KILROY REALTY CORP
Form 10-Q
July 27, 2016
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q
(Mark One)

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2016
OR

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

For the transition period from to
Commission File Number: 1-12675 (Kilroy Realty Corporation)
Commission File Number: 000-54005 (Kilroy Realty, L.P.)
KILROY REALTY CORPORATION
KILROY REALTY, L.P.
(Exact name of registrant as specified in its charter)

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

12200 W. Olympic Boulevard, Suite 200, Los Angeles, California 90064
(Address of principal executive offices) (Zip Code)

(310) 481-8400
(Registrant's telephone number, including area code)

N/A
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Kilroy Realty Corporation Yes þ No o
Kilroy Realty, L. P. Yes þ No o
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Kilroy Realty Corporation Yes þ No o
Kilroy Realty, L.P. Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting

company” in Rule 12b-2 of the Exchange Act.
Kilroy Realty Corporation
Large accelerated filer þ Accelerated filer o Non-accelerated filer o Smaller reporting company o
(Do not check if a smaller reporting company)

Kilroy Realty, L.P.
Large accelerated filer o Accelerated filer o Non-accelerated filer þ Smaller reporting company o
(Do not check if a smaller reporting company)
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Kilroy Realty Corporation Yes o No þ
Kilroy Realty, L.P. Yes o No þ
As of July 22, 2016, 92,256,063 shares of Kilroy Realty Corporation common stock, par value $.01 per share, were outstanding.

EXPLANATORY NOTE

This report combines the quarterly reports on Form 10-Q for the period ended June 30, 2016 of Kilroy Realty Corporation and Kilroy Realty, L.P. Unless stated otherwise or the context otherwise requires, references to "Kilroy Realty Corporation" or the "Company," "we," "our," and "us" mean Kilroy Realty Corporation, a Maryland corporation, and it controlled and consolidated subsidiaries, and references to "Kilroy Realty, L.P." or the "Operating Partnership" mean Kilroy Realty, L.P., a Delaware limited partnership and its controlled and consolidated subsidiaries.

The Company is a real estate investment trust, or REIT, and the general partner of the Operating Partnership. As of June 30, 2016, the Company owned an approximate 97.2% common general partnership interest in the Operating Partnership. The remaining approximate 2.8% common limited partnership interests are owned by non-affiliated investors and certain directors and officers of the Company. As the sole general partner of the Operating Partnership, the Company exercises exclusive and complete discretion over the Operating Partnership's day-to-day management and control and can cause it to enter into certain major transactions, including acquisitions, dispositions and refinancings, and cause changes in its line of business, capital structure and distribution policies.

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

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

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

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

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

- consolidated financial statements;

• the following notes to the consolidated financial statements:
Note 8, Stockholders’ Equity of the Company;
Note 9, Partners’ Capital of the Operating Partnership;

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Note 13, Net Income Available to Common Stockholders Per Share of the Company;
Note 14, Net Income Available to Common Unitholders Per Unit of the Operating Partnership;
Note 15, Supplemental Cash Flow Information of the Company; and
Note 16, Supplemental Cash Flow Information of the Operating Partnership;

• "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
—Liquidity and Capital Resources of the Company;" and
—Liquidity and Capital Resources of the Operating Partnership."

This report also includes separate sections under Part I, Item 4. Controls and Procedures and separate Exhibit 31 and Exhibit 32 certifications for the Company and the Operating Partnership to establish that the Chief Executive Officer and the Chief Financial Officer of each entity have made the requisite certifications and that the Company and Operating Partnership are compliant with Rule 13a-15 or Rule 15d-15 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and 18 U.S.C. §1350.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
QUARTERLY REPORT FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2016
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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED) OF KILROY REALTY CORPORATION

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

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
REAL ESTATE ASSETS (Note 2):		
Land and improvements	$1,020,287	$ 875,794
Buildings and improvements	4,639,003	4,091,012
Undeveloped land and construction in progress	894,057	1,361,340
Total real estate assets held for investment	6,553,347	6,328,146
Accumulated depreciation and amortization	(1,054,828)	(994,241)
Total real estate assets held for investment, net	5,498,519	5,333,905
REAL ESTATE ASSETS AND OTHER ASSETS HELD FOR SALE, NET (Note 3)	30,257	117,666
CASH AND CASH EQUIVALENTS	26,332	56,508
RESTRICTED CASH (Notes 1 and 3)	266,158	696
MARKETABLE SECURITIES (Note 12)	13,388	12,882
CURRENT RECEIVABLES, NET (Note 5)	10,112	11,153
DEFERRED RENT RECEIVABLES, NET (Note 5)	207,851	189,704
DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLE ASSETS, NET (Note 4)	186,903	176,683
PREPAID EXPENSES AND OTHER ASSETS, NET (Note 1)	58,913	27,233
TOTAL ASSETS	$6,298,433	$ 5,926,430
LIABILITIES AND EQUITY		
LIABILITIES:		
Secured debt, net (Notes 1, 6 and 12)	$373,500	$ 380,835
Unsecured debt, net (Notes 1, 6 and 12)	1,845,992	1,844,634
Unsecured line of credit (Notes 6 and 12)	220,000	—
Accounts payable, accrued expenses and other liabilities	211,196	246,323
Accrued dividends and distributions (Note 17)	37,733	34,992
Deferred revenue and acquisition-related intangible liabilities, net (Note 4)	138,394	128,156
Rents received in advance and tenant security deposits	44,663	49,361
Liabilities of real estate assets held for sale (Note 3)	321	7,543
Total liabilities	2,871,799	2,691,844
COMMITMENTS AND CONTINGENCIES (Note 11)		
EQUITY:		
Stockholders' Equity (Note 8):		
Preferred stock, $.01 par value, 30,000,000 shares authorized:		
6.875% Series G Cumulative Redeemable Preferred stock, $.01 par value, 4,600,000 shares authorized, 4,000,000 shares issued and outstanding ($100,000 liquidation preference)	96,155	96,155
6.375% Series H Cumulative Redeemable Preferred stock, $.01 par value, 4,000,000 shares authorized, issued and outstanding ($100,000 liquidation preference)	96,256	96,256
Common stock, $.01 par value, 150,000,000 shares authorized, 92,254,768 and 92,258,690 shares issued and outstanding, respectively	923	923

Additional paid-in capital	3,074,508	3,047,894
Retained earnings/(distributions in excess of earnings)	62,647	(70,262)
Total stockholders' equity	3,330,489	3,170,966
Noncontrolling Interests:		
Common units of the Operating Partnership (Note 7)	89,495	57,100
Noncontrolling interest in consolidated subsidiary (Note 1)	6,650	6,520
Total noncontrolling interests	96,145	63,620
Total equity	3,426,634	3,234,586
TOTAL LIABILITIES AND EQUITY	$6,298,433	$ 5,926,430

See accompanying notes to consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
REVENUES				
Rental income	$143,653	$131,450	$277,408	$262,382
Tenant reimbursements	16,138	14,174	27,542	28,599
Other property income	342	603	629	1,328
Total revenues	160,133	146,227	305,579	292,309
EXPENSES				
Property expenses	29,221	26,866	55,186	51,580
Real estate taxes	13,845	12,430	24,877	25,145
Provision for bad debts	—	47	—	289
Ground leases	768	813	1,597	1,589
General and administrative expenses	13,979	12,633	27,416	25,401
Acquisition-related expenses	714	265	776	393
Depreciation and amortization	53,346	51,658	103,786	103,145
Total expenses	111,873	104,712	213,638	207,542
OTHER (EXPENSES) INCOME				
Interest income and other net investment gains (Note 12)	311	511	582	871
Interest expense (Note 6)	(14,384)	(14,864)	(26,213)	(31,742)
Total other (expenses) income	(14,073)	(14,353)	(25,631)	(30,871)
INCOME FROM OPERATIONS BEFORE GAINS (LOSSES) ON SALES OF REAL ESTATE	34,187	27,162	66,310	53,896
Net (loss) gain on sales of land (Note 3)	(295)	—	(295)	17,268
Gains on sales of depreciable operating properties (Note 3)	—	31,428	145,990	31,428
NET INCOME	33,892	58,590	212,005	102,592
Net income attributable to noncontrolling common units of the Operating Partnership	(829)	(1,090)	(4,439)	(1,905)
Net income attributable to noncontrolling interest in consolidated subsidiary	(216)	—	(411)	—
Total income attributable to noncontrolling interests	(1,045)	(1,090)	(4,850)	(1,905)
NET INCOME ATTRIBUTABLE TO KILROY REALTY CORPORATION	32,847	57,500	207,155	100,687
PREFERRED DIVIDENDS	(3,312)	(3,312)	(6,625)	(6,625)
NET INCOME AVAILABLE TO COMMON STOCKHOLDERS	$29,535	$54,188	$200,530	$94,062
Net income available to common stockholders per share – basic (Note 13)	$0.32	$0.61	$2.17	$1.07
Net income available to common stockholders per share – diluted (Note 13)	$0.31	$0.61	$2.15	$1.06
Weighted average common shares outstanding – basic (Note 13)	92,209,955	88,126,187	92,217,238	87,514,878
Weighted average common shares outstanding – diluted (Note 13)	92,824,786	88,645,868	92,784,065	88,044,292
Dividends declared per common share	$0.375	$0.350	$0.725	$0.700

See accompanying notes to consolidated financial statements.

