KILROY REALTY CORP
Form DEF 14A
April 11, 2007

United States Securities and Exchange Commission

Washington, DC 20549

SCHEDULE 14A INFORMATION

PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE

SECURITIES EXCHANGE ACT OF 1934

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary proxy statement

¨ **Confidential, for use of the commission only (as permitted by Rule 14a-6(e)(2))**

x Definitive proxy statement

¨ Definitive additional materials

¨ Soliciting Material Pursuant to §240.14a-12

KILROY REALTY CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

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(1) Title of each class of securities to which transaction applies:

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(1) Amount Previously Paid:

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(3) Filing Party:

(4) Date Filed:

KILROY REALTY CORPORATION

12200 W. OLYMPIC BOULEVARD, SUITE 200

LOS ANGELES, CALIFORNIA 90064

April 10, 2007

Dear Stockholder:

You are cordially invited to attend the 2007 annual meeting of stockholders of KILROY REALTY CORPORATION to be held on May 17, 2007, at 9:00 a.m. (local time) at our corporate offices located at 12200 West Olympic Boulevard, Suite 200, Los Angeles, California 90064.

Information about the meeting and the various matters on which the stockholders will act is included in the Notice of Annual Meeting of Stockholders and Proxy Statement that follow. Also included is a Proxy Card and postage-paid return envelope.

It is important that your shares be represented at the meeting. Whether or not you plan to attend, we hope that you will complete and return your Proxy Card in the enclosed envelope as promptly as possible.

Sincerely,

Richard E. Moran Jr.

Executive Vice President,

Chief Financial Officer and Secretary

KILROY REALTY CORPORATION

12200 W. OLYMPIC BOULEVARD, SUITE 200

LOS ANGELES, CALIFORNIA 90064

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD MAY 17, 2007

To the Stockholders of Kilroy Realty Corporation:

NOTICE IS HEREBY GIVEN that the annual meeting of stockholders (the Annual Meeting) of Kilroy Realty Corporation, a Maryland corporation (the Company), will be held at the Company s principal executive offices located at 12200 West Olympic Boulevard, Suite 200, Los Angeles, California 90064 on May 17, 2007, at 9:00 a.m. (local time), for the following purposes:

1. To elect one director to the Company s Board of Directors (the Board) to serve until the annual meeting of stockholders in the year 2010 and until his successor is duly elected and qualifies; and

2. To transact such other business as may properly come before the meeting or any adjournment(s) or postponement(s) thereof.

The Company s Board has fixed the close of business on March 12, 2007 as the record date for determining the stockholders entitled to receive notice of and to vote at the Annual Meeting or any adjournment(s) or postponement(s) thereof.

The enclosed proxy card is solicited by the Board of the Company, which recommends that stockholders vote FOR the election of the Board s nominee named therein. Please refer to the attached Proxy Statement, which forms a part of this Notice and is incorporated herein by reference, for further information with respect to the business to be transacted at the Annual Meeting.

STOCKHOLDERS ARE CORDIALLY INVITED TO ATTEND THE ANNUAL MEETING IN PERSON. YOUR VOTE IS IMPORTANT. ACCORDINGLY, YOU ARE URGED TO COMPLETE, SIGN, DATE AND RETURN THE ACCOMPANYING PROXY CARD WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING.

By Order of the Board of Directors,

Richard E. Moran Jr.

Executive Vice President,

Chief Financial Officer and Secretary

April 10, 2007

Los Angeles, California

KILROY REALTY CORPORATION

12200 W. OLYMPIC BOULEVARD, SUITE 200

LOS ANGELES, CALIFORNIA 90064

ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD MAY 17, 2007

PROXY STATEMENT

INTRODUCTION

General

This Proxy Statement is furnished in connection with the solicitation by the Board of Directors (the Board) of Kilroy Realty Corporation, a Maryland corporation (the Company), of proxies from the holders of the Company s issued and outstanding shares of common stock, par value $.01 per share (the Common Stock), to be exercised at the Annual Meeting of Stockholders (the Annual Meeting) to be held on May 17, 2007 at the Company s principal executive offices located at 12200 West Olympic Boulevard, Suite 200, Los Angeles, California 90064 at 9:00 a.m. (local time), including any adjournment(s) or postponement(s), for the purposes set forth in the accompanying Notice of Annual Meeting of Stockholders.

