as net income or loss calculated in accordance with GAAP, excluding extraordinary items, as defined by GAAP, and gains and losses from sales of depreciable operating property, plus real estate-related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets), and after adjustment for unconsolidated partnerships and joint ventures. Other REITs may use different methodologies to calculate FFO, and accordingly, our FFO may not be comparable to other REITs.

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.

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 to be insufficient by themselves. Because FFO excludes depreciation and amortization of real estate assets, we believe that FFO along with the required GAAP presentations provides a more complete measurement of our performance relative to our competitors and a more appropriate basis on which to make decisions involving operating, financing and investing activities than the required GAAP presentations alone would provide.

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

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The following table presents our FFO for the years ended December 31, 2007, 2006, 2005, 2004 and 2003:

	Year ended December 31,				
	2007	2006	2005	2004	2003
			(in thousands)		
Net income available for common stockholders	$ 104,214	$ 72,256	$ 24,211	$ 29,988	$ 49,767
Adjustments:					
Minority interest in earnings of Operating Partnership	7,167	5,990	3,149	4,307	7,588
Depreciation and amortization of real estate assets	73,708	71,197	67,007	59,496	57,045
Net gain on dispositions of operating properties	(74,505)	(31,259)	(30,764)	(6,148)	(3,642)
Funds From Operations(1)	$ 110,584	$ 118,184	$ 63,603	$ 87,643	$ 110,758

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

Inflation

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

New Accounting Pronouncements

For discussion of recent accounting pronouncements, see Note 2 to our consolidated financial statements included with this report.

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ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The primary market risk we face is interest rate risk. We mitigate this risk by maintaining prudent amounts of leverage, minimizing interest expense while continuously evaluating all available debt and equity resources and following established risk management policies and procedures that may include the periodic use of derivative instruments. As of December 31, 2007 and 2006, we did not have any derivative instruments.

Information about our changes in interest rate risk exposures from December 31, 2006 to December 31, 2007 is incorporated herein by reference from Item 7: Management s Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources.

Tabular Presentation of Market Risk

The tabular presentation below provides information about our interest rate sensitive financial instruments at December 31, 2007 and 2006. All of our interest rate sensitive financial instruments are held for purposes other than trading purposes. The table below presents principal cash flows and related weighted average interest rates, excluding loan cost amortization, by contractual maturity dates at December 31, 2007. The table also presents comparative summarized information for financial instruments held at December 31, 2006. The interest rates on our variable-rate debt are indexed to LIBOR plus spreads of 0.75% to 0.95% at December 31, 2007 and LIBOR plus spreads of 0.85% to 1.10% at December 31, 2006. (See Note 17 to our consolidated financial statements included in this report for further information regarding the calculation of fair value of financial instruments).

Interest Rate Risk Analysis Tabular Presentation

(dollars in millions)

	Maturity Date						December 31, 2007		December 31, 2006	
	2008	**2009**	**2010**	**2011**	**2012**	**Thereafter**	**Total**	**Fair Value**	**Total**	**Fair Value**
Liabilities:										
Unsecured debt:										
Credit Facility			$ 111.0				$ 111.0	$ 110.2	$ 276.0	$ 276.0
Variable-rate index			LIBOR				LIBOR		LIBOR	
Notes					$ 460.0		$ 460.0	$ 399.4		
Fixed interest rate					3.25%		3.25%			
Other fixed-rate			$ 61.0			$ 83.0	$ 144.0	$ 145.3	$ 144.0	$ 146.7
Weighted average fixed interest rate			5.72%			6.45%	6.14%		6.14%	
Secured debt:										
Variable-rate			$ 35.5				$ 35.5	$ 35.6	$ 66.5	$ 66.5
Variable-rate index			LIBOR				LIBOR		LIBOR	
Fixed-rate	$ 81.5	$ 81.4	$ 6.3	$ 75.2	$ 104.5	$ 11.5	$ 360.4	$ 369.0	$ 392.7	$ 392.0
Weighted average fixed interest rate	4.10%	7.16%	6.61%	6.69%	5.45%	7.17%	5.86%		5.93%	

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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

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

Not applicable.

ITEM 9A. CONTROLS AND PROCEDURES

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

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

Changes in Internal Control Over Financial Reporting

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

Management s Report on Internal Control Over Financial Reporting

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

Management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is supported by written policies and procedures and by an appropriate segregation of responsibilities and duties. We have used the criteria set forth in the *Internal*

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Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission to assess our internal control over financial reporting. Based upon this assessment, management concluded that our internal control over financial reporting operated effectively as of December 31, 2007.