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

	Preferred Stock	Common Stock Number of Shares	Common Stock	Additional Paid-in Capital	Distributions in Excess of Earnings	Total Stock-holders' Equity	Noncontrolling Interests	Total Equity
BALANCE AS OF DECEMBER 31, 2014	$192,411	86,259,684	$ 863	$2,635,900	$(162,964)	$2,666,210	$ 57,726	$2,723,936
Net income					100,687	100,687	1,905	102,592
Issuance of common stock		1,866,267	18	137,906		137,924		137,924
Issuance of share-based compensation awards				844		844		844
Noncash amortization of share-based compensation				9,251		9,251		9,251
Repurchase of common stock, stock options and restricted stock units		(20,752)		(1,836)		(1,836)		(1,836)
Settlement of restricted stock units for shares of common stock		37,403		—		—		—
Exercise of stock options		252,000	3	10,735		10,738		10,738
Exchange of common units of the Operating Partnership		11,030		316		316	(316)	—
Adjustment for noncontrolling interest				(1,890)		(1,890)	1,890	—
Contribution by noncontrolling interest in consolidated subsidiary							203	203
Preferred dividends					(6,625)	(6,625)		(6,625)
Dividends declared per common share and common unit ($0.70 per					(62,667)	(62,667)	(1,255)	(63,922)

share/unit)								
BALANCE AS OF JUNE 30, 2015	$192,411	88,405,632	$ 884	$2,791,226	$(131,569)	$2,852,952	$ 60,153	$2,913,105

		Common Stock						
	Preferred Stock	Number of Shares	Common Stock	Additional Paid-in Capital	Retained Earnings /(Distributions in Excess of Earnings)	Total Stock-holders' Equity	Noncontrolling Interests	Total Equity
BALANCE AS OF DECEMBER 31, 2015	$192,411	92,258,690	$ 923	$3,047,894	$ (70,262)	$3,170,966	$ 63,620	$3,234,586
Net income					207,155	207,155	4,850	212,005
Issuance of share-based compensation awards				853		853		853
Noncash amortization of share-based compensation				12,538		12,538		12,538
Exercise of stock options		22,000		937		937		937
Repurchase of common stock, stock options and restricted stock units		(96,360)	(1)	(5,882)		(5,883)		(5,883)
Settlement of restricted stock units for shares of common stock		69,238	1	(1)		—		—
Issuance of common units in connection with acquisition (Note 2)							48,033	48,033
Exchange of common units of the Operating Partnership		1,200		39		39	(39)	—
Adjustment for noncontrolling interest				18,130		18,130	(18,130)	—
Distribution to noncontrolling interest in							(281)	(281)

consolidated subsidiary								
Preferred dividends					(6,625)	(6,625)		(6,625)
Dividends declared per common share and common unit ($0.725 per share/unit)					(67,621)	(67,621)	(1,908)	(69,529)
BALANCE AS OF JUNE 30, 2016	$192,411	92,254,768	$923	$3,074,508	$62,647	$3,330,489	$96,145	$3,426,634

See accompanying notes to consolidated financial statements.

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

	Six Months Ended June 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$212,005	$102,592
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of building and improvements and leasing costs	102,127	101,812
Depreciation of furniture, fixtures and equipment	1,659	1,333
Increase in provision for bad debts	—	289
Noncash amortization of share-based compensation awards	10,034	7,650
Noncash amortization of deferred financing costs and debt discounts and premiums	1,306	889
Noncash amortization of net below market rents (Note 4)	(3,243)	(5,029)
Gains on sales of depreciable operating properties (Note 3)	(145,990)	(31,428)
Loss (gain) on sales of land (Note 3)	295	(17,268)
Noncash amortization of deferred revenue related to tenant-funded tenant improvements	(6,100)	(6,304)
Straight-line rents	(18,537)	(28,575)
Net change in other operating assets	(6,071)	(9,100)
Net change in other operating liabilities	(9,856)	(33)
Net cash provided by operating activities	137,629	116,828
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for development properties and undeveloped land	(162,122)	(199,358)
Expenditures for acquisition of undeveloped land (Note 2)	(33,513)	(52,134)
Expenditures for acquisition of operating properties (Note 2)	(55,415)	—
Expenditures for operating properties and other capital assets	(65,543)	(50,969)
Net proceeds received from dispositions (Note 3)	276,622	165,797
(Increase) decrease in restricted cash (Note 3)	(265,462)	58,444
Decrease (increase) in acquisition-related deposits	1,902	(6,800)
Increase in note receivable	(1,000)	—
Net cash used in investing activities	(304,531)	(85,020)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	—	137,924
Borrowings on unsecured revolving credit facility	270,000	250,000
Repayments on unsecured revolving credit facility	(50,000)	(290,000)
Principal payments on secured debt (Note 6)	(4,808)	(64,771)
Financing costs	(679)	(769)
Repurchase of common stock and restricted stock units	(5,883)	(1,836)
Proceeds from exercise of stock options	937	10,738
Distributions to noncontrolling interests in consolidated subsidiary	(281)	—
Contributions from noncontrolling interests in consolidated subsidiary	—	203
Dividends and distributions paid to common stockholders and common unitholders	(65,935)	(62,311)
Dividends and distributions paid to preferred stockholders and preferred unitholders	(6,625)	(6,625)
Net cash provided by (used in) financing activities	136,726	(27,447)
Net (decrease) increase in cash and cash equivalents	(30,176)	4,361
Cash and cash equivalents, beginning of period	56,508	23,781
Cash and cash equivalents, end of period	$26,332	$28,142

See accompanying notes to consolidated financial statements.

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

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

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
REAL ESTATE ASSETS (Note 2):		
Land and improvements	$1,020,287	$ 875,794
Buildings and improvements	4,639,003	4,091,012
Undeveloped land and construction in progress	894,057	1,361,340
Total real estate assets held for investment	6,553,347	6,328,146
Accumulated depreciation and amortization	(1,054,828)	(994,241)
Total real estate assets held for investment, net	5,498,519	5,333,905
REAL ESTATE ASSETS AND OTHER ASSETS HELD FOR SALE, NET (Note 3)	30,257	117,666
CASH AND CASH EQUIVALENTS	26,332	56,508
RESTRICTED CASH (Notes 1 and 3)	266,158	696
MARKETABLE SECURITIES (Note 12)	13,388	12,882
CURRENT RECEIVABLES, NET (Note 5)	10,112	11,153
DEFERRED RENT RECEIVABLES, NET (Note 5)	207,851	189,704
DEFERRED LEASING COSTS AND ACQUISITION-RELATED INTANGIBLE ASSETS, NET (Note 4)	186,903	176,683
PREPAID EXPENSES AND OTHER ASSETS, NET (Note 1)	58,913	27,233
TOTAL ASSETS	$6,298,433	$ 5,926,430
LIABILITIES AND CAPITAL		
LIABILITIES:		
Secured debt, net (Notes 1, 6 and 12)	$373,500	$ 380,835
Unsecured debt, net (Notes 1, 6 and 12)	1,845,992	1,844,634
Unsecured line of credit (Notes 6 and 12)	220,000	—
Accounts payable, accrued expenses and other liabilities	211,196	246,323
Accrued distributions (Note 17)	37,733	34,992
Deferred revenue and acquisition-related intangible liabilities, net (Note 4)	138,394	128,156
Rents received in advance and tenant security deposits	44,663	49,361
Liabilities of real estate assets held for sale (Note 3)	321	7,543
Total liabilities	2,871,799	2,691,844
COMMITMENTS AND CONTINGENCIES (Note 11)		
CAPITAL:		
Partners’ Capital (Note 9):		
6.875% Series G Cumulative Redeemable Preferred units, 4,000,000 units issued and outstanding ($100,000 liquidation preference)	96,155	96,155
6.375% Series H Cumulative Redeemable Preferred units, 4,000,000 units issued and outstanding ($100,000 liquidation preference)	96,256	96,256
Common units, 92,254,768 and 92,258,690 held by the general partner and 2,631,276 and 1,764,775 held by common limited partners issued and outstanding, respectively	3,223,356	3,031,609

Total partners’ capital	3,415,767	3,224,020
Noncontrolling interests in consolidated subsidiaries (Note 1)	10,867	10,566
Total capital	3,426,634	3,234,586
TOTAL LIABILITIES AND CAPITAL	$6,298,433	$ 5,926,430

See accompanying notes to consolidated financial statements.

