KILROY REALTY CORP
Form 10-Q
November 02, 2006
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2006

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)**

(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. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

As of October 31, 2006, 32,388,881 shares of common stock, par value $.01 per share, were outstanding.

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KILROY REALTY CORPORATION

QUARTERLY REPORT FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2006

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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 FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

KILROY REALTY CORPORATION

CONSOLIDATED BALANCE SHEETS

(unaudited, in thousands, except share data)

	September 30, 2006	December 31, 2005
ASSETS		
REAL ESTATE ASSETS (Note 2):		
Land and improvements	$ 315,113	$ 321,988
Buildings and improvements	1,472,438	1,494,958
Undeveloped land and construction in progress	218,162	137,025
Total real estate held for investment	2,005,713	1,953,971
Accumulated depreciation and amortization	(436,940)	(416,597)
Total real estate assets, net	1,568,773	1,537,374
CASH AND CASH EQUIVALENTS	7,750	3,881
RESTRICTED CASH	1,302	703
FUNDS HELD AT QUALIFIED INTERMEDIARY FOR SECTION 1031 EXCHANGE (Note 2)	43,794	
CURRENT RECEIVABLES, NET	3,168	5,759
DEFERRED RENT RECEIVABLES, NET	60,535	55,048
NOTE RECEIVABLE	11,126	11,213
DEFERRED LEASING COSTS AND OTHER RELATED INTANGIBLES, NET	48,790	50,074
DEFERRED FINANCING COSTS, NET (Note 4)	5,754	5,256
PREPAID EXPENSES AND OTHER ASSETS	8,807	5,166
TOTAL ASSETS	$ 1,759,799	$ 1,674,474
LIABILITIES AND STOCKHOLDERS EQUITY		
LIABILITIES:		
Secured debt	$ 463,005	$ 473,282
Unsecured senior notes	144,000	144,000
Unsecured line of credit (Note 3)	230,000	225,000
Accounts payable, accrued expenses and other liabilities	66,230	134,558
Accrued distributions (Note 12)	19,610	17,856
Rents received in advance, tenant security deposits and deferred revenue	41,462	36,410

Total liabilities	964,307	1,031,106
COMMITMENTS AND CONTINGENCIES (Note 7)		
MINORITY INTERESTS (Note 5):		
7.45% Series A Cumulative Redeemable Preferred unitholders	73,638	73,638
Common unitholders of the Operating Partnership	40,338	50,462
Total minority interests	113,976	124,100
STOCKHOLDERS EQUITY (Note 6):		
Preferred Stock, $.01 par value, 22,140,000 shares authorized, none issued and outstanding		
7.45% Series A Cumulative Redeemable Preferred Stock, $0.1 par value, 1,500,000 shares authorized, none issued and outstanding		
Series B Junior Participating Preferred stock, $0.1 par value, 400,000 shares authorized, none issued and outstanding		
9.25% Series D Cumulative Redeemable Preferred stock, $.01 par value, 900,000 shares authorized, none issued and outstanding		
7.80% Series E Cumulative Redeemable Preferred stock, $.01 par value, 1,610,000 shares authorized, issued and outstanding	38,425	38,425
7.50% Series F Cumulative Redeemable Preferred stock, $.01 par value, 3,450,000 shares authorized, issued and outstanding	83,157	83,157
Common stock, $.01 par value, 150,000,000 shares authorized, 32,388,881 and 28,970,703 shares issued and outstanding, respectively	324	289
Additional paid-in capital	670,715	523,609
Deferred compensation (Note 1)		(1,998)
Distributions in excess of earnings	(111,105)	(124,214)
Total stockholders equity	681,516	519,268
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 1,759,799	$ 1,674,474

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 September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
REVENUES:				
Rental income	$ 56,641	$ 53,387	$ 169,142	$ 159,215
Tenant reimbursements	5,890	5,721	17,657	17,318
Other property income	521	187	1,656	810
Total revenues	63,052	59,295	188,455	177,343
EXPENSES:				
Property expenses	11,457	10,720	32,460	29,977
Real estate taxes	4,746	4,020	14,210	12,673
Provision for bad debts	56	(617)	637	783
Ground leases	514	410	1,507	1,258
General and administrative expenses	5,673	18,400	15,322	41,214
Interest expense	10,312	9,570	33,491	28,535
Depreciation and amortization	17,908	16,040	53,263	49,035
Total expenses	50,666	58,543	150,890	163,475
OTHER INCOME AND EXPENSE:				
Interest and other income	359	223	841	334
Net settlement receipts on interest rate swaps	299	183	747	143
(Loss) gain on derivative instruments	(324)	115	(580)	479
Total other income	334	521	1,008	956
INCOME FROM CONTINUING OPERATIONS BEFORE MINORITY INTERESTS	12,720	1,273	38,573	14,824
MINORITY INTERESTS:				
Distributions on Cumulative Redeemable Preferred units	(1,397)	(1,397)	(4,191)	(4,191)
Minority interest in (earnings) loss of Operating Partnership attributable to continuing operations	(601)	296	(2,171)	(397)
Total minority interests	(1,998)	(1,101)	(6,362)	(4,588)
INCOME FROM CONTINUING OPERATIONS	10,722	172	32,211	10,236
DISCONTINUED OPERATIONS (Note 10):				
Revenues from discontinued operations (Note 8)	6	1,043	11,534	4,390