At the Annual Meeting, the stockholders of the Company will be asked to consider and vote upon the following proposals (the Proposals):

1. To elect one director to the Company s Board to serve until the annual meeting of stockholders in the year 2010 and until his successor is duly elected and qualifies; and

2. To transact such other business as may properly come before the Annual Meeting or any adjournment(s) or postponement(s) thereof.

Only the holders of record of the shares of Common Stock at the close of business on March 12, 2007 (the Record Date) are entitled to notice of and to vote at the Annual Meeting. Each share of Common Stock is entitled to one vote on each matter voted on at the meeting. As of the Record Date, 32,698,554 shares of Common Stock were outstanding. This Proxy Statement and enclosed form of proxy are first being mailed to the stockholders of the Company on or about April 16, 2007.

A majority of the shares of Common Stock outstanding must be represented at the Annual Meeting in person or by proxy to constitute a quorum for the transaction of business at the Annual Meeting. Shares represented by proxies that reflect abstentions or broker non-votes will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum. In order to be elected as a director, a nominee must receive a plurality of all the votes cast at the Annual Meeting at which a quorum is present. For purposes of calculating votes cast in the election of the director, abstentions or broker non-votes will not be counted as votes cast and will have no effect on the result of the vote on the Proposal regarding the election of the director.

The shares of Common Stock represented by all properly executed proxies returned to the Company will be voted at the Annual Meeting as indicated or, if no instruction is given, will be voted FOR the election of the director nominee named in this Proxy Statement. As to any other business that may properly come before the Annual Meeting, all properly executed proxies will be voted by the persons named in the proxy card, at their discretion. The Company does not presently know of any other business that may come before the Annual

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Meeting. Any person giving a proxy has the right to revoke it at any time before it is exercised (i) by filing with the Secretary of the Company a duly signed revocation or a proxy bearing a later date or (ii) by electing to vote in person at the Annual Meeting. Mere attendance at the Annual Meeting will not revoke a proxy.

NO PERSON IS AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS ON BEHALF OF THE COMPANY WITH RESPECT TO THE PROPOSALS OTHER THAN THOSE CONTAINED IN THIS PROXY STATEMENT, AND, IF GIVEN OR MADE, SUCH INFORMATION MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED AND THE DELIVERY OF THIS PROXY STATEMENT SHALL, UNDER NO CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATE HEREOF.

The Company s principal executive offices are located at 12200 W. Olympic Boulevard, Suite 200, Los Angeles, California 90064, telephone (310) 481-8400, and the Company s website is www.kilroyrealty.com. References herein to the Company refer to Kilroy Realty Corporation and its subsidiaries, unless the context otherwise requires.

The date of this Proxy Statement is April 10, 2007.

PROPOSAL 1: ELECTION OF DIRECTOR

Pursuant to the Company s articles of incorporation, as amended and supplemented (the Charter), the Company s bylaws, as amended (the Bylaws), and resolutions adopted by the Company s Board, the Board presently consists of seven directors and is divided into three classes serving staggered three-year terms. Pursuant to the Charter, at each annual meeting the successors to the class of directors whose terms expire at such meeting shall be elected to hold office for a term expiring at the annual meeting of stockholders held in the third year following the year of their election. The terms of two of the directors, Messrs. D Eathe and Dickey, will expire at the Annual Meeting. As previously disclosed in our public filings, Mr. D Eathe advised the Company that he has decided to retire from the Board upon completion of his existing term. Accordingly, if elected at the Annual Meeting, Mr. Dickey will hold office for a term of three years until the annual meeting of stockholders to be held in the year 2010, and until his successor is duly elected and qualifies. One Board seat will remain vacant while the Nominating/Corporate Governance Committee is conducting a search to identify a qualified director candidate.