KILROY REALTY, L.P.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited; in thousands, except unit and per unit data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
REVENUES				
Rental income	$143,653	$131,450	$277,408	$262,382
Tenant reimbursements	16,138	14,174	27,542	28,599
Other property income	342	603	629	1,328
Total revenues	160,133	146,227	305,579	292,309
EXPENSES				
Property expenses	29,221	26,866	55,186	51,580
Real estate taxes	13,845	12,430	24,877	25,145
Provision for bad debts	—	47	—	289
Ground leases	768	813	1,597	1,589
General and administrative expenses	13,979	12,633	27,416	25,401
Acquisition-related expenses	714	265	776	393
Depreciation and amortization	53,346	51,658	103,786	103,145
Total expenses	111,873	104,712	213,638	207,542
OTHER (EXPENSES) INCOME				
Interest income and other net investment gains (Note 12)	311	511	582	871
Interest expense (Note 6)	(14,384)	(14,864)	(26,213)	(31,742)
Total other (expenses) income	(14,073)	(14,353)	(25,631)	(30,871)
INCOME FROM OPERATIONS BEFORE GAINS (LOSSES) ON SALES OF REAL ESTATE	34,187	27,162	66,310	53,896
Net (loss) gain on sales of land (Note 3)	(295)	—	(295)	17,268
Gains on sales of depreciable operating properties (Note 3)	—	31,428	145,990	31,428
NET INCOME	33,892	58,590	212,005	102,592
Net income attributable to noncontrolling interests in consolidated subsidiaries	(302)	(72)	(582)	(147)
NET INCOME ATTRIBUTABLE TO KILROY REALTY, L.P.	33,590	58,518	211,423	102,445
PREFERRED DISTRIBUTIONS	(3,312)	(3,312)	(6,625)	(6,625)
NET INCOME AVAILABLE TO COMMON UNITHOLDERS	$30,278	$55,206	$204,798	$95,820
Net income available to common unitholders per unit – basic (Note 14)	$0.31	$0.61	$2.16	$1.06
Net income available to common unitholders per unit – diluted (Note 14)	$0.31	$0.61	$2.15	$1.06
Weighted average common units outstanding – basic (Note 14)	94,841,231	89,919,357	94,514,876	89,309,718
Weighted average common units outstanding – diluted (Note 14)	95,456,062	90,439,038	95,081,703	89,839,132
Dividends declared per common unit	$0.375	$0.350	$0.725	$0.700

See accompanying notes to consolidated financial statements.

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

	Partners' Capital					
	Preferred Units	Number of Common Units	Common Units	Total Partners' Capital	Noncontrolling Interests in Consolidated Subsidiaries	Total Capital
BALANCE AS OF DECEMBER 31, 2014	$192,411	88,063,884	$2,521,900	$2,714,311	$ 9,625	$2,723,936
Net income			102,445	102,445	147	102,592
Issuance of common units		1,866,267	137,924	137,924		137,924
Issuance of share-based compensation awards			844	844		844
Noncash amortization of share-based compensation			9,251	9,251		9,251
Repurchase of common units, stock options and restricted stock units		(20,752)	(1,836)	(1,836)		(1,836)
Settlement of restricted stock units		37,403	—	—		—
Exercise of stock options		252,000	10,738	10,738		10,738
Contribution by noncontrolling interest in consolidated subsidiary					203	203
Preferred distributions			(6,625)	(6,625)		(6,625)
Distributions declared per common unit ($0.70 per unit)			(63,922)	(63,922)		(63,922)
BALANCE AS OF JUNE 30, 2015	$192,411	90,198,802	$2,710,719	$2,903,130	$ 9,975	$2,913,105

	Partners' Capital					
	Preferred Units	Number of Common Units	Common Units	Total Partners' Capital	Noncontrolling Interests in Consolidated Subsidiaries	Total Capital
BALANCE AS OF DECEMBER 31, 2015	$192,411	94,023,465	$3,031,609	$3,224,020	$ 10,566	$3,234,586
Net income			211,423	211,423	582	212,005
Issuance of common units in connection with acquisition (Note 2)		867,701	48,033	48,033		48,033
Issuance of share-based compensation awards			853	853		853
Noncash amortization of share-based compensation			12,538	12,538		12,538
Exercise of stock options		22,000	937	937		937
Repurchase of common units, stock options and restricted stock units		(96,360)	(5,883)	(5,883)		(5,883)
Settlement of restricted stock units		69,238	—	—		—
Distribution to noncontrolling interest in consolidated subsidiary					(281)	(281)

Preferred distributions			(6,625)	(6,625)		(6,625)
Distributions declared per common unit ($0.725 per unit)			(69,529)	(69,529)		(69,529)
BALANCE AS OF JUNE 30, 2016	$192,411	94,886,044	$3,223,356	$3,415,767	$ 10,867	$3,426,634

See accompanying notes to consolidated financial statements.

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KILROY REALTY, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited; in thousands)

	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$212,005	$102,592
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of building and improvements and leasing costs	102,127	101,812
Depreciation of furniture, fixtures and equipment	1,659	1,333
Increase in provision for bad debts	—	289
Noncash amortization of share-based compensation awards	10,034	7,650
Noncash amortization of deferred financing costs and debt discounts and premiums	1,306	889
Noncash amortization of net below market rents (Note 4)	(3,243)	(5,029)
Gains on sales of depreciable operating properties (Note 3)	(145,990)	(31,428)
Loss (gain) on sales of land (Note 3)	295	(17,268)
Noncash amortization of deferred revenue related to tenant-funded tenant improvements	(6,100)	(6,304)
Straight-line rents	(18,537)	(28,575)
Net change in other operating assets	(6,071)	(9,100)
Net change in other operating liabilities	(9,856)	(33)
Net cash provided by operating activities	137,629	116,828
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for development properties and undeveloped land	(162,122)	(199,358)
Expenditures for acquisition of undeveloped land (Note 2)	(33,513)	(52,134)
Expenditures for acquisition of operating properties (Note 2)	(55,415)	—
Expenditures for operating properties and other capital assets	(65,543)	(50,969)
Net proceeds received from dispositions (Note 3)	276,622	165,797
(Increase) decrease in restricted cash (Note 3)	(265,462)	58,444
Decrease (increase) in acquisition-related deposits	1,902	(6,800)
Increase in note receivable	(1,000)	—
Net cash used in investing activities	(304,531)	(85,020)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	—	137,924
Borrowings on unsecured revolving credit facility	270,000	250,000
Repayments on unsecured revolving credit facility	(50,000)	(290,000)
Principal payments on secured debt (Note 6)	(4,808)	(64,771)
Financing costs	(679)	(769)
Repurchase of common stock and restricted stock units	(5,883)	(1,836)
Proceeds from exercise of stock options	937	10,738
Distributions to noncontrolling interests in consolidated subsidiary	(281)	—
Contributions from noncontrolling interests in consolidated subsidiary	—	203
Distributions paid to common unitholders	(65,935)	(62,311)
Distributions paid to preferred unitholders	(6,625)	(6,625)
Net cash provided by (used in) financing activities	136,726	(27,447)
Net (decrease) increase in cash and cash equivalents	(30,176)	4,361
Cash and cash equivalents, beginning of period	56,508	23,781
Cash and cash equivalents, end of period	$26,332	$28,142

See accompanying notes to consolidated financial statements.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS
Three and Six Months Ended June 30, 2016 and 2015

1. Organization and Basis of Presentation

Organization

Kilroy Realty Corporation (the “Company”) is a self-administered real estate investment trust (“REIT”) active in premier office submarkets along the West Coast. We own, develop, acquire and manage real estate assets, consisting primarily of Class A properties in the coastal regions of Los Angeles, Orange County, San Diego County, the San Francisco Bay Area and Greater Seattle, which we believe have strategic advantages and strong barriers to entry. Class A real estate encompasses attractive and efficient buildings of high quality that are attractive to tenants, are well-designed and constructed with above-average material, workmanship and finishes and are well-maintained and managed. We qualify as a REIT under the Internal Revenue Code of 1986, as amended (the “Code”). The Company’s common stock is publicly traded on the New York Stock Exchange (“NYSE”) under the ticker symbol “KRC.”