Expenses from discontinued operations	(444)	(448)	(1,421)	(2,185)
Net gain on dispositions of discontinued operations	25,603	17,831	31,259	23,610
Minority interest in earnings of Operating Partnership attributable to discontinued operations	(1,911)	(2,125)	(3,304)	(2,987)
Total income from discontinued operations	23,254	16,301	38,068	22,828
NET INCOME	33,976	16,473	70,279	33,064
PREFERRED DIVIDENDS	(2,402)	(2,402)	(7,206)	(7,206)
NET INCOME AVAILABLE FOR COMMON STOCKHOLDERS	$ 31,574	$ 14,071	$ 63,073	$ 25,858
Income (loss) from continuing operations per common share basic (Note 11)	$ 0.26	$ (0.08)	$ 0.81	$ 0.11
Income (loss) from continuing operations per common share diluted (Note 11)	$ 0.26	$ (0.08)	$ 0.81	$ 0.11
Net income per common share basic (Note 11)	$ 0.98	$ 0.49	$ 2.04	$ 0.90
Net income per common share diluted (Note 11)	$ 0.98	$ 0.49	$ 2.03	$ 0.90
Weighted average shares outstanding basic (Note 11)	32,199,885	28,760,474	30,906,319	28,685,609
Weighted average shares outstanding diluted (Note 11)	32,323,675	28,760,474	31,044,314	28,840,527
Dividends declared per common share	$ 0.53	$ 0.51	$ 1.59	$ 1.53

See accompanying notes to consolidated financial statements.

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KILROY REALTY CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

(unaudited, in thousands, except share and per share data)

	Preferred Stock	Common Stock: Number of Shares	Common Stock: Common Stock	Additional Paid-in Capital	Deferred Compensation	Distributions in Excess of Earnings	Total
BALANCE AT DECEMBER 31, 2005	$ 121,582	28,970,703	$ 289	$ 523,609	$ (1,998)	$ (124,214)	$ 519,268
Change in accounting principle (Note 1)				(1,998)	1,998		
Net income						70,279	70,279
Issuance of common stock (Note 6)		2,000,000	20	136,039			136,059
Issuance of nonvested shares of common stock (Note 6)		87,067	1	1,304			1,305
Exercise of stock options.		31,000		760			760
Non-cash amortization of nonvested stock grants				2,466			2,466
Exchange of common units of the Operating Partnership (Note 5)		1,340,986	14	35,707			35,721
Repurchase of common stock (Note 6)		(40,875)		(2,891)			(2,891)
Adjustment for minority interest (Note 1)				(24,281)			(24,281)
Preferred dividends						(7,206)	(7,206)
Dividends declared per common share ($1.59 per share)						(49,964)	(49,964)
BALANCE AT SEPTEMBER 30, 2006	$ 121,582	32,388,881	$ 324	$ 670,715	$	$ (111,105)	$ 681,516

See accompanying notes to consolidated financial statements.

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KILROY REALTY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 70,279	$ 33,064
Adjustments to reconcile net income to net cash provided by operating activities (including discontinued operations):		
Depreciation and amortization of building and improvements and leasing costs	53,585	49,464
Increase (decrease) in provision for uncollectible tenant receivables	402	(333)
Increase in provision for uncollectible deferred rent receivables	241	1,126
Distributions on Cumulative Redeemable Preferred units	4,191	4,191
Minority interests in earnings of Operating Partnership	5,475	3,384
Depreciation of furniture, fixtures and equipment	639	579
Non-cash amortization of nonvested stock grants	2,657	2,622
Non-cash amortization of deferred financing costs	909	1,034
Amortization of above/below market rents, net	(1,113)	(915)
Net gain on dispositions of operating properties	(31,259)	(23,610)
Non-cash amortization of deferred revenue for reimbursement of tenant improvements	(1,717)	(1,602)
Loss (gain) on derivative instruments	580	(479)
Non-cash gain on lease termination (Note 8)	(2,334)	
Net settlement receipts on interest rate swaps	(747)	(143)
Other	68	3
Changes in assets and liabilities:		
Current receivables	2,189	1,482
Deferred rent receivables	(5,834)	(9,046)
Deferred leasing costs	(1,126)	(889)
Prepaid expenses and other assets	(2,623)	(1,175)
Accounts payable, accrued expenses and other liabilities (Note 6)	(69,756)	29,184
Rents received in advance, tenant security deposits and other deferred revenue	7,330	1,695
Net cash provided by operating activities	32,036	89,636
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for operating properties	(26,710)	(15,619)
Expenditures for development, redevelopment projects and undeveloped land	(77,875)	(28,633)
Acquisition of operating property and undeveloped land		(56,226)
Net proceeds received from dispositions of operating properties (Note 2)	15,508	48,512
Net cash settlement receipts on interest rate swaps	728	33
Increase in escrow deposits	(2,000)	(250)
Increase in restricted cash	(599)	(1,233)
Collections of principal on the note receivable	87	
Net cash used in investing activities	(90,861)	(53,416)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock (Note 6)	136,059	
Proceeds from issuance of secured debt		35,500
Net borrowings on unsecured line of credit	5,000	32,000

Principal payments on secured debt	(10,277)	(38,214)
Repurchase of common stock (Note 6)	(2,891)	(1,756)
Financing costs	(2,190)	(491)
Proceeds from exercise of stock options	760	971
Dividends and distributions paid to common stockholders and common unitholders	(52,370)	(49,374)
Dividends and distributions paid to preferred stockholders and preferred unitholders	(11,397)	(11,004)
Net cash provided by (used in) financing activities	62,694	(32,368)
Net increase in cash and cash equivalents	3,869	3,852
Cash and cash equivalents, beginning of period	3,881	4,853
Cash and cash equivalents, end of period	$ 7,750	$ 8,705