Except as otherwise instructed, proxies solicited by this Proxy Statement will be voted for the election of the nominee to the Board listed below. The nominee has consented to be named in this Proxy Statement and to serve as a director if elected. The information below relating to the nominee for election as director and to each of the other directors whose terms of office continue after the Annual Meeting has been furnished to the Company by the respective individuals.

The Board recommends a vote FOR the election of William P. Dickey, to serve until the annual meeting of stockholders to be held in the year 2010 and until his successor is duly elected and qualifies.

Nominees for Director

The following table sets forth certain current information with respect to the nominee for director to the Board of the Company:

Name	Age	Director Since	Position With The Company
William P. Dickey	64	1997	Director

The following is a biographical summary of the experience of the nominee for director to the Board of the Company:

William P. Dickey has been a member of the Company s Board since the completion of its initial public offering in January 1997. Mr. Dickey has served as the President of The Dermot Company, Inc., a real estate investment and management company since 1990. From 1986 to 1990, Mr. Dickey was a Managing Director of Real Estate for the First Boston Corporation. Prior to 1986, Mr. Dickey was a partner at the New York law firm of Cravath, Swaine & Moore, where he started as an associate beginning in 1974. Mr. Dickey is on the board of directors of Vera Institute of Justice, a non-profit organization. Mr. Dickey received his undergraduate degree from the United States Air Force Academy, his Masters Degree from Georgetown University and his Juris Doctor Degree from Columbia Law School.

Vote Required

The election of the director requires the plurality of the votes cast by the holders of the shares of Common Stock entitled to vote, either present in person or by proxy at the Annual Meeting.

The Board recommends a vote FOR the election of William P. Dickey, to serve until the annual meeting of stockholders to be held in the year 2010 and until his successor is duly elected and qualifies.

Directors Continuing in Office

Information concerning the other directors of the Company whose terms do not expire at the Annual Meeting is set forth below.

Name	Age	Position With The Company	Term Expiration
John B. Kilroy, Sr.	84	Chairman of the Board	2008
John B. Kilroy, Jr.	58	President, Chief Executive Officer and Director	2009
Edward F. Brennan, Ph.D.	55	Director	2008
Dale F. Kinsella	58	Director	2009
Matthew J. Hart	54	Director	2008

John B. Kilroy, Sr. has served as the Company s Chairman of the Board since its incorporation in September 1996. In 1947, Mr. Kilroy founded the businesses that were incorporated in 1952 as the entity known as Kilroy Industries (KI). Mr. Kilroy served as KI s President from 1952 until 1981 and from 1997 through the present, and has served as the Chairman of its Board of Directors since 1954. Mr. Kilroy is a nationally recognized member of the real estate community, providing the Company with strategic leadership and a broad based network of relationships. Mr. Kilroy is the father of John B. Kilroy, Jr., the Company s President and Chief Executive Officer.

John B. Kilroy, Jr. has served as the Company s President, Chief Executive Officer and Director since its incorporation in September 1996. Prior to joining the Company, Mr. Kilroy served in the same capacity for KI, the predecessor to the Company, and was responsible for the overall management of all facets of KI and its various affiliates since 1981. Mr. Kilroy has been involved in all aspects of commercial and industrial real estate development, construction, acquisition, sales, leasing, financing, and entitlement since 1967 and worked for KI for over 30 years. Mr. Kilroy became President of KI in 1981 and was elected Chief Executive Officer in 1991. Prior to that time, he held positions as Executive Vice President and Vice President Leasing & Marketing. He is a trustee of the El Segundo Employers Association, and a past trustee of Viewpoint School, the Jefferson Center For Character Education and the National Fitness Foundation. Mr. Kilroy is also Chairman of the Board of The New Majority Los Angeles chapter. Mr. Kilroy attended the University of Southern California. Mr. Kilroy is the son of John B. Kilroy, Sr., the Chairman of the Company s Board.