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

February 25, 2008

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Kilroy Realty Corporation

Los Angeles, California

We have audited the internal control over financial reporting of Kilroy Realty Corporation (the Company) as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

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

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2007 of the Company and our report dated February 25, 2008 expressed an unqualified opinion on those financial statements and the financial statement schedules.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California

February 25, 2008

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ITEM 9B. OTHER INFORMATION

Not applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by Item 10 is incorporated by reference to our definitive proxy statement for our annual stockholders meeting presently scheduled to be held on May 20, 2008.

As required by Section 303A.12 of the NYSE Listed Company Manual, our Chief Executive Officer made his annual certification to the NYSE on June 18, 2007 stating that he was not aware of any violation by us of the corporate governance listing standards of the NYSE. In addition, we have filed, as exhibits to this Annual Report on Form 10-K, the certifications of our Chief Executive Officer and Chief Financial Officer required under Section 302 of the Sarbanes Oxley Act of 2002 to be filed with the SEC regarding the quality of our public disclosure.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference to our definitive proxy statement for our annual stockholders meeting presently scheduled to be held on May 20, 2008.

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

The information required by Item 12 is incorporated by reference to our definitive proxy statement for our annual stockholders meeting presently scheduled to be held on May 20, 2008.

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

The information required by Item 13 is incorporated by reference to our definitive proxy statement for our annual stockholders meeting presently scheduled to be held on May 20, 2008.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by Item 14 is incorporated by reference to our definitive proxy statement for our annual stockholders meeting presently scheduled to be held on May 20, 2008.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

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

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

(3) *Exhibits*

Exhibit Number	Description
3(i).1	Articles of Amendment and Restatement of the Registrant (1)
3(i).2	Articles Supplementary of the Registrant designating its 7.45% Series A Cumulative Redeemable Preferred Stock (2)
3(i).3	Articles Supplementary of the Registrant designating its Series B Junior Participating Preferred Stock (3)
3(i).4	Articles Supplementary of the Registrant designating 780,000 shares of its 9.250% Series D Cumulative Redeemable Preferred Stock (4)
3(i).5	Articles Supplementary of the Registrant designating an additional 120,000 shares of its 9.250% Series D Cumulative Redeemable Preferred Stock (5)
3(i).6	Articles Supplementary of the Registrant designating its 7.80% Series E Cumulative Redeemable Preferred Stock (6)
3(i).7	Articles Supplementary of the Registrant designating its 7.50% Series F Cumulative Redeemable Preferred Stock (7)
3(ii).1	Amended and Restated Bylaws of the Registrant (1)
3(ii).2	Amendment No. 1 to Amended and Restated Bylaws of the Registrant (36)
4.1	Form of Certificate for Common Stock of the Registrant (1)
4.2	Registration Rights Agreement dated January 31, 1997 (1)
4.3	Registration Rights Agreement dated February 6, 1998 (8)
4.4	Second Amended and Restated Registration Rights Agreement dated as of March 5, 2004 (2)

Exhibit Number	Description
4.5	Registration Rights Agreement dated as of October 31, 1997 (9)
4.6	Rights Agreement dated as of October 2, 1998 between Kilroy Realty Corporation and ChaseMellon Shareholder Services, L.L.C., as Rights Agent, which includes the form of Articles Supplementary of the Series B Junior Participating Preferred Stock of Kilroy Realty Corporation as Exhibit A, the form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Shares as Exhibit C (10)
4.7	Registration Rights Agreement dated as of October 6, 2000 (11)
4.8	The Company is party to agreements in connection with long-term debt obligations, none of which individually exceeds ten percent of the total assets of the Company on a consolidated basis. Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, the Company agrees to furnish copies of these agreements to the Commission upon request
4.9	Note and Guarantee Agreement dated August 4, 2004 by and between Kilroy Realty, L.P. and Kilroy Realty Corporation and the purchasers whose names appear in the acceptance form at the end of the Note and Guarantee Agreement (12)
4.10	Form of 5.72% Series A Guaranteed Senior Note due 2010 (12)
4.11	Form of 6.45% Series B Guaranteed Senior Note due 2014 (12)
4.12	Kilroy Realty 2006 Incentive Award Plan (29)
4.13	Amendment to Kilroy Realty 2006 Incentive Award Plan (31)
4.14	Second Amendment to Kilroy Realty 2006 Incentive Award Plan (35)
4.15	Form of Restricted Stock Award Agreement (30)
4.16	Indenture, dated as of April 2, 2007, among Kilroy Realty, L.P., as issuer, Kilroy Realty Corporation, as guarantor, and U.S. Bank National Association, as trustee, including the form of 3.250% Exchangeable Senior Notes due 2012 (33)
4.17	Registration Rights Agreement, dated April 2, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation, and J.P. Morgan Securities Inc., Banc of America Securities LLC and Lehman Brothers Inc. (33)
10.1	Fifth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P. dated as of March 5, 2004 (2)
10.2	First Amendment to Fifth Amended and Restated Agreement of Limited Partnership of Kilroy Realty, L.P., dated as of December 7, 2004 (13)
10.3	Omnibus Agreement dated as of October 30, 1996 by and among Kilroy Realty, L.P. and the parties named therein (1)
10.4	Supplemental Representations, Warranties and Indemnity Agreement by and among Kilroy Realty, L.P. and the parties named therein (1)
10.5	Pledge Agreement by and among Kilroy Realty, L.P., John B. Kilroy, Sr., John B. Kilroy, Jr. and Kilroy Industries (1)
10.6	1997 Stock Option and Incentive Plan of the Registrant and Kilroy Realty, L.P. (1)
10.7	Form of Indemnity Agreement of the Registrant and Kilroy Realty, L.P. with certain officers and directors (1)
10.8	Lease Agreement dated January 24, 1989 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase I (14)