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KILROY REALTY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(unaudited, in thousands)

	Nine Months Ended September 30,	
	2006	**2005**
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest, net of capitalized interest of $7,175 and $6,475 at September 30, 2006 and 2005, respectively	$ 34,885	$ 29,086
NON-CASH INVESTING AND FINANCING TRANSACTIONS:		
Accrual of dividends and distributions payable to common stockholders and common unitholders	$ 18,400	$ 16,647
Accrual of dividends and distributions payable to preferred stockholders and preferred unitholders	$ 1,909	$ 1,909
Note receivable received in connection with the disposition of an operating property		$ 11,250
Exchange of common units of the Operating Partnership into shares of the Company s common stock	$ 35,721	$ 7,309
Issuance of nonvested shares of common stock (Note 6)	$ 5,893	$ 4,300
Accrual for expenditures for operating properties and development and redevelopment projects	$ 15,326	$ 7,180
Net proceeds from disposition held by a qualified intermediary in connection with a Section 1031 Exchange	$ 43,794	
Non-cash increase in real estate assets in connection with a lease termination (Note 8)	$ 2,334	

See accompanying notes to consolidated financial statements.

KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Three and Nine Months Ended September 30, 2006 and 2005

(unaudited)

1. Organization and Basis of Presentation

Organization

Kilroy Realty Corporation (the Company) owns, operates and develops office and industrial real estate, primarily in Southern California. The Company operates as a self-administered real estate investment trust (REIT). As of September 30, 2006, the Company s stabilized portfolio of operating properties consisted of 84 office buildings (the Office Properties) and 45 industrial buildings (the Industrial Properties), which encompassed an aggregate of approximately 7.8 million and 4.2 million rentable square feet, respectively, and was 96.2% occupied. The Company s stabilized portfolio of operating properties consists of all of the Office Properties and Industrial Properties and excludes development and redevelopment properties currently under construction and lease-up properties.

The Company defines lease-up properties as properties recently developed or redeveloped by the Company that have not yet reached 95% occupancy and are within one year following substantial completion. Lease-up properties are reclassified to land and improvements and building and improvements from construction in progress on the consolidated balance sheets upon building shell completion. As of September 30, 2006, the Company did not have any properties in the lease-up phase. As of September 30, 2006, the Company had five development projects, comprised of eight buildings, under construction, which when completed are expected to encompass an aggregate of approximately 1,149,500 rentable square feet. These development projects are all located in San Diego County. As of September 30, 2006, the Company had one redevelopment property under construction, encompassing approximately 107,000 rentable square feet of an office property in El Segundo, California that was previously occupied by one tenant and its predecessors for over 20 years. The ground floor of the building, which encompasses approximately 18,800 rentable square feet of space, will not be redeveloped and is still included in the Company s stabilized portfolio.

The Company owns its interests in all of its Office Properties and Industrial Properties through Kilroy Realty, L.P. (the Operating Partnership) and Kilroy Realty Finance Partnership, L.P. (the Finance Partnership) and conducts substantially all of its operations through the Operating Partnership. The Company owned a 93.3% general partnership interest in the Operating Partnership as of September 30, 2006. Kilroy Realty Finance, Inc., a wholly-owned subsidiary of the Company, is the sole general partner of the Finance Partnership and owns a 1.0% general partnership interest in the Finance Partnership. The Operating Partnership owns the remaining 99.0% limited partnership interest in the Finance Partnership. The Company conducts substantially all of its development activities through Kilroy Services, LLC (KSLLC), which is a wholly-owned subsidiary of the Operating Partnership. Unless otherwise indicated, all references to the Company include the Operating Partnership, the Finance Partnership, KSLLC and all wholly-owned subsidiaries of the Company. With the exception of the Operating Partnership, all of the Company s subsidiaries are wholly-owned.

Basis of Presentation

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

The Company also consolidates all variable interest entities (VIE) in which it is deemed to be the primary beneficiary in accordance with FASB Interpretation No. 46R (FIN 46R). As of December 31, 2005, the

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Company consolidated one VIE in connection with an agreement entered into in September 2005 to facilitate a Section 1031 tax-deferred property exchange. Under the terms of the agreement, the Company was obligated to purchase the operating property held by the VIE within 180 days of the acquisition of the property to complete the exchange. As of December 31, 2005, the Company had purchased a 38% interest in the property held by the VIE. The Company retained all rights to appreciation and all exposure to depreciation in the value of the property during the period it was held by the VIE. The impact of consolidating the VIE was to increase the Company s total real estate asset balance by approximately $15.3 million at December 31, 2005. In March 2006, the Company purchased the remaining 62% interest in the property.

Net income after preferred distributions and preferred dividends is allocated to the common limited partners of the Operating Partnership (Minority Interest of the Operating Partnership) based on their ownership percentage of the Operating Partnership. The common limited partner ownership percentage is determined by dividing the number of common units held by the Minority Interest of the Operating Partnership by the total common units outstanding. The issuance or redemption of additional shares of common stock or common units results in changes to the Minority Interest of the Operating Partnership percentage as well as the total net assets of the Company. As a result, all equity transactions result in an allocation between stockholders equity and the minority interest held by common unitholders of the Operating Partnership in the accompanying consolidated balance sheets to account for the change in the Minority Interest of the Operating Partnership ownership percentage as well as the change in total net assets of the Company.