We own our interests in all of our real estate assets through Kilroy Realty, L.P. (the “Operating Partnership”) and Kilroy Realty Finance Partnership, L.P. (the “Finance Partnership”). We generally conduct substantially all of our operations through the Operating Partnership. Unless stated otherwise or the context indicates otherwise, the terms “Kilroy Realty Corporation” or the “Company,” “we,” “our,” and “us” refer to Kilroy Realty Corporation and its consolidated subsidiaries and the term “Operating Partnership” refers to Kilroy Realty, L.P. and its consolidated subsidiaries. The descriptions of our business, employees and properties apply to both the Company and the Operating Partnership.

Our stabilized portfolio of operating properties was comprised of the following office properties at June 30, 2016:

	Number of Buildings	Rentable Square Feet	Number of Tenants	Percentage Occupied
Stabilized Office Properties	102	13,660,231	526	95.5 %

Our stabilized office portfolio includes all of our properties with the exception of development and redevelopment properties currently under construction or committed for construction, “lease-up” properties, real estate assets held for sale, undeveloped land and our recently completed residential property. We define redevelopment properties as those properties for which we expect to spend significant development and construction costs on the existing or acquired buildings pursuant to a formal plan, the intended result of which is a higher economic return on the property. We define “lease-up” properties as office properties we recently developed or redeveloped that have not yet reached 95% occupancy and are within one year following cessation of major construction activities.

During the six months ended June 30, 2016, we stabilized two development projects consisting of 455,340 rentable square feet and 185,602 rentable square feet in San Francisco, California which were included in our stabilized office portfolio as of June 30, 2016. As of June 30, 2016, the following properties, in addition to our recently completed residential property, were excluded from our stabilized office portfolio. We did not have any redevelopment properties at June 30, 2016.

	Number of Properties/Projects	Estimated Rentable Square Feet [(1)]
Properties held for sale [(2)]	2	136,908
Development projects in “lease-up”	2	443,000

Development projects under construction	1	700,000

(1) Estimated rentable square feet upon completion.

(2) These properties include two operating properties totaling 136,908 rentable square feet and a 7.0 acre undeveloped land parcel. See Note 3 “Dispositions and Real Estate Assets Held for Sale” for additional information.

Our stabilized office portfolio also excludes our near-term and future development pipeline, which as of June 30, 2016 was comprised of eight development sites, representing approximately 70 gross acres of undeveloped land.

As of June 30, 2016, all of our properties and development projects were owned and all of our business was conducted in the state of California with the exception of twelve office properties and one future development project located in the state of

Washington. As of June 30, 2016, we owned 100% of our properties and development projects, excluding two office properties owned by Redwood City Partners, LLC (“Redwood LLC”), a consolidated subsidiary.

Ownership and Basis of Presentation

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

As of June 30, 2016, the Company owned an approximate 97.2% common general partnership interest in the Operating Partnership. The remaining approximate 2.8% common limited partnership interest in the Operating Partnership as of June 30, 2016 was owned by non-affiliated investors and certain of our executive officers and directors (see Note 7). Both the general and limited common partnership interests in the Operating Partnership are denominated in common units. Generally, the number of common units held by the Company is equivalent to the number of outstanding shares of the Company’s common stock, and the rights of all the common units to quarterly distributions and payments in liquidation mirror those of the Company’s common stockholders. The common limited partners have certain redemption rights as provided in the Operating Partnership’s Seventh Amended and Restated Agreement of Limited Partnership, as amended, the “Partnership Agreement” (see Note 7).

Kilroy Realty Finance, Inc., which is a wholly owned subsidiary of the Company, is the sole general partner of the Finance Partnership and owns a 1.0% common general partnership interest in the Finance Partnership. The Operating Partnership owns the remaining 99.0% common limited partnership interest. Kilroy Services, LLC (“KSLLC”), which is a wholly owned subsidiary of the Operating Partnership, is the entity through which we generally conduct substantially all of our development activities. As of June 30, 2016, the Company owned an approximate 93% equity interest in Redwood LLC. The remaining interest was owned by an unrelated third party. With the exception of the Operating Partnership and Redwood LLC, all of our subsidiaries are wholly owned.

The accompanying interim financial statements have been prepared by management in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and in conjunction with the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures required for annual financial statements have been condensed or excluded pursuant to SEC rules and regulations. Accordingly, the interim financial statements do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, the accompanying interim financial statements reflect all adjustments of a normal and recurring nature that are considered necessary for a fair presentation of the results for the interim periods presented. However, the results of operations for the interim periods are not necessarily indicative of the results that may be expected for the year ending December 31, 2016. The interim financial statements for the Company and the Operating Partnership should be read in conjunction with the audited consolidated financial statements and notes thereto included in our annual report on Form 10-K for the year ended December 31, 2015.

Adoption of New Accounting Pronouncements

Variable Interest Entities

Effective January 1, 2016, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2015-02 (“ASU 2015-02”), which amended certain guidance with respect to the evaluation of Variable Interest Entities ("VIEs") and when a reporting entity is required to consolidate certain legal entities. Specifically, the amendments: (i) modify the evaluation of whether limited partnerships and similar legal entities are VIEs or voting interest entities, (ii) eliminate the presumption that a general partner should consolidate a limited partnership, (iii) affect the consolidation analysis of reporting entities that are involved with VIEs, and (iv) provide a scope exception for certain entities.

Under the new guidance, effective January 1, 2016 the Operating Partnership was determined to be a VIE of the Company as the Operating Partnership is a limited partnership in which the common limited partners do not have substantive kick-out rights or participating rights. However, given that the Company was deemed to be the primary beneficiary of the Operating Partnership, the adoption of this new guidance and the conclusion that the Operating Partnership was a VIE did not have any impact on our consolidated financial statements since the conclusion to consolidate the Operating Partnership still applied. The Operating Partnership was the only new VIE identified as part of the adoption of the guidance as of January 1, 2016.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

At June 30, 2016, the consolidated financial statements of the Company included only one VIE, the Operating Partnership, and the consolidated financial statements of the Operating Partnership did not include any VIEs.

At December 31, 2015, the consolidated financial statements of the Company and the Operating Partnership included two VIEs in which we were deemed to be the primary beneficiary: Redwood LLC and one other VIE to facilitate potential future Section 1031 Exchanges to defer taxable gains on dispositions for federal income tax purposes. At December 31, 2015, the impact of consolidating the VIEs increased the Company’s total assets, liabilities and noncontrolling interests by approximately $203.3 million (of which $187.3 million related to real estate held for investment on our consolidated balance sheet), approximately $28.8 million and approximately $6.5 million, respectively. During the three months ended June 30, 2016, Redwood LLC had a VIE reconsideration event and was determined to no longer be a VIE and the VIE to facilitate potential future Section 1031 Exchanges was terminated.

Reclassification of Debt Issuance Costs

Effective January 1, 2016, the Company adopted FASB ASU No. 2015-03 and No. 2015-15, which requires that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. However, for line-of-credit arrangements, entities may defer and present debt issuance costs as an asset and amortize the costs ratably over the term of the line of credit arrangement, regardless of whether there are any outstanding borrowings on the line of credit arrangement. As a result of our adoption of the guidance, $1.1 million of deferred financing costs as of December 31, 2015 were reclassified to reduce secured debt, net and $12.0 million of deferred financing costs as of December 31, 2015 were reclassified to reduce unsecured debt, net in the December 31, 2015 balances on our consolidated balance sheets. In addition, $4.6 million of deferred financing costs relating to our unsecured line of credit as of December 31, 2015 were reclassified to prepaid expenses and other assets, net in the December 31, 2015 balances on our consolidated balance sheets. The guidance did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Pronouncements

On June 16, 2016, the FASB issued ASU No. 2016-13 (“ASU 2016-13”) to amend the accounting for credit losses for certain financial instruments. Under the new guidance, an entity recognizes its estimate of expected credit losses as an allowance, which the FASB believes will result in more timely recognition of such losses. ASU 2016-13 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. The Company is currently assessing the impact of the guidance on our consolidated financial statements and notes to our consolidated financial statements.

On May 9, 2016, the FASB issued ASU No. 2016-12, which clarifies and provides practical expedients for certain aspects of ASU No. 2014-09, which outlines a single comprehensive model for entities to use in accounting for revenues arising from contracts with customers and notes that lease contracts with customers are a scope exception. Public business entities may elect to adopt the amendments as of the original effective date; however, adoption is required for annual reporting periods beginning after December 15, 2017. The Company is currently assessing the impact of the guidance on our consolidated financial statements and notes to our consolidated financial statements.