Edward F. Brennan, Ph.D. has been a member of the Company s Board since July 2003. Dr. Brennan is currently President and Chief Executive Officer of CryoCor and has served in that capacity since April 2006. Dr. Brennan is also a member of the board of directors of CryoCor. Dr. Brennan has been a member of the board of directors of HemoSense since 2000 and has served as its Chairman of the board since January 2004. Dr. Brennan was also a managing partner of Perennial Investments, a Seattle-based venture capital firm from 2001 through 2002. Prior to that time, he served as Vice President at Tredegar Investments. He also served on the board of directors of Molecumetrics, Inc., wholly-owned by Tredegar Corp. Dr. Brennan has participated in the development, management and financing of new medical technology ventures for 27 years, including scientific and executive positions with Syntex, Inc., UroSystems, Inc., Medtronic Inc., DepoMed Systems, Inc. and CadioGenesis Corp. Dr. Brennan also serves on the board of several private companies and previously served on the board of the American Heart Association, Santa Clara chapter. Dr. Brennan holds a B.A. degree in chemistry and biology and a Ph.D. in biology from the University of California, Santa Cruz.

Dale F. Kinsella has been a member of the Company s Board since the completion of its initial public offering in January 1997. Mr. Kinsella is currently a partner with the law firm of Kinsella, Weitzman, Iser, Kump & Aldisert, LLP. Previously, he was a partner with the Los Angeles law firm of Greenberg, Glusker, Fields, Claman, Machtinger & Kinsella, LLP. Prior to that, he had been a partner with the law firm of Kinsella, Boesch, Fujikawa & Towle. Mr. Kinsella received his undergraduate degree from the University of California at Santa Barbara and his Juris Doctor degree from the University of California at Los Angeles.

Matthew J. Hart has been a member of the Company s Board since the completion of its initial public offering in January 1997. Mr. Hart is President and Chief Operating Officer of Hilton Hotels Corporation. He has responsibility for all operational aspects of the company, including owned and managed hotel operations, franchising, and brand development. Mr. Hart had been Executive Vice President and Chief Financial Officer since joining Hilton in May 1996. Prior to joining Hilton, Mr. Hart was Senior Vice President and Treasurer for the Walt Disney Company. Before joining Disney, Mr. Hart served as Executive Vice President and Chief Financial Officer for the Host Marriott Corporation. He held various financial positions at Marriott Corporation (prior to the formation of Host Marriott), which he joined in 1981. Mr. Hart was a lending officer with Bankers Trust Company in New York from 1976 until 1981. Mr. Hart is on the board of directors of Hilton Hotels Corporation, US Airways Inc., and Heal the Bay, a non-profit organization. He graduated cum laude from Vanderbilt University in 1974 and received his MBA from Columbia University in 1976.

Board of Directors Meetings and Attendance at Board Meetings and Annual Meetings of Stockholders

During the year ended December 31, 2006, the Board held eight meetings. All directors attended 75% or more of the total number of meetings of the Board and meetings of the Board committees on which each director served held during the year. Directors are encouraged to attend in person the annual meeting of stockholders of the Company. All seven directors attended the 2006 annual meeting.

Independent Directors

Each of Messrs. D Eathe, Dickey, Hart and Kinsella and Dr. Brennan are considered by the Board to be Independent Directors. An Independent Director is a director who (i) is not an employee, officer or affiliate of the Company or any of its subsidiaries or divisions, or a relative of a principal executive officer, and who is not an individual member of an organization acting as an advisor, consultant or legal counsel receiving compensation from the Company in addition to director s fees and (ii) satisfies the independence standards set forth in the current listing standards of the New York Stock Exchange (NYSE). In addition, in accordance with the Company s corporate governance guidelines, no Independent Director may be a director, officer or affiliate of another entity with which the Company has entered into a transaction or transactions during the preceding fiscal year valued in the aggregate at greater than $100,000.

Non-Management Directors

Each of Messrs. Kilroy, Sr., D Eathe, Dickey, Hart and Kinsella and Dr. Brennan, are considered by the Board to be Non-Management Directors. Non-Management Directors are all those directors who are not company officers (as that term is defined in Rule 16a-1(f) under the Securities Act of 1933), and includes Mr. Kilroy, Sr. who is not independent because he is the father of John B. Kilroy, Jr., our President and Chief Executive Officer. Meetings of the Non-Management Directors are generally held on the date of each regularly scheduled Board meeting and on an as-needed basis. Mr. Kinsella presides over these meetings.