The accompanying interim financial statements have been prepared by the Company s 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 which 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, 2006. These financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company s annual report on Form 10-K for the year ended December 31, 2005.

Significant Accounting Policies

Rental revenue recognition. Rental revenue recognition commences when the tenant takes possession or controls the physical use of the leased space. In order for the tenant to take possession, the leased space must be substantially ready for its intended use. To determine whether the leased space is substantially ready for its intended use, the Company evaluates whether it or the tenant is the owner, for accounting purposes, of tenant improvements. When management concludes that the Company is the owner of tenant improvements, rental revenue recognition begins when the tenant takes possession of the finished space, which is typically when such tenant improvements are substantially complete. In certain instances, when management concludes that the Company is not the owner (the tenant is the owner) of tenant improvements, rental revenue recognition begins when the tenant takes possession of or controls the space.

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The determination of who owns the tenant improvements for accounting purposes is subject to significant judgment. In making that determination, management considers various factors. However, no one factor is determinative in reaching a conclusion. The factors 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.

When management concludes that the Company is the owner of tenant improvements, for accounting purposes, the Company records its cost to construct the tenant improvements as an asset. In addition, the Company records the cost of certain tenant improvements paid for or reimbursed by tenants when management concludes that the Company is the owner of such tenant improvements using the criteria discussed above. For these tenant-funded tenant improvements the Company records an equal amount as deferred revenue, which is amortized as additional rental revenue over the term of the related lease. During the three months ended September 30, 2006 and 2005, $0.6 million and $0.5 million, respectively, of this deferred revenue was amortized into rental income. During the nine months ended September 30, 2006 and 2005, $1.7 million and $1.6 million, respectively, of this deferred revenue was amortized into rental income.

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

Recent Accounting Pronouncements

In July 2006, the Financial Accounting Standards Board issued Financial Accounting Standards Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109* (FIN 48). FIN 48 increases the relevancy and comparability of financial reporting by clarifying the way companies account for uncertainty in measuring income taxes. FIN 48 prescribes a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 only allows a favorable tax position to be included in the calculation of tax liabilities and expenses if a company concludes that it is more likely than not that its adopted tax position will prevail if challenged by tax authorities. FIN 48 also provides guidance on the accounting and recording of interest and penalties on uncertain tax positions. FIN 48 is effective for fiscal years beginning after December 15, 2006. Management is evaluating the impact that the adoption of this interpretation will have on the Company s consolidated financial position, results of operations and cash flows but currently does not believe it will have a material impact on the consolidated financial statements.

In September 2006, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurement* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and provides for expanded

KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

disclosure about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements. This guidance was issued to increase consistency and comparability in fair value measurements and to expand disclosures about fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007. Management does not expect that the adoption of SFAS 157 will have a material impact on the Company s consolidated financial statements.

In September 2006, the SEC released Staff Accounting Bulletin No. 108 (SAB 108) to address diversity in practice regarding consideration of the effects of prior year errors when quantifying misstatements in current year financial statements. The SEC staff concluded that registrants should quantify financial statement errors using both a balance sheet approach and an income statement approach and evaluate whether either approach results in quantifying a misstatement that, when all relevant quantitative and qualitative factors are considered, is material. SAB 108 states that if correcting an error in the current year materially affects the current year s income statement, the prior period financial statements must be restated. SAB 108 is effective for fiscal years ending after November 15, 2006. Management does not expect that the adoption of SAB 108 will have a material impact on the Company s consolidated financial statements.

Share-Based Incentive Compensation Accounting

At September 30, 2006, the Company had share-based employee option and incentive compensation plans, which are described more fully in Note 6. Effective January 1, 2006, the Company adopted FASB Statement No. 123(R), *Share-Based Payment* (SFAS 123(R)), using the modified-prospective-transition method. The adoption of this statement did not have a material effect on the Company s income from continuing operations, net income, cash flows from operations, cash flows from financing activities and basic and diluted earnings per share since the Company historically recorded compensation cost for nonvested stock awards based on the fair value on the date of grant and all stock option awards were fully vested as of the adoption date. Results from prior periods have not been restated.

On January 1, 2006, in connection with the adoption of SFAS 123(R) the Company recorded a $2.0 million change in accounting principle to net the deferred compensation line item within equity against additional paid-in capital. Under SFAS 123(R), an equity instrument is not recorded to stockholders equity until the related compensation expense is recorded over the requisite service period of the award. Prior to the adoption of SFAS 123(R), and in accordance with the previous accounting guidance, the Company recorded the full fair value of all issued but nonvested equity instruments in additional paid-in capital and recorded an offsetting deferred compensation balance on a separate line item within equity for the amount of compensation costs not yet recognized for these nonvested instruments.

2. Dispositions

During the nine months ended September 30, 2006, the Company sold the following properties to unaffiliated third parties:

Location	Property Type	Month of Disposition	Number of Buildings	Rentable Square Feet	Sales Price
					(in millions)
3735 Imperial Highway Stockton, CA	Industrial	March	1	164,540	$ 17.0(1)
9401 and 9451 Toledo Way Irvine, CA	Industrial and Office	September	2	272,000	45.0
Total			3	436,540	$ 62.0

(1) Amount was paid in cash.

KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The disposition in September 2006 included one office building, encompassing approximately 27,200 rentable square feet, one industrial building, encompassing approximately 244,800 rentable square feet, and a parcel of undeveloped land adjacent to the buildings. The net cash proceeds from this disposition of approximately $43.8 million are being held at a qualified intermediary, at the Company s direction, for the purpose of potentially completing a future exchange of real property pursuant to Section 1031 of the Internal Revenue Code (Section 1031 Exchange). A Section 1031 Exchange allows for the deferral of income taxes related to the gain attributable to the sale of property if qualified replacement properties are identified within 45 days and such qualified replacement properties are acquired within 180 days from the initial sale. As of the date of this report, the Company has identified qualified replacement properties. The funds will be used to acquire those properties or the remaining funds, plus accrued interest, will be returned to the Company on March 15, 2007, the end of the 180-day period.

For the three and nine months ended September 30, 2006, the Company recorded a net gain of approximately $25.6 million and $31.3 million, respectively, in connection with the two dispositions noted above. The income and the net gain on disposition for these properties have been included in discontinued operations for the three and nine months ended September 30, 2006 and 2005 (see Note 10).

3. Unsecured and Secured Debt

Unsecured Line of Credit

In April 2006, the Company modified its unsecured revolving line of credit (the Credit Facility) to increase the line of credit, reduce the pricing and extend the maturity. The modifications increased the line of credit from $425 million to $550 million. As of September 30, 2006 the Company had borrowings of $230 million outstanding under the Credit Facility and availability of approximately $320 million. The Credit Facility bears interest at an annual rate between LIBOR plus 0.85% and LIBOR plus 1.35%, depending upon the Company s leverage ratio at the time of borrowing (6.18% at September 30, 2006). Prior to the modification, the Credit Facility bore interest at an annual rate between LIBOR plus 1.00% and LIBOR plus 1.7%. The Company also extended the maturity of the Credit Facility from October 2007 to April 2010, with an option to extend the maturity for one year. The fee for unused funds under the Credit Facility ranges from an annual rate of 0.15% to 0.20% depending on the Company s leverage ratio, as compared to a range of 0.20% to 0.30% prior to the modification. The Company expects to use the Credit Facility to finance development and redevelopment expenditures, to fund potential acquisitions and for other general corporate uses.

Debt Covenants and Restrictions

The Credit Facility, the unsecured senior notes and certain other secured debt arrangements contain covenants and restrictions requiring the Company to meet certain financial ratios and reporting requirements. Some of the more restrictive financial covenants include a maximum ratio of total debt to total assets, a maximum ratio of total secured debt to total assets, a fixed charge coverage ratio, a minimum consolidated tangible net worth and a limit of development activities to total assets. Noncompliance with one or more of the covenants and restrictions could result in the full or partial principal balance of the associated debt becoming immediately due and payable. The Company was in compliance with all of its debt covenants at September 30, 2006.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Capitalized Interest and Loan Fees

The following table sets forth the Company s gross interest expense and loan fee amortization from continuing operations net of capitalized interest and loan fees for the three and nine months ended September 30, 2006 and 2005. The interest and loan fees are capitalized as a cost of development and increase the carrying value of undeveloped land and construction in progress.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
		(in thousands)		
Gross interest expense and loan fee amortization	$ 13,296	$ 12,153	$ 40,934	$ 35,347
Less: capitalized interest and loan fee amortization	(2,984)	(2,583)	(7,443)	(6,812)
Net interest expense	$ 10,312	$ 9,570	$ 33,491	$ 28,535

4. Derivative Financial Instruments

The following table sets forth the terms and fair market value of the Company s derivative financial instruments at September 30, 2006:

Type of Instrument	Notional Amount	Index	Rate	Maturity Date	Fair Market Value
	(in thousands)				(in thousands)
Interest rate swap	$ 25,000	LIBOR	2.98%	December 2006	$ 119
Interest rate swap	25,000	LIBOR	2.98%	December 2006	119
Total included in deferred financing costs					$ 238

5. Minority Interests

Minority interests represent the common and preferred limited partnership interests in the Operating Partnership. The Company owned a 93.3%, 88.6% and 88.7% common general partnership interest in the Operating Partnership as of September 30, 2006, September 30, 2005 and December 31, 2005, respectively. The remaining 6.7%, 11.4% and 11.3% common limited partnership interest as of September 30, 2006, September 30, 2005 and December 31, 2005, respectively, was owned by certain of the Company s executive officers and directors, certain of their affiliates, and other outside investors in the form of common limited partnership units. The common limited partnership units are redeemable at the option of the unitholders. Upon receipt of the notice of redemption, the Company may elect, subject to certain limitations, to exchange the common limited partnership units for shares of the Company s common stock on a one-for-one basis or redeem the units for cash in an amount equal to the fair market value at the time of redemption, as provided in the partnership agreement.

The decrease in the common limited partnership interest is primarily due to the number of common limited partnership units of the Operating Partnership that were redeemed for shares of the Company s common stock since September 30, 2005 and the issuance of two million shares of common stock in May 2006 (see Note 6). From September 30, 2005 to September 30, 2006, 1,388,364 common limited partnership units of the Operating Partnership were redeemed for shares of the Company s common stock on a one-for-one basis. During the nine months ended September 30, 2006, 1,340,986 common limited partnership units of the Operating Partnership were redeemed for shares of the Company s common stock on a one-for-one basis. Neither the Company nor the Operating Partnership received any proceeds from the issuance of the common stock in exchange for common limited partnership units.