On March 30, 2016, the FASB issued ASU No. 2016-09 (“ASU 2016-09”) to amend the accounting guidance for share-based payment accounting. The areas for simplification in ASU 2016-09 involve several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. ASU 2016-09 is effective for annual periods beginning after December 15, 2016 and interim periods within those annual periods and early adoption is permitted. The Company is currently assessing the impact of the guidance on our consolidated financial statements and notes to our consolidated financial statements.

On February 25, 2016, the FASB issued ASU No. 2016-02 (“ASU 2016-02”) to amend the accounting guidance for leases. The accounting applied by a lessor is largely unchanged under ASU 2016-02. However, the standard requires lessees to recognize lease assets and lease liabilities for leases classified as operating leases on the balance sheet. Lessees will recognize in the statement of financial position a liability to make lease payments and a right-of-use asset representing its right to use the underlying asset for the lease term. For leases with a term of 12 months or less, a lessee is permitted to make an accounting policy election by class of underlying asset not to recognize lease assets and lease liabilities. If a lessee makes this election, it will recognize lease expense for such leases generally on a straight-line basis over the lease term. ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 and early adoption is permitted. The Company is currently assessing the impact of the guidance on our consolidated financial statements and notes to our consolidated financial statements.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

On January 5, 2016, the FASB issued ASU No. 2016-01 (“ASU 2016-01”) to amend the accounting guidance on the classification and measurement of financial instruments. The standard requires that all investments in equity securities, including other ownership interests, are carried at fair value through net income. This requirement does not apply to investments that qualify for equity method accounting or to those that result in consolidation of the investee or for which the entity has elected the predictability exception to fair value measurement. Additionally, the standard requires that the portion of the total fair value change caused by a change in instrument-specific credit risk for financial liabilities for which the fair value option has been elected would be recognized in other comprehensive income. Any accumulated amount remaining in other comprehensive income is reclassified to earnings when the liability is extinguished. ASU 2016-01 is effective for fiscal years beginning after December 15, 2017. The Company does not anticipate the guidance to have a material impact on our consolidated financial statements or notes to our consolidated financial statements.

2. Acquisitions

Operating Property Acquisitions

During the six months ended June 30, 2016, we acquired the one operating property listed below from an unrelated third party. The acquisition was funded with proceeds from the Company’s unsecured revolving credit facility as well as proceeds from our capital recycling program.

Property	Date of Acquisition	Number of Buildings	Rentable Square Feet (unaudited)	Purchase Price (in millions) (1)
1290-1300 Terra Bella Avenue, Mountain View, CA	June 8, 2016	1	114,175	$ 55.4

(1) In connection with this acquisition, we assumed $0.2 million in accrued liabilities that are not included in the purchase price above.

The related assets, liabilities and results of operations of the acquired property are included in the consolidated financial statements as of the date of acquisition. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed as of the date of acquisition:

	Total 2016 Operating Property Acquisitions (1)
Assets	
Land and improvements	$ 28,730
Buildings and improvements (2)	27,555
Deferred leasing costs and acquisition-related intangible assets (3)	4,180
Total assets acquired	60,465
Liabilities	
Accounts payable, accrued expenses and other liabilities	170

Deferred revenue and acquisition-related intangible liabilities [4]	4,880
Total liabilities assumed	5,050
Net assets and liabilities acquired	$ 55,415

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(1) The purchase price of the acquisition completed during the six months ended June 30, 2016 was less than 5% of the Company's total assets as of June 30, 2016.

(2) Represents buildings, building improvements and tenant improvements.

(3) Represents in-place leases (approximately $2.5 million with a weighted average amortization period of 3.6 years) and leasing commissions (approximately $1.7 million with a weighted average amortization period of 3.7 years).

(4) Represents below-market leases (approximately $4.9 million with a weighted average amortization period of 3.4 years).

Development Project Acquisitions

On March 11, 2016, we acquired an approximately 1.75 acre development site located at 610-620 Brannan Street in San Francisco, California from an unrelated third party. This land parcel is immediately adjacent to our Flower Mart project in the SOMA submarket of San Francisco. The acquisition was funded through $31.0 million in cash and the issuance of 867,701 common units in the Operating Partnership valued at approximately $48.0 million (see Note 9). In addition, the Company paid $2.4 million in seller transaction costs and recorded $4.7 million in accrued liabilities in connection with this acquisition. As of June 30, 2016, the underlying assets were included as undeveloped land and construction in progress on our consolidated balance sheets.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

3. Dispositions and Real Estate Assets Held for Sale

Land Dispositions

The following table summarizes the land dispositions completed during the six months ended June 30, 2016:

Property	Submarket	Month of Disposition	Gross Site Acreage (unaudited)	Sales Price [1] (in millions)
Carlsbad Oaks - Lot 7 [2]	Carlsbad	January	7.6	$ 4.5
Carlsbad Oaks - Lots 4 & 5	Carlsbad	June	11.2	6.0
Carlsbad Oaks - Lot 8	Carlsbad	June	13.2	8.9
Total Land Dispositions [3]			32.0	$ 19.4

(1) Represents gross sales price before the impact of broker commissions and closing costs.
(2) This land parcel was classified as held for sale as of December 31, 2015.
(3) In connection with these land dispositions, $2.3 million of secured debt was assumed by the buyers. See Note 6 "Secured and Unsecured Debt of the Operating Partnership" for additional information.

The net loss on the four undeveloped land parcels sold during the six months ended June 30, 2016 was approximately $0.3 million.

Operating Property Dispositions

The following table summarizes the operating properties sold during the six months ended June 30, 2016.

Location	Property Type	Month of Disposition	Number of Buildings	Rentable Square Feet	Sales Price [1] (in millions)
Torrey Santa Fe Properties [2]	Office	January	4	465,812	$ 262.3

(1) Represents gross sales price before the impact of broker commissions and closing costs.
(2) The Torrey Santa Fe Properties include the following: 7525 Torrey Santa Fe, 7535 Torrey Santa Fe, 7545 Torrey Santa Fe, and 7555 Torrey Santa Fe. These properties were classified as held for sale at December 31, 2015.

The total gain on the four operating properties sold during the six months ended June 30, 2016 was $146.0 million. As of June 30, 2016, approximately $258.1 million of net proceeds related to this disposition were temporarily being held at qualified intermediaries, at our direction, for the purpose of facilitating potential future Section 1031 Exchanges. The cash proceeds are included in restricted cash on our consolidated balance sheets at June 30, 2016.

Real Estate Assets Held for Sale

As of June 30, 2016, the following properties were classified as held for sale:

Location	Submarket	Property Type	Number of Buildings	Rentable Square Feet
4930, 4939 & 4955 Directors Place [(1)]	Sorrento Mesa	Office	2	136,908

(1) These properties include two operating properties totaling 136,908 rentable square feet and a 7.0 acre undeveloped land parcel. On July 21, 2016, the Company completed the sale of these properties for a gross sales price of $49.0 million.

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KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The major classes of assets and liabilities of the properties held for sale as of June 30, 2016 were as follows:

Real estate assets and other assets held for sale	(in thousands)
Land and improvements	$ 5,377
Buildings and improvements	34,246
Undeveloped land	12,355
Total real estate held for sale	51,978
Accumulated depreciation and amortization	(22,400)
Total real estate held for sale, net	29,578
Deferred rent receivables, net	467
Deferred leasing costs and acquisition-related intangible assets, net	57
Prepaid expenses and other assets, net	155
Real estate and other assets held for sale, net	$ 30,257
Liabilities and deferred revenue of real estate assets held for sale	
Accounts payable, accrued expenses and other liabilities	$ 120
Deferred revenue and acquisition-related intangible liabilities, net	201
Liabilities and deferred revenue of real estate assets held for sale	$ 321

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KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

4. Deferred Leasing Costs and Acquisition-Related Intangible Assets and Liabilities, net

The following table summarizes our deferred leasing costs and acquisition-related intangible assets (acquired value of leasing costs, above-market operating leases, in-place leases and below-market ground lease obligation) and intangible liabilities (acquired value of below-market operating leases and above-market ground lease obligation) as of June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
	(in thousands)	
Deferred Leasing Costs and Acquisition-Related Intangible Assets, net: [1]		
Deferred leasing costs	$228,701	$ 205,888
Accumulated amortization	(81,460)	(72,745)
Deferred leasing costs, net	147,241	133,143
Above-market operating leases	10,662	10,989
Accumulated amortization	(7,188)	(6,739)
Above-market operating leases, net	3,474	4,250
In-place leases	72,944	72,639
Accumulated amortization	(37,212)	(33,810)
In-place leases, net	35,732	38,829
Below-market ground lease obligation	490	490
Accumulated amortization	(34)	(29)
Below-market ground lease obligation, net	456	461
Total deferred leasing costs and acquisition-related intangible assets, net	$186,903	$ 176,683
Acquisition-Related Intangible Liabilities, net: [2] [3]		
Below-market operating leases	$57,166	$ 53,502
Accumulated amortization	(29,899)	(27,074)
Below-market operating leases, net	27,267	26,428
Above-market ground lease obligation	6,320	6,320
Accumulated amortization	(475)	(424)
Above-market ground lease obligation, net	5,845	5,896
Total acquisition-related intangible liabilities, net	$33,112	$ 32,324

(1) Excludes deferred leasing costs and acquisition-related intangible assets, net related to properties held for sale.
(2) Excludes acquisition-related intangible liabilities, net related to properties held for sale.
(3) Included in deferred revenue and acquisition-related intangible liabilities, net in the consolidated balance sheets.