Board Committees

The Board of the Company has a standing Audit Committee, Executive Compensation Committee, Nominating/Corporate Governance Committee, Independent Committee and Executive Committee.

Audit Committee. The Audit Committee consists of three Independent Directors: Mr. Hart, who serves as its Chairman, and Messrs. D Eathe and Dickey. These directors satisfy the enhanced independence standards applicable to audit committees pursuant to Rule 10A-3(b)(i) under the Securities Exchange Act of 1934, as amended (the Exchange Act) and the NYSE listing standards. Each of Messrs. Hart, D Eathe and Dickey is financially literate and is an audit committee financial expert as determined by the Board in accordance with rules promulgated by the Securities and Exchange Commission. As previously disclosed in our public filings, Mr. D Eathe will retire from the Board upon completion of his existing term, which expires on May 17, 2007, the date of the Annual Meeting. Following the Annual Meeting, Dr. Brennan will serve as a member of the Audit Committee. Dr. Brennan satisfies the enhanced independence standards applicable to audit committees pursuant to Rule 10A-3(b)(i) under the Exchange Act and the NYSE listing standards and is financially literate as determined by the Board in accordance with rules promulgated by the Securities and Exchange Commission. The Audit Committee s purpose is to assist the Board in fulfilling its oversight responsibilities regarding the Company s accounting and system of internal controls, the quality and integrity of the Company s financial reports and the independence and performance of the Company s independent public accountants. The Audit Committee is governed by a written charter adopted by the Board, a copy of which is attached as Appendix A to this Proxy Statement. The charter is also available on the Company s website at http://www.kilroyrealty.com and available in print to any security holder upon request. The Audit Committee held six meetings during 2006. Information regarding the specific functions performed by the Audit Committee is set forth in the Report of the Audit Committee below.

Executive Compensation Committee. The Executive Compensation Committee currently consists of the Company s five Independent Directors. During 2006, the Executive Compensation Committee consisted of three Independent Directors: Dr. Brennan, who served at its Chairman, and Messrs. D Eathe and Kinsella. The function of the Executive Compensation Committee is to (i) establish, review, modify and adopt remuneration levels for executive officers of the Company, and (ii) implement the Company s 2006 Incentive Award Plan (the 2006 Plan) and any other incentive programs. The Executive Compensation Committee is governed by a written charter adopted by the Board, which is available on the Company s website at http://www.kilroyrealty.com and available in print to any security holder upon request. The Executive Compensation Committee held eleven meetings during 2006.

Nominating/Corporate Governance Committee. The Nominating/Corporate Governance Committee consists of the Company s five Independent Directors. Mr. Dickey serves as its Chairman. The purpose of the Nominating/Corporate Governance Committee is to (i) identify individuals qualified to become Board members, (ii) recommend director nominees for the annual meeting of stockholders and fill board vacancies, (iii) oversee the Board s annual self-assessment procedures and the self-assessment procedures for the committees of the Board; and (iv) provide ongoing guidance and oversight with respect to corporate governance matters. The charter of the Nominating/Corporate Governance Committee, the Company s Corporate Governance Guidelines and the Company s Code of Business Conduct and Ethics, each of which was adopted by the Board, are available on the Company s website at http://www.kilroyrealty.com and are available in print to any security holder upon request. The Nominating/Corporate Governance Committee held two meetings during 2006.

Independent Committee. The Independent Committee consists of the Company s five Independent Directors. Mr. Kinsella serves as its Chairman. The Independent Committee has the authority to approve transactions between the Company and its affiliates, including its officers and directors, and any of their respective affiliates. The Independent Committee did not hold any meetings during 2006.