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KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Stockholders Equity and Employee Share-Based Incentive Plans

Common Stock

In May 2006, the Company completed a public offering for two million shares of its common stock. These shares were registered under a shelf registration statement the Company had filed on Form S-3 with the SEC in March 2006. The registration statement was automatically effective and registered an unspecified amount of equity securities that the Company may sell in primary offerings. The net offering proceeds, after deducting underwriting discounts and commissions and offering expenses, were approximately $136.1 million. The Company used the net proceeds from the offering to temporarily repay borrowings under the Credit Facility, which the Company continues to use to fund a portion of its development pipeline and for other general corporate purposes.

Share-Based Incentive Plan

The Company establishes incentive award plans for the purpose of attracting and retaining officers, key employees and non-employee board members. The Company s Board of Directors adopted the Kilroy Realty 2006 Incentive Award Plan (the 2006 Plan), which became effective upon approval by the Company s stockholders at the May 18, 2006 annual meeting of stockholders. The 2006 Plan provides for the grant of incentive stock options, nonqualified stock options, restricted stock (nonvested shares), stock appreciation rights, performance shares, performance stock units, dividend equivalents, stock payments, deferred stock, restricted stock units, profits interest units, performance bonus awards, performance-based awards and other incentive awards to eligible individuals. Subject to certain adjustments set forth in the 2006 Plan, the maximum number of shares that may be issued or awarded under the 2006 Plan is 1,535,000 shares of common stock of the Company. These shares were registered under a Registration Statement filed with the SEC on Form S-8 in June 2006. As of September 30, 2006, no awards have been issued under the 2006 Plan. The Company anticipates issuing awards under the 2006 Plan in the first quarter of 2007 in connection with the 2006 incentive award programs approved for the Company s executive officers, which are described below. All of the Company s previously issued share-based awards were issued under the 1997 Stock Option and Incentive Plan (the 1997 Plan), which was terminated by the Company s Board of Directors in September 2006. Any awards outstanding upon the termination of the 1997 Plan remain outstanding and in full force and effect in accordance with the terms of such plan and the applicable award agreement.

The Executive Compensation Committee, comprised of three independent directors who are not officers of the Company, historically has granted nonvested shares of common stock to employees and non-employee board members on an annual basis under different programs, which are described below. The share awards are valued based on the quoted closing share price of the Company s common stock on the New York Stock Exchange (NYSE) on the grant date. Dividends are paid on all outstanding shares whether vested or not and are not returnable to the Company if the underlying shares ultimately do not vest. The compensation cost that has been charged against income for all share-based compensation programs was $1.1 million and $0.8 million for the three months ended September 30, 2006 and 2005, respectively, and $2.7 million and $2.6 million for the nine months ended September 30, 2006 and 2005, respectively. Share-based compensation cost capitalized as part of real estate assets was $0.1 million for both the three months ended September 30, 2006 and 2005 and $0.4 million and $0.3 million for the nine months ended September 30, 2006 and 2005, respectively.

Executive Officer Share-Based Compensation Program

The Executive Compensation Committee determines compensation for the Company s Chief Executive Officer, Chief Operating Officer and Chief Financial Officer (the Executive Officers). Historically, the Executive Compensation Committee has annually approved programs for the Company s Executive Officers for the potential issuance of nonvested shares of common stock as part of their annual and long-term incentive

KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

compensation. The number of shares that have been issued has historically been contingent upon both individual performance and certain corporate performance and market conditions. The Company recognizes compensation cost for these awards over the requisite service period, which includes both the performance and service vesting periods and begins on the date the award is authorized by the Executive Compensation Committee using the accelerated attribution expense method. The share awards are generally awarded in the first quarter after the end of the performance period, which is the same as the Company s fiscal year end. The share awards issued generally have a service vesting period equal to one to three years, depending on the type of award.

In January 2006, the Executive Compensation Committee awarded an aggregate of 52,904 nonvested shares of common stock to the Executive Officers under the approved 2005 program for the 2005 performance period. The total compensation cost for the nonvested shares was calculated based on the quoted closing share price of the Company s common stock on the NYSE of $66.13 on the grant date of January 11, 2006. Of the shares awarded, 11,343 vest at the end of a one-year period and 41,561 vest in equal annual installments over a two-year period.

In April 2006, the Executive Compensation Committee approved the 2006 Annual Incentive Award Program for the Executive Officers that will allow the Executive Officers to receive an award of nonvested shares of common stock as part of their annual incentive compensation, provided that certain pre-established target levels for specific corporate performance measures are achieved for the fiscal year ending December 31, 2006. The Company anticipates that the nonvested stock will be issued during the first quarter of 2007. The Company will recognize compensation cost over the requisite service period, which began in April 2006 upon authorization of the program, and will end at the end of the one-year service vesting period. During the performance period, the Company estimates the total value of the potential future award based on management s estimate of the potential achievement of the pre-established target levels for specific corporate performance measures for the fiscal year ending December 31, 2006 and records the associated compensation cost for the period based on the portion of the requisite service period that has elapsed through the end of the reporting period. For the three and nine months ended September 30, 2006, the Company recognized approximately $0.2 million and $0.3 million, respectively, of estimated compensation cost for this program.