The following table sets forth amortization related to deferred leasing costs and acquisition-related intangibles for the three and six months ended June 30, 2016 and 2015:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Deferred leasing costs [1]	$6,961	$7,093	$13,744	$13,914

Above-market operating leases (2)	384	737	776	1,648
In-place leases (1)	2,669	4,416	5,557	8,637
Below-market ground lease obligation (3)	2	2	4	4
Below-market operating leases (4)	(2,024)	(3,838)	(4,019)	(6,677)
Above-market ground lease obligation (5)	(25)	(25)	(50)	(50)
Total	$7,967	$8,385	$16,012	$17,476

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(1) The amortization of deferred leasing costs and in-place leases is recorded to depreciation and amortization expense in the consolidated statements of operations for the periods presented.

(2) The amortization of above-market operating leases is recorded as a decrease to rental income in the consolidated statements of operations for the periods presented.

(3) The amortization of the below-market ground lease obligation is recorded as an increase to ground lease expense in the consolidated statements of operations for the periods presented.

(4) The amortization of below-market operating leases is recorded as an increase to rental income in the consolidated statements of operations for the periods presented.

(5) The amortization of the above-market ground lease obligation is recorded as a decrease to ground lease expense in the consolidated statements of operations for the periods presented.

KILROY REALTY CORPORATION AND KILROY REALTY, L.P.
NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS – (Continued)

The following table sets forth the estimated annual amortization expense related to deferred leasing costs and acquisition-related intangibles as of June 30, 2016 for future periods:

Year	Deferred Leasing Costs	Above-Market Operating Leases [1]	In-Place Leases	Below-Market Ground Lease Obligation [2]	Below-Market Operating Leases [3]	Above-Market Ground Lease Obligation [4]
	(in thousands)					
Remaining 2016	$14,251	$ 725	$5,466	$ 4	$ (4,494)	$ (50)
2017	26,180	1,241	9,738	8	(8,437)	(101)
2018	22,883	831	6,998	8	(7,159)	(101)
2019	18,748	643	5,149	8	(4,583)	(101)
2020	14,495	16	2,923	8	(2,169)	(101)
Thereafter	50,684	18	5,458	420	(425)	(5,391)
Total	$147,241	$ 3,474	$35,732	$ 456	$ (27,267)	$ (5,845)

(1) Represents estimated annual amortization related to above-market operating leases. Amounts will be recorded as a decrease to rental income in the consolidated statements of operations.
(2) Represents estimated annual amortization related to below-market ground lease obligations. Amounts will be recorded as an increase to ground lease expense in the consolidated statements of operations.
(3) Represents estimated annual amortization related to below-market operating leases. Amounts will be recorded as an increase to rental income in the consolidated statements of operations.
(4) Represents estimated annual amortization related to above-market ground lease obligations. Amounts will be recorded as a decrease to ground lease expense in the consolidated statements of operations.

5. Receivables

Current Receivables, net

Current receivables, net is primarily comprised of contractual rents and other lease-related obligations due from tenants. The balance consisted of the following as of June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
	(in thousands)	
Current receivables	$11,930	$ 13,233
Allowance for uncollectible tenant receivables	(1,818)	(2,080)
Current receivables, net [1]	$10,112	$ 11,153

(1) Excludes current receivables, net related to real estate held for sale.

Deferred Rent Receivables, net

Deferred rent receivables, net consisted of the following as of June 30, 2016 and December 31, 2015:

December 31, 2015

	June 30, 2016	
	(in thousands)	
Deferred rent receivables	$209,378	$ 191,586
Allowance for deferred rent receivables	(1,527)	(1,882)
Deferred rent receivables, net [1]	$207,851	$ 189,704

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(1) Excludes deferred rent receivables related to real estate held for sale.

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6. Secured and Unsecured Debt of the Operating Partnership

Secured Debt

The following table sets forth the composition of our secured debt as of June 30, 2016 and December 31, 2015:

Type of Debt	Annual Stated Interest Rate [1]	Effective Interest Rate [1][2]	Maturity Date	June 30, 2016	December 31, 2015
				(in thousands)	
Mortgage note payable [4]	4.27%	4.27%	February 2018	$127,049	$ 128,315
Mortgage note payable [4]	4.48%	4.48%	July 2027	95,563	96,354
Mortgage note payable [3] [4]	6.05%	3.50%	June 2019	84,179	85,890
Mortgage note payable	6.51%	6.51%	February 2017	64,994	65,563
Mortgage note payable	7.15%	7.15%	May 2017	2,625	3,987
Other [5]	Various	Various	Various	—	1,809
Total secured debt				$374,410	$ 381,918
Unamortized deferred financing costs				(910)	(1,083)
Total secured debt, net				$373,500	$ 380,835

(1) All interest rates presented are fixed-rate interest rates.
(2) Represents the effective interest rate including the amortization of initial issuance discounts/premiums excluding the amortization of deferred financing costs.
(3) Amounts reported include the amounts of unamortized debt premiums of $5.3 million and $6.2 million as of June 30, 2016 and December 31, 2015, respectively.
(4) The secured debt and the related properties that secure the debt are held in a special purpose entity and the properties are not available to satisfy the debts and other obligations of the Company or the Operating Partnership.
(5) Balance of $1.8 million as of December 31, 2015 included public facility bonds that were assumed by the buyers in connection with sales of land during the six months ended June 30, 2016.

Although our mortgage loans are secured and non-recourse to the Company and the Operating Partnership, the Company provides limited customary secured debt guarantees for items such as voluntary bankruptcy, fraud, misapplication of payments and environmental liabilities.

Unsecured Senior Notes

The following table summarizes the balance and significant terms of the registered unsecured senior notes issued by the Operating Partnership as of June 30, 2016 and December 31, 2015:

	Issuance date	Maturity date	Stated coupon rate	Effective interest rate [1]	Principal Amount as of June 30, 2016	December 31, 2015

					(in thousands)	
4.375% Unsecured Senior Notes [2]	September 2015	October 2025	4.375%	4.440%	$400,000	$ 400,000
Unamortized discount and deferred financing costs					(5,123)	(5,400)
Net carrying amount					$394,877	$ 394,600
4.250% Unsecured Senior Notes [3]	July 2014	August 2029	4.250%	4.350%	$400,000	$ 400,000
Unamortized discount and deferred financing costs					(6,962)	(7,228)
Net carrying amount					$393,038	$ 392,772
3.800% Unsecured Senior Notes [4]	January 2013	January 2023	3.800%	3.804%	$300,000	$ 300,000
Unamortized discount and deferred financing costs					(1,794)	(1,931)
Net carrying amount					$298,206	$ 298,069
4.800% Unsecured Senior Notes [4] [5]	July 2011	July 2018	4.800%	4.827%	$325,000	$ 325,000
Unamortized discount and deferred financing costs					(1,009)	(1,251)
Net carrying amount					$323,991	$ 323,749
6.625% Unsecured Senior Notes [6]	May 2010	June 2020	6.625%	6.743%	$250,000	$ 250,000
Unamortized discount and deferred financing costs					(2,142)	(2,414)
Net carrying amount					$247,858	$ 247,586
Total Unsecured Senior Notes, Net					$1,657,970	$ 1,656,776

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(1) Represents the effective interest rate including the amortization of initial issuance discounts/premiums excluding the amortization of deferred financing costs.