Executive Committee. The Executive Committee consists of Mr. Kilroy, Jr., who serves as its Chairman, and Messrs. Kilroy, Sr. and Kinsella. Subject to the Company s conflict of interest policies, the Executive Committee has authority to acquire and dispose of real property and the power to authorize, on behalf of the full Board, the execution of certain contracts and agreements, including those related to the borrowing of money by the Company (and, consistent with the Agreement of Limited Partnership as amended from time to time of Kilroy Realty, L.P. (the Operating Partnership), to cause the Operating Partnership to take such actions). The Executive Committee did not hold any meetings during 2006.

Report of the Audit Committee

The Audit Committee of the Company s Board is composed of Independent Directors who satisfy the requirements of Section 10A-3(m) of the Exchange Act and Rule 10A-3(b)(i), and the current listing standards of the New York Stock Exchange. The Audit Committee operates pursuant to a written charter adopted by the Board on March 8, 2004.

The Audit Committee oversees the Company s financial reporting process on behalf of the Board. In fulfilling its oversight responsibilities, the Audit Committee approves the selection of the Company s independent auditors and reviews and discusses the audited financial statements included in the Company s Annual Report on Form 10-K with management, including the reasonableness of significant judgments and the clarity of disclosures in the financial statements. Management has the primary responsibility for the financial statements and the reporting process, including the Company s internal control over financial reporting.

The Company s independent auditors are responsible for performing an audit of the Company s financial statements and expressing an opinion on the conformity of those audited financial statements with generally accepted accounting principles. The Audit Committee reviewed and discussed the audited financial statements of the Company as of and for the year ended December 31, 2006 with management and the Company s independent auditors. The Audit Committee discussed with the Company s independent auditors their judgments as to the Company s accounting principles and such other matters as are required to be discussed with the Audit Committee under generally accepted auditing standards Statement of Auditing Standard Number 61, Communications with Audit Committees, as currently in effect. In addition, the Audit Committee received the written disclosures and the letter from the independent auditors required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), as currently in effect, and it discussed with the Company s independent auditors their independence from the Company. The Audit Committee also considered the compatibility of the independent auditors provision of non-audit services with the auditors independence.

The Audit Committee discussed with the Company s independent auditors the overall scope of their respective audits. The Audit Committee meets with the independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company s internal control over financial reporting, and the overall quality of the Company s financial reporting. In the performance of their oversight function, the members of the Audit Committee relied upon the information, opinions, reports and statements presented to them by the Company s management and by the Company s independent auditors. The Audit Committee held six meetings during fiscal year 2006.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board (and the Board approved) that the audited financial statements as of and for the year ended December 31, 2006 be included in the Company s Annual Report on Form 10-K for the year ended December 31, 2006, filed with the Securities and Exchange Commission on February 28, 2007.

Audit Committee

Matthew J. Hart, Chairman

John R. D Eathe

William P. Dickey

Qualifications of Director Nominees

The Nominating/Corporate Governance Committee has established *Standards for Overall Structure and Composition of the Board and Minimum Director Qualifications* as a guideline in considering nominations to the Company s Board. The criteria include: loyalty, reputation, character, knowledge, experience, education, business judgment, diligence, stock ownership, independence and ability to contribute to Board balance and diversity. The criteria are not exhaustive and the Nominating/Corporate Governance Committee and the Board may consider other qualifications and attributes, which they believe are appropriate in evaluating the ability of an individual to serve as a member of the Board.

Nominating/Corporate Governance Committee s Process for Identifying and Evaluating Nominees for Director

Prior to each annual meeting of security holders at which directors are to be elected, and whenever there is otherwise a vacancy on the Board, the Nominating/Corporate Governance Committee will consider incumbent Board members and other well-qualified individuals as potential director nominees. The Nominating/Corporate Governance Committee will review each potential candidate s qualifications in light of the Company s *Standards for Overall Structure and Composition of the Board and Minimum Director Qualifications*, described above. The Nominating/Corporate Governance Committee will select the candidate or candidates it believes are the most qualified to recommend to the Board for selection as a director nominee. Candidates recommended by a security holder are evaluated in the same manner as candidates identified by a Nominating/Corporate Governance Committee member.