In September 2006, the Executive Compensation Committee approved the 2006 Annual Long-Term Incentive Program and an additional component of the 2006 Annual Incentive Award Program, the Annual Bonus Exceptional Performance Program, for the Executive Officers that will allow the Executive Officers to earn bonus compensation in the event that certain pre-established target levels for specific corporate performance measures (adopted by the Executive Compensation Committee in April 2006) are achieved for the fiscal year ending December 31, 2006. Individual awards under each program will be paid in nonvested stock or, if available and at the employee s option, in long-term incentive program partnership units of Kilroy Realty, L.P. (LTIP Units) that, subject to vesting and other conditions, will in the future become exchangeable on a one-for-one basis for shares of the Company s common stock or, at the election of the Company, cash. The Company anticipates that the nonvested stock or LTIP Units will be issued during the first quarter of 2007. The Company will recognize compensation costs using the accelerated attribution expense method over the requisite service periods, which began in September 2006 upon authorization of the program and, based on the Company s current estimate, will end at the completion of the respective service vesting periods. Shares issued under the 2006 Annual Long-Term Incentive Program will vest 50% on December 31, 2007 and 50% on December 31, 2008. Shares issued under the Annual Bonus Exceptional Performance Program will vest 34% on December 31, 2007, 33% on December 31, 2008 and 33% on December 31, 2009. Vesting is based on continued employment through the applicable vesting date. During the performance period, the Company estimates the total value of the potential future awards based on management s estimate of the potential achievement of the pre-established target levels for specific corporate performance measures for the fiscal year ending December 31, 2006 and records the associated compensation cost for the period based on the portion of the requisite service period that

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

has elapsed through the end of the reporting period. For both the three and nine months ended September 30, 2006, the Company recognized approximately $0.2 million of estimated compensation cost for these programs.

Key Employee Share-Based Compensation Program

In addition to the executive compensation programs, the Executive Compensation Committee has historically awarded nonvested shares of common stock to certain key employees on an annual basis as part of their long-term incentive compensation. The Company recognizes compensation cost for these awards over the service vesting periods, which represent the requisite service periods, using the straight-line attribution expense method. The individual share awards vest in equal annual installments over the respective service vesting periods, which historically ranged from two to five years.

In February 2006, the Executive Compensation Committee granted an aggregate of 32,429 nonvested shares of common stock to certain key employees for the 2005 performance period. The total compensation cost for the nonvested stock grants was calculated based on the quoted closing share price of the Company s common stock on the NYSE of $70.16 on the grant date of February 16, 2006. These shares vest in equal annual installments over a five-year period.

Non-employee Board Members Share-Based Compensation Program

Historically, the Company s Executive Compensation Committee has awarded nonvested shares of common stock to non-employee board members on an annual basis as part of the board members annual compensation in accordance with the Company s Board of Directors compensation plan, as approved by the Board of Directors in May 2003. The Company recognizes compensation cost for these fixed awards over the service vesting period, which represents the requisite service periods, using the straight-line attribution expense method. The share awards vest in equal annual installments over the two-year service vesting period.

In May 2006, the Executive Compensation Committee granted an aggregate of 1,734 nonvested shares of common stock to non-employee board members. The total compensation cost for the nonvested stock grants was calculated based on the quoted closing share price of the Company s common stock on the NYSE of $69.24 on the grant date of May 15, 2006. These shares vest in equal annual installments over a two-year period.

A summary of the Company s nonvested shares as of January 1, 2006 and changes during the nine months ended September 30, 2006, is presented below. All nonvested shares are subject only to service vesting conditions:

Nonvested Shares	Shares	Weighted-Average Grant-Date Fair Value
Nonvested at January 1, 2006	155,309	$ 39.18
Granted	87,067	$ 67.69
Vested	(95,424)	$ 38.54
Forfeited		
Nonvested at September 30, 2006	146,952	$ 56.49

As of September 30, 2006, there was $4.1 million of total unrecognized compensation cost related to nonvested shares granted under share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 1.9 years. The $4.1 million of unrecognized compensation cost does not reflect the potential future compensation cost related to the share-based incentive compensation programs

KILROY REALTY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

approved in 2006 for the Executive Officers since the awards under these programs will not be granted until 2007. The compensation cost that will be recorded in future periods related to these programs will be based on the Company s ultimate achievement of the pre-established target levels for specific corporate performance measures at the end of the fiscal year ending December 31, 2006 outlined in each of the programs. During the nine months ended September 30, 2006 and 2005, 87,067 nonvested shares were granted at a weighted-average grant-date fair value of $67.69 per share and 103,806 nonvested shares were granted at a weighted-average grant-date fair value of $41.43 per share, respectively. The total fair value of shares vested during the nine months ended September 30, 2006 and 2005 was $6.7 million and $4.7 million, respectively, which was calculated based on the quoted closing share price of the Company s common stock on the NYSE on the day of vesting.

During the nine months ended September 30, 2006, the Company accepted the return, at the then applicable current per share quoted market price on the NYSE, of 40,875 shares of its common stock in accordance with the provisions of its incentive stock plan to satisfy minimum statutory tax-withholding requirements related to shares that vested during the period.

Stock Options

The Company has not issued stock options since 2002, and all stock options were fully vested as of December 31, 2005. At September 30, 2006, an aggregate of 47,000 options were exercisable for shares of the Company s common stock at a weighted average exercise price of $24.33. The outstanding options had a weighted average remaining contractual life of 2.6 years. The stock options vested at 33 $^{1}/3$% per year over three years beginning on the first anniversary date of the grant and are exercisable at the market value on the date of the grant. The term of each option is ten years from the date of the grant. The Company has a policy of issuing new shares to satisfy share option exercises.