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(2) Interest on these notes is payable semi-annually in arrears on April 1st and October 1st of each year.
(3) Interest on these notes is payable semi-annually in arrears on February 15th and August 15th of each year.
(4) Interest on these notes is payable semi-annually in arrears on January 15th and July 15th of each year.
(5) In October 2015, certain common limited partners in the Operating Partnership that previously contributed their interests in the property at 6255 W. Sunset Blvd., Los Angeles, California to the Operating Partnership entered into an agreement with the Company. Pursuant to this agreement, such common limited partners will reimburse the Company for a portion of any amounts the Company may be required to pay pursuant to its guarantee of the Operating Partnership's 4.800% Senior Notes due 2018 or that the Company may otherwise become required to pay under applicable law with respect to such notes.
(6) Interest on these notes is payable semi-annually in arrears on June 1st and December 1st of each year.

Unsecured Term Loan Facility

The following table summarizes the balance and terms of our unsecured term loan facility as of June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
	(in thousands)	
Outstanding borrowings (1)	$150,000	$ 150,000
Interest rate (2)	1.62 %	1.40 %
Maturity date	July 2019	

(1) As of June 30, 2016 and December 31, 2015, $0.8 million and $0.9 million of unamortized deferred financing costs, respectively, remained to be amortized through the maturity date of our unsecured term loan facility.
(2) Our unsecured term loan facility interest rate was calculated based on an annual rate of LIBOR plus 1.150% as of June 30, 2016 and December 31, 2015.

Additionally, the Company has a $39.0 million unsecured term loan outstanding with an annual interest rate of LIBOR plus 1.150% as of June 30, 2016 and December 31, 2015, that matures in July 2019. As of June 30, 2016 and December 31, 2015, $0.2 million of unamortized deferred financing costs remained to be amortized through the maturity date of our unsecured term loan.

Unsecured Revolving Credit Facility

The Company intends to borrow amounts under the unsecured revolving credit facility from time to time for general corporate purposes, to fund potential acquisitions, to finance development and redevelopment expenditures and to potentially repay long-term debt.

The following table summarizes the balance and terms of our unsecured revolving credit facility as of June 30, 2016 and December 31, 2015:

	June 30, 2016	December 31, 2015
	(in thousands)	
Outstanding borrowings (1)	$220,000	$ —

Remaining borrowing capacity	380,000	600,000
Total borrowing capacity [(2)]	$600,000	$ 600,000
Interest rate [(3)]	1.52 %	1.40 %
Facility fee-annual rate [(4)]	0.200%	
Maturity date	July 2019	

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(1) On July 20, 2016, we repaid the total outstanding borrowings on our unsecured revolving credit facility. Refer to Note 17 "Subsequent Events" for additional information.

(2) We may elect to borrow, subject to bank approval and obtaining commitments for any additional borrowing capacity, up to an additional $311.0 million under an accordion feature under the terms of the unsecured revolving credit facility and term loan facility.

(3) Our unsecured revolving credit facility interest rate was calculated based on an annual rate of LIBOR plus 1.050% as of June 30, 2016 and December 31, 2015.

(4) Our facility fee is paid on a quarterly basis and is calculated based on the total borrowing capacity. In addition to the facility fee, we incurred debt origination and legal costs. As of June 30, 2016 and December 31, 2015, $3.9 million and $4.6 million, of unamortized deferred financing costs, respectively, remained to be amortized through the maturity date of our unsecured revolving credit facility, which are included in prepaid expenses and other assets, net on our consolidated balance sheets.

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Debt Covenants and Restrictions

The unsecured revolving credit facility, the unsecured term loan facility, the unsecured term loan, the unsecured senior notes, and certain other secured debt arrangements contain covenants and restrictions requiring us to meet certain financial ratios and reporting requirements. Some of the more restrictive financial covenants include a maximum ratio of total debt to total asset value, a minimum fixed-charge coverage ratio, a minimum unsecured debt ratio and a minimum unencumbered asset pool debt service coverage ratio. Noncompliance with one or more of the covenants and restrictions could result in the full principal balance of the associated debt becoming immediately due and payable. We believe we were in compliance with all of our debt covenants as of June 30, 2016.

Debt Maturities

The following table summarizes the stated debt maturities and scheduled amortization payments, excluding unamortized debt discounts, premiums and deferred financing costs, as of June 30, 2016:

Year	(in thousands)
Remaining 2016	$ 4,926
2017	71,692
2018	451,669
2019	485,309
2020	251,913
Thereafter	1,187,589
Total [1]	$ 2,453,098

(1) Includes gross principal balance of outstanding debt before the effect of the following at June 30, 2016: $11.9 million of unamortized deferred financing costs, $7.0 million of unamortized discounts for the unsecured senior notes and $5.3 million of unamortized premiums for the secured debt.

Capitalized Interest and Loan Fees

The following table sets forth gross interest expense, including debt discount/premium and deferred financing cost amortization, net of capitalized interest, for the three and six months ended June 30, 2016 and 2015. The interest expense capitalized was recorded as a cost of development and increased the carrying value of undeveloped land and construction in progress.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(in thousands)			
Gross interest expense	$26,668	$27,187	$52,843	$54,936
Capitalized interest and deferred financing costs	(12,284)	(12,323)	(26,630)	(23,194)
Interest expense	$14,384	$14,864	$26,213	$31,742

7. Noncontrolling Interests on the Company’s Consolidated Financial Statements

Common Units of the Operating Partnership

The Company owned an approximate 97.2%, 98.1% and 98.0% common general partnership interest in the Operating Partnership as of June 30, 2016, December 31, 2015 and June 30, 2015, respectively. The remaining approximate 2.8%, 1.9% and 2.0% common limited partnership interest as of June 30, 2016, December 31, 2015 and June 30, 2015, respectively, was owned by non-affiliated investors and certain of our executive officers and directors in the form of noncontrolling common units. There were 2,631,276, 1,764,775 and 1,793,170 common units outstanding held by these investors, executive officers and directors as of June 30, 2016, December 31, 2015 and June 30, 2015, respectively. The increase in the common units from December 31, 2015 to June 30, 2016 was attributable to 867,701 common units issued in connection with an acquisition (see Note 2) partially offset by a unit redemption.

The noncontrolling common units may be redeemed by unitholders for cash. Except under certain circumstances, we, at our option, may satisfy the cash redemption obligation with shares of the Company's common stock on a one-for-one basis. If satisfied in cash, the value for each noncontrolling common unit upon redemption is the amount equal to the average of the closing quoted price per share of the Company’s common stock, par value $.01 per share, as reported on the NYSE for the ten trading days immediately preceding the applicable redemption date. The aggregate value upon redemption of the then-outstanding noncontrolling common units was $168.8 million and $112.0 million as of June 30, 2016 and December 31, 2015, respectively. This redemption value does not necessarily represent the amount that would be distributed with respect to each noncontrolling common unit in the event of our termination or liquidation. In the event of our termination or liquidation, it is expected in most cases that each common unit would be entitled to a liquidating distribution equal to the liquidating distribution payable in respect of each share of the Company’s common stock.

8. Stockholders’ Equity of the Company

At-The-Market Stock Offering Program

Under our current at-the-market stock offering program, which commenced in December 2014, we may offer and sell shares of our common stock having an aggregate gross sales price of up to $300.0 million from time to time in “at-the-market” offerings. No shares of common stock were sold under this program during the six months ended June 30, 2016. Since commencement of the program through June 30, 2016, we have sold 2,007,767 shares of common stock having an aggregate gross sales price of $150.1 million. As of June 30, 2016, shares of common stock having an aggregate gross sales price of up to $149.9 million remain available to be sold under this program. Actual future sales will depend upon a variety of factors, including but not limited to market conditions, the trading price of the Company’s common stock and our capital needs. We have no obligation to sell the remaining shares available for sale under this program.

Common Stock Repurchases

On February 23, 2016, the Company’s Board of Directors approved a 4,000,000 share increase to the Company’s existing share repurchase program bringing the total current repurchase authorization to 4,988,025 shares. During the three months ended March 31, 2016, the Company repurchased 52,199 shares of common stock at a weighted average price of $55.45 per common share for $2.9 million. No shares of common stock were repurchased under this program during the three months ended June 30, 2016. As of June 30, 2016, 4,935,826 shares remain eligible for repurchase under the Company’s share repurchase program.

9. Partners’ Capital of the Operating Partnership

Issuance of Common Units

In March 2016, the Operating Partnership issued 867,701 common units in connection with a development acquisition as discussed in Note 2. Each common unit was valued at $55.36, which was based on a trailing ten-day average of the closing quoted price per share of the Company’s common stock, par value $.01 per share, as reported on the NYSE, as calculated in accordance with the Partnership Agreement.