Manner by which Security Holders May Recommend Director Candidates

The Nominating/Corporate Governance Committee will consider director candidates recommended by security holders of the Company. All recommendations must be directed to the Nominating/Corporate Governance Committee c/o Secretary at 12200 W. Olympic Boulevard, Suite 200, Los Angeles, California 90064. Recommendations for director nominees to be considered at the 2008 annual meeting of stockholders must be received in writing not later than December 14, 2007. Each security holder recommending a person as a director candidate must provide the Company with the following information for the Committee to determine whether the recommended director candidate is independent from the security holder, or each member of the security holder group, that has recommended the director candidate:

If the recommending security holder or any member of the recommending security holder group is a natural person, whether the recommended director candidate is the recommending security holder, a member of the recommending security holder group, or a member of the immediate family of the recommending security holder or any member of the recommending security holder group;

If the recommending security holder or any member of the recommending security holder group is an entity, whether the recommended director candidate or any immediate family member of the recommended director candidate is an employee of the recommending security holder or any member of the recommending security holder group or has been at any time during the current or preceding calendar year;

Whether the recommended director candidate or any immediate family member of the recommended director candidate has accepted directly or indirectly any consulting, advisory, or other compensatory fees from the recommending security holder or any member of the group of recommending security holders, or any of their respective affiliates during the current or preceding calendar year;

Whether the recommended director candidate is an executive officer, director (or person fulfilling similar functions) of the recommending security holder or any member of the recommending security holder group, or any of their respective affiliates; and

Whether the recommended director candidate controls the recommending security holder or any member of the recommending security holder group.

The recommending security holder must also provide supplemental information that the Nominating/Corporate Governance Committee may request to determine whether the recommended director candidate (i) is qualified to serve on the Audit Committee, (ii) meets the standards of independence established by the NYSE, and (iii) satisfies the *Standards for Overall Structure and Composition of the Board and Minimum Director Qualifications*, described above. In addition, the recommending security holder must include the consent of the recommended director candidate and the recommended director candidate must make himself or herself reasonably available to be interviewed by the Nominating/Corporate Governance Committee. The Nominating/Corporate Governance Committee will consider all recommended director candidates submitted to it in accordance with these established procedures, though it will only recommend to the Board as potential nominees those candidates it believes are most qualified. However, the Nominating/Corporate Governance Committee will not consider any director candidate if the candidate s candidacy or, if elected, Board membership, would violate controlling state law or federal law.

Security Holder Communications with the Board

Security holders may send correspondence to the Board c/o Secretary at 12200 W. Olympic Boulevard, Suite 200, Los Angeles, California 90064. The Secretary will review all correspondence addressed to the Board, or any individual Board member, for any inappropriate correspondence and correspondence more suitably directed to management. The Secretary will summarize all correspondence not forwarded to the Board and make the correspondence available to the Board for its review at the Board s request. The Secretary will forward security holder communications to the Board prior to the next regularly scheduled meeting of the Board following the receipt of the communication as appropriate.

Interested Party Communications with the Non-Management Directors

Any interested party may send correspondence to the Non-Management Directors as a group, or to Mr. Kinsella directly, c/o Secretary at 12200 W. Olympic Boulevard, Suite 200, Los Angeles, California 90064. The Secretary will review all correspondence addressed to the Non-Management Directors, or to Mr. Kinsella individually, for any inappropriate correspondence and correspondence more suitably directed to management. The Secretary will summarize all correspondence not forwarded to the Non-Management Directors and make the correspondence available to the Non-Management Directors for their review at the Non-Management Directors request. The Secretary will forward interested party communications to the Non-Management Directors promptly following the receipt of the communication as appropriate.