The Company s stock option activity for the nine months ended September 30, 2006 is summarized as follows:

	Number of Options	Weighted Average Exercise Price
Outstanding at January 1, 2006	78,000	$ 24.41
Granted		
Exercised(1)	(31,000)	24.52
Cancelled		
Outstanding at September 30, 2006	47,000	$ 24.33

(1) Represents a cash exercise in which the Company received $0.8 million in exchange for shares of its common stock.

The total intrinsic value of the 31,000 options exercised during the nine months ended September 30, 2006 was $1.3 million. During the nine months ended September 30, 2005, 41,231 options were exercised with a total intrinsic value of $1.0 million.

Special Long-term Incentive Compensation Plan

In March 2003, the Company s Executive Compensation Committee approved a special long-term compensation program for the Company s Executive Officers. The program provided for cash compensation to be earned at December 31, 2005 if the Company attained certain performance measures based on annualized total stockholder returns on an absolute and relative basis over an approximate three-year measurement period. In January 2006, the Executive Compensation Committee approved the payment of a cash award of $71.7 million,

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

representing the amount earned by the Company s Executive Officers under the plan for the approximate three-year period ended December 31, 2005. The award was paid to the Company s Executive Officers in January 2006 and was funded with borrowings under the Company s Credit Facility. During the three and nine months ended September 30, 2005, compensation expense related to the special compensation program was approximately $13.9 million and $28.1 million, respectively, which was included in general and administrative expenses.

7. Commitments and Contingencies

Purchase Commitment In 2005, the Company entered into a contract to purchase a 24-acre undeveloped land parcel in Carlsbad, California for approximately $15.8 million and paid $500,000 of non-refundable deposits. The Company expects to complete the purchase during the first quarter of 2007.

Other Contingencies In October 2005, one of the Company s industrial properties sustained damage due to a fire sprinkler rupture. As a result of the damage, the Company recorded a casualty loss of approximately $0.4 million during the fourth quarter of 2005 to write off the carrying value of the damaged components. At December 31, 2005, the Company had received approximately $0.2 million of reimbursements from the Company s insurance carrier and accrued an additional $0.2 million receivable from the insurance carrier since the Company expects to be fully reimbursed for this loss. The Company anticipates the total insurance proceeds will exceed the carrying value of the damaged components; therefore, the Company expects it could record a gain when the cash is received from the insurance carrier in accordance with Financial Accounting Standards Board Interpretation No. 30, *Accounting for Involuntary Conversions of Nonmonetary Assets to Monetary Assets* (FIN 30). As of September 30, 2006, the Company had not yet received any additional insurance proceeds.

8. Other Property Income

In 2003, one of the Company s tenants, Brobeck, Phleger & Harrison LLP (Brobeck), defaulted on its lease, and the Company exercised its right to terminate the lease as a result of such default. Following the lease termination, certain creditors of Brobeck filed an involuntary bankruptcy petition against Brobeck, and the bankruptcy court entered an order for relief under Chapter 7 of the Bankruptcy Code. The Company filed a proof of claim against Brobeck s bankruptcy estate for its lease termination/rejection damages, and in February 2006, the Company received a distribution of approximately $0.8 million in connection with the claim. As a result of the payment received, the Company recorded a $0.7 million net lease termination fee, which was reported in other property income.

In May 2006, the Company recognized $9.8 million of other property income resulting from the early termination of a lease at an industrial property in Irvine, California, which encompassed approximately 244,800 rentable square feet. Of the $9.8 million recognized, $7.5 million represented the net lease termination fee, which was comprised of $9.0 million received in cash offset by a write-off of a $1.5 million deferred receivable balance associated with the lease. The remaining $2.3 million represented a non-cash gain on the lease termination related to the tenant s obligation to replace the property s roof, in accordance with the original lease and the lease termination agreement. The Company recorded the $2.3 million cost of the roof paid by the tenant as a capital asset and recognized the associated gain in other property income. In September 2006, the Company sold this property and therefore reclassified all income associated with the property to discontinued operations for all periods presented (see Notes 2 and 10).

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. Segment Disclosure

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	**2005**	**2006**	**2005**
	(in thousands)			
Office Properties:				
Operating revenues[1]	$ 54,849	$ 51,248	$ 163,137	$ 153,212
Property and related expenses	15,339	13,424	44,797	41,178
Net operating income, as defined	39,510	37,824	118,340	112,034
Industrial Properties:				
Operating revenues[1]	8,203	8,047	25,318	24,131
Property and related expenses	1,434	1,109	4,017	3,513
Net operating income, as defined	6,769	6,938	21,301	20,618
Total Reportable Segments:				
Operating revenues[1]	63,052	59,295	188,455	177,343
Property and related expenses	16,773	14,533	48,814	44,691
Net operating income, as defined	46,279	44,762	139,641	132,652
Reconciliation to Consolidated Net Income Available for Common Stockholders:				
Total net operating income, as defined, for reportable segments	46,279	44,762	139,641	132,652
Unallocated other income:				
Total other income	334	521	1,008	956
Other unallocated expenses:				

General and administrative expenses	5,673	18,400	15,322	41,214
Interest expense	10,312	9,570	33,491	28,535
Depreciation and amortization	17,908	16,040	53,263	49,035
Income from continuing operations before minority interests	12,720	1,273	38,573	14,824
Minority interests attributable to continuing operations	(1,998)	(1,101)	(6,362)	(4,588)
Income from discontinued operations	23,254	16,301	38,068	22,828
Net income	33,976	16,473	70,279	33,064
Preferred dividends				