Common Units Outstanding

The following table sets forth the number of common units held by the Company and the number of common units held by non-affiliated investors and certain of our executive officers and directors in the form of noncontrolling common units as well as the ownership interest held on each respective date:

	June 30, 2016	December 31, 2015	June 30, 2015
Company owned common units in the Operating Partnership	92,254,768	92,258,690	88,405,632
Company owned general partnership interest	97.2 %	98.1 %	98.0 %
Noncontrolling common units of the Operating Partnership	2,631,276	1,764,775	1,793,170
Ownership interest of noncontrolling interest	2.8 %	1.9 %	2.0 %

For further discussion of the noncontrolling common units as of June 30, 2016 and December 31, 2015, refer to Note 7.

10. Share-Based Compensation

Stockholder Approved Equity Compensation Plans

As of June 30, 2016, we maintained one share-based incentive compensation plan, the Kilroy Realty 2006 Incentive Award Plan, as amended (the “2006 Plan”). As of June 30, 2016, 1,382,879 shares were available for grant under the 2006 Plan. The calculation of shares available for grant is presented after taking into account a reserve for a sufficient number of shares to cover the vesting and payment of 2006 Plan awards that were outstanding on that date, including performance-based vesting awards at (i) levels actually achieved for the performance conditions (as defined below) and (ii) at target levels for the market conditions (as defined below) applicable to these awards.

2016 Share-Based Compensation Grants

On January 28, 2016, the Executive Compensation Committee of the Company’s Board of Directors awarded 294,821 restricted stock units (“RSUs”) to certain officers of the Company under the 2006 Plan, which included 168,077 RSUs (at the target level of performance), or 57%, that are subject to market and performance-based vesting requirements (the “2016 Performance-Based RSUs”) and 126,744 RSUs, or 43%, that are subject to time-based vesting requirements (the “2016 Time-Based RSUs”).

On January 9, 2016, the Executive Compensation Committee of the Company’s Board of Directors awarded 33,910 RSUs to the Company’s Chief Operating Officer under the 2006 Plan (the “2016 Special RSUs”).

2016 Performance-Based RSU Grant

The 2016 Performance-Based RSUs are scheduled to vest at the end of a three-year period based upon the achievement of pre-set FFO per share goals (the “performance condition”) for the year ending December 31, 2016 and also based upon the average annual relative total stockholder return ranking for the Company compared to an established comparison group of companies (the “market condition”) for the three-year period ending December 31, 2018. The 2016 Performance-Based RSUs are also subject to a three-year service vesting provision and are scheduled to cliff vest at the end of the three-year period. The number of 2016 Performance-Based RSUs ultimately earned could fluctuate from the target number of 2016 Performance-Based RSUs granted based upon the levels of achievement for both the performance condition and the market condition. The estimate of the number of 2016 Performance-Based RSUs earned are evaluated quarterly during the 2016 performance period based on our estimate as to the 2016 FFO per share performance measured against the applicable goals. As of June 30, 2016, 214,632 2016 Performance-Based RSUs are estimated to be earned based on the Company’s estimate of 2016 FFO per share performance measured against the applicable goals, and the compensation cost recorded to date for this program was based on that estimate. Compensation expense for the 2016 Performance-Based RSU grant will be recorded on a straight-line basis over the three-year period.

Each 2016 Performance-Based RSU represents the right to receive one share of our common stock in the future. The total fair value of the 2016 Performance-Based RSU grant was $9.6 million at January 28, 2016 and was calculated using a Monte Carlo simulation pricing model based on the assumptions in the table below. The determination of the fair value of the 2016 Performance-Based RSU grant takes into consideration the likelihood of achievement of both the performance condition and the market condition discussed above. For the six months ended June 30, 2016, we recorded compensation expense based upon the $57.08 fair value at January 28, 2016. The following table summarizes the assumptions utilized in the Monte Carlo simulation pricing model:

	Fair Value Assumptions
Fair value per share at January 28, 2016	$57.08
Expected share price volatility	26.00%
Risk-free interest rate	1.13%
Remaining expected life	2.9 years

The computation of expected volatility is based on a blend of the historical volatility of our shares of common stock over approximately six years, as that is expected to be most consistent with future volatility and equates to a time period twice as long as the approximate three-year remaining performance period of the RSUs and implied volatility data based on the observed pricing of six month publicly-traded options on our shares of common stock. The risk-free interest rate is based on the yield curve on zero-coupon U.S. Treasury STRIP securities in effect at January 28, 2016. The expected life of the RSUs is equal to the remaining 2.9 year vesting period at January 28, 2016.

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2016 Time-Based RSU Grant

The 2016 Time-Based RSUs are scheduled to vest in three equal installments beginning on January 5, 2017 through January 5, 2019. Compensation expense for the 2016 Time-Based RSUs will be recognized on a straight-line basis over the three-year service vesting period. Each 2016 Time-Based RSU represents the right to receive one share of our common stock in the future. The total fair value of the 2016 Time-Based RSU grant was $7.1 million, which was based on the $56.23 closing share price of the Company’s common stock on the NYSE on January 28, 2016.

2016 Special RSU Grant

The 2016 Special RSUs are scheduled to vest in four equal installments beginning on December 31, 2016 through December 31, 2019 based on the achievement of certain metrics. Compensation expense for the 2016 Special RSUs will be recognized on a straight-line basis over the four-year service vesting period. Each 2016 Special RSU represents the right to receive one share of our common stock in the future. The total fair value of the 2016 Special RSU grant was $2.0 million, which was based on the $58.98 closing share price of the Company’s common stock on the NYSE on January 8, 2016 for the time-based portion, and the estimated fair value at date of grant for the performance-based portion.

Share-Based Compensation Cost Recorded During the Period

The total compensation cost for all share-based compensation programs was $6.6 million and $5.0 million for the three months ended June 30, 2016 and 2015, respectively, and $12.5 million and $9.3 million for the six months ended June 30, 2016 and 2015, respectively. Of the total share-based compensation costs, $1.3 million and $0.9 million was capitalized as part of real estate assets for the three months ended June 30, 2016 and 2015, respectively, and $2.5 million and $1.6 million for the six months ended June 30, 2016 and 2015. As of June 30, 2016, there was approximately $40.5 million of total unrecognized compensation cost related to nonvested incentive awards granted under share-based compensation arrangements that is expected to be recognized over a weighted-average period of 2.0 years. The remaining compensation cost related to these nonvested incentive awards had been recognized in periods prior to June 30, 2016.

11. Commitments and Contingencies

General

As of June 30, 2016, we had commitments of approximately $394.3 million, excluding our ground lease commitments, for contracts and executed leases directly related to our operating properties and development projects.

Environmental Matters

We follow the policy of monitoring all of our properties, both acquisition and existing stabilized portfolio properties, for the presence of hazardous or toxic substances. While there can be no assurance that a material environmental liability does not exist, we are not currently aware of any environmental liability with respect to our stabilized portfolio properties that would have a material adverse effect on our financial condition, results of operations and cash flow, or that we believe would require additional disclosure or the recording of a loss contingency.

As of June 30, 2016, we had accrued environmental remediation liabilities of approximately $26.0 million recorded on our consolidated balance sheets in connection with recent development acquisitions and certain of our development projects. It is possible that we could incur additional environmental remediation costs in connection with these recent development acquisitions. However, given we are in the very early stages of development on certain of these projects, potential additional environmental costs are not reasonably estimable at this time.

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12. Fair Value Measurements and Disclosures

Assets and Liabilities Reported at Fair Value

The only assets we record at fair value on our consolidated financial statements are the marketable securities related to our Deferred Compensation Plan. The following table sets forth the fair value of our marketable securities as of June 30, 2016 and December 31, 2015:

	Fair Value (Level 1) [1]	
	June 30, 2016	December 31, 2015
Description	(in thousands)	
Marketable securities [2]	$ 13,388	$ 12,882

(1) Based on quoted prices in active markets for identical securities.
(2) The marketable securities are held in a limited rabbi trust.

We report the change in the fair value of the marketable securities at the end of each accounting period in interest income and other net investment gains in the consolidated statements of operations. We also adjust the related Deferred Compensation Plan liability to fair value at the end of each accounting period based on the performance of the benchmark funds selected by each participant, which results in a corresponding increase or decrease to compensation cost for the period.

The following table sets forth the net gain on marketable securities recorded during the three and six months ended June 30, 2016 and 2015:

Three Months Ended June 30, 2016	Six Months Ended June 30,