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Exhibit Number	Description
10.9	First Amendment to Lease Agreement dated December 28, 1990 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase I (14)
10.10	Lease Agreement dated July 17, 1985 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III (15)
10.11	Lease Agreement dated April 21, 1988 by and between Kilroy Long Beach Associates and the Board of Water Commissioners of the City of Long Beach, acting for and on behalf of the City of Long Beach, for Long Beach Phase IV (15)
10.12	Lease Agreement dated December 30, 1988 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase II (15)
10.13	First Amendment to Lease dated January 24 1989 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III (15)
10.14	Second Amendment to Lease Agreement dated December 28, 1990 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III (15)
10.15	First Amendment to Lease Agreement dated December 28, 1990 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase II (15)
10.16	Third Amendment to Lease Agreement dated October 10, 1994 by and between Kilroy Long Beach Associates and the City of Long Beach for Kilroy Long Beach Phase III (15)
10.17	Development Agreement by and between Kilroy Long Beach Associates and the City of Long Beach (15)
10.18	Amendment No. 1 to Development Agreement by and between Kilroy Long Beach Associates an the City of Long Beach (15)
10.19	Property Management Agreement between Kilroy Realty Finance Partnership, L.P. and Kilroy Realty, L.P. (16)
10.20	Form of Environmental Indemnity Agreement (16)
10.21	Option Agreement by and between Kilroy Realty, L.P. and Kilroy Airport Imperial Co. (17)
10.22	Option Agreement by and between Kilroy Realty, L.P. and Kilroy Calabasas Associates (17)
10.23	Noncompetition Agreement by and between the Registrant and John B. Kilroy, Sr. (1)
10.24	Noncompetition Agreement by and between the Registrant and John B. Kilroy, Jr. (1)
10.25	License Agreement by and among the Registrant and the other persons named therein (17)
10.26	Purchase and Sale Agreement and Joint Escrow Instructions dated April 30, 1997 by and between Mission Land Company, Mission-Vacaville, L.P. and Kilroy Realty, L.P. (18)
10.27	Agreement of Purchase and Sale and Joint Escrow Instructions dated April 30, 1997 by and between Camarillo Partners and Kilroy Realty, L.P. (18)
10.28	Purchase and Sale Agreement and Escrow Instructions dated May 5, 1997 by and between Kilroy Realty L.P. and Pullman Carnegie Associates (19)
10.29	Amendment to Purchase and Sale Agreement and Escrow Instructions dated June 27, 1997 by and between Pullman Carnegie Associates and Kilroy Realty, L.P. (19)
10.30	Purchase and Sale Agreement, Contribution Agreement and Joint Escrow Instructions dated May 12, 1997 by and between Shidler West Acquisition Company, LLC and Kilroy Realty, L.P. (20)

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Exhibit Number	Description
10.31	First Amendment to Purchase and Sale Agreement, Contribution Agreement and Joint Escrow Instructions dated June 6, 1997 by and between Shidler West Acquisition Company, L.L.C. and Kilroy Realty, L.P. (20)
10.32	Second Amendment to Purchase and Sale Agreement, Contribution Agreement and Joint Escrow Instructions dated June 12, 1997 by and between Shidler West Acquisition Company, LLC and Kilroy Realty, L.P. (20)
10.33	Agreement of Purchase and Sale and Joint Escrow Instructions dated June 12, 1997 by and between Mazda Motor of America, Inc. and Kilroy Realty, L.P. (19)
10.34	First Amendment to Agreement of Purchase and Sale and Joint Escrow Instructions dated June 30, 1997 by and between Mazda Motor of America, Inc. and Kilroy Realty, L.P. (19)
10.35	Agreement for Purchase and Sale of 2100 Colorado Avenue, Santa Monica, California dated June 16, 1997 by and between Santa Monica Number Seven Associates L.P. and Kilroy Realty, L.P. (19)
10.36	Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners (21)
10.37	First Amendment to Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated August 22, 1997 (21)
10.38	Second Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 5, 1997 (21)
10.39	Third Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 19, 1997 (21)
10.40	Fourth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 22, 1997 (21)
10.41	Fifth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 23, 1997 (21)
10.42	Sixth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1998 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 25, 1997 (21)
10.43	Seventh Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated September 29, 1997 (21)
10.44	Eighth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated October 2, 1997 (21)
10.45	Ninth Amendment to the Purchase and Sale Agreement and Joint Escrow Instructions dated July 10, 1997 by and between Kilroy Realty, L.P. and Mission Square Partners dated October 24, 1997 (21)
10.46	Contribution Agreement dated October 21, 1997 by and between Kilroy Realty, L.P. and Kilroy Realty Corporation and The Allen Group and the Allens (22)
10.47	Purchase and Sale Agreement and Escrow Instructions dated December 11, 1997 by and between Kilroy Realty, L.P. and Swede-Cal Properties, Inc., Viking Investors of Southern California, L.P. and Viking Investors of Southern California II, L.P. (23)