Code of Business Conduct and Ethics

The Company s Board of Directors has adopted a Code of Business Conduct and Ethics that applies to the Company s directors, officers (including the Chief Executive Officer, Chief Financial Officer, Controller and other members of senior financial management), employees, agents and consultants. This Code of Business Conduct and Ethics satisfies the requirements of a code of business conduct and ethics under the NYSE listing standards and a code of ethics within the meaning of Section 406 of the Sarbanes-Oxley Act of 2002 and applicable Securities and Exchange Commission rules. This Code of Business Conduct and Ethics is available on the Company s website at http://www.kilroyrealty.com and a copy will be provided to any person without charge, upon request sent to the Company s principal executive offices c/o Secretary at 12200 West Olympic Boulevard, Suite 200, Los Angeles, California 90064. Amendments to, or waivers from, a provision of this Code of Business Conduct and Ethics that apply to the Company s directors or executive officers, including the Chief Executive Officer, Chief Financial Officer, Controller and other members of senior financial management, may be made only by the Board or a Board committee and will be promptly posted on the Company s website.

CERTAIN INFORMATION WITH RESPECT TO NAMED EXECUTIVE OFFICERS

The following sets forth certain current information with respect to the Company s named executive officers (the NEOs) as defined on page 11:

Name	Age	Position
John B. Kilroy, Jr.	58	President, Chief Executive Officer and Director
Jeffrey C. Hawken	48	Executive Vice President and Chief Operating Officer
Richard E. Moran Jr.	55	Executive Vice President, Chief Financial Officer and Secretary
Steven R. Scott	50	Senior Vice President, San Diego
Tyler H. Rose	46	Senior Vice President and Treasurer

John B. Kilroy, Jr. has served as the President and Chief Executive Officer of the Company since its incorporation in September 1996. Biographical information regarding Mr. Kilroy, Jr. is set forth under Proposal 1: Election of Director Directors Continuing in Office.

Jeffrey C. Hawken has served as Executive Vice President and Chief Operating Officer of the Company since the completion of its initial public offering in January 1997. Prior to that time, Mr. Hawken served in the same capacity for KI and was responsible for the management and operations of KI s real estate portfolio and served on KI s acquisitions and executive committees. Mr. Hawken joined KI in 1980, as a Senior Financial Analyst, and has been involved in property and asset management with the Company since May 1983. Since that time, he attained the designation of Real Property Administrator through the Building Owner s and Manager s Association (BOMA). Mr. Hawken is a director for BOMA, Greater Los Angeles and also participates on the executive committee, the Owners Advisory Council and Political Action Committee. Mr. Hawken is an active member of the Young President s Organization, Santa Monica Bay Chapter and participates on the executive committee and is currently the Member Forum Chair. He is also a member of the Board of The New Majority Los Angeles chapter and currently serves as membership chairman. Mr. Hawken holds a Bachelor of Science degree in Business Administration from the University of Southern California. Mr. Hawken is a licensed Real Estate Broker in the State of California.

Richard E. Moran Jr. has served as the Company s Executive Vice President, Chief Financial Officer and Secretary since December 1996. Prior to that time, Mr. Moran was Executive Vice President, Chief Financial Officer and Secretary of Irvine Apartment Communities, Inc. from 1993 to 1996. Prior to that, Mr. Moran was Executive Vice President, Corporate Finance and Treasurer of The Irvine Company, where he was employed from 1977 to 1993. Previously, he was a certified public accountant and was employed by the public accounting firm of Coopers & Lybrand. He is a member of the Urban Land Institute and serves on the Policy Advisory Board for the Center for Real Estate and Urban Economics at the University of California, Berkeley. Mr. Moran received a Master of Business Administration degree from Harvard Business School and a Bachelor of Science degree in Accounting from Boston College.

Steven R. Scott is currently a Senior Vice President of the Company and has served in that capacity since he joined the Company in January 1998. He has more than 20 years of real estate experience. From January 1996 to December 1997, Mr. Scott was Senior Vice President with CB Richard Ellis in San Diego, where he concentrated in corporate services, build-to-suits, and brokerage in the mid-San Diego County markets of Sorrento Mesa, Torrey Pines, University Towne Centre and the I-15 Corridor. Prior to CB Richard Ellis, he was affiliated with the San Diego office of Grubb & Ellis Company for 13 years, most recently as Senior Marketing Consultant. Mr. Scott holds a Bachelor