Exhibit Number	Description
10.48	Amendment to the Contribution Agreement dated October 14, 1998 by and between Kilroy Realty, L.P. and Kilroy Realty Corporation and The Allen Group and the Allens dated October 21, 1997 (24)
10.49	Secured Promissory Notes and Deeds of Trusts Aggregating $80.0 Million payable to Metropolitan Life Insurance Company dated January 10, 2002 (25)
10.50	Secured Promissory Notes and Deeds of Trust Aggregating $115 million payable to Teachers Insurance and Annuity Association of America (26)
10.51	Fourth Amended and Restated Revolving Credit Agreement dated October 22, 2004 (27)
10.52	Fourth Amended and Restated Guaranty of Payment dated October 22, 2004 (27)
10.53	Amendment No. 2 to Fourth Amended and Restated Credit Agreement dated April 26, 2006 (28)
10.54	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and John B. Kilroy, Jr. effective as of January 1, 2007 (32)
10.55	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Jeffrey C. Hawken effective as of January 1, 2007 (32)
10.56	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Richard E. Moran Jr. effective as of January 1, 2007 (32)
10.57	Letter confirmation dated March 27, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and JPMorgan Chase Bank, National Association, London Branch (33)
10.58	Letter confirmation dated March 27, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and Bank of America, N.A. (33)
10.59	Letter confirmation dated March 27, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and Lehman Brothers Inc. (33)
10.60	Amendment to letter confirmation dated April 4, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and JPMorgan Chase Bank, National Association, London Branch (34)
10.61	Amendment to letter confirmation dated April 4, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and Bank of America, N.A. (34)
10.62	Amendment to letter confirmation dated April 4, 2007, among Kilroy Realty, L.P., Kilroy Realty Corporation and Lehman Brothers Inc. (34)
10.63	Kilroy Realty Corporation 2007 Deferred Compensation Plan (37)
10.64	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Steven R. Scott effective as of January 1, 2007 (37)
10.65	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Tyler H. Rose effective as of January 1, 2007 (37)
10.66	Employment Agreement by and among Kilroy Realty Corporation, Kilroy Realty, L.P. and Heidi Roth effective as of January 1, 2007 (37)
10.67	Kilroy Realty Corporation Stock Award Deferral Program (38)
12.1*	Statement of Computation of Consolidated Ratio of Earnings to Combined Fixed Charges and Preferred Dividends
21.1*	List of Subsidiaries of the Registrant
23.1*	Consent of Deloitte & Touche LLP

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Exhibit Number	Description
24.1*	Power of Attorney (included on the signature page of this Form 10-K)
31.1*	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer
31.2*	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer
32.1*	Section 1350 Certification of Chief Executive Officer
32.2*	Section 1350 Certification of Chief Financial Officer

* Filed herewith

Management contract or compensatory plan or arrangement.

(1) Previously filed as an exhibit to the Registration Statement on Amendment No. 3 to Form S-11 (No. 333-15553).

(2) Previously filed as an exhibit on Form 10-K for the year ended December 31, 2003.

(3) Previously filed as an exhibit to the Registration Statement on Amendment No. 1 to Form S-3 (No. 333-72229).

(4) Previously filed as an exhibit on Form 10-K for the year ended December 31, 1999.

(5) Previously filed as an exhibit to the Registration Statement on Form S-3 (No. 333-34638).

(6) Previously filed an exhibit on Form 8-A as filed with the Securities and Exchange Commission on October 24, 2003.

(7) Previously filed as an exhibit on Form 8-A as filed with the Securities and Exchange Commission on December 6, 2004.

(8) Previously filed as an exhibit on Form 8-K as filed with the Securities and Exchange Commission on February 11, 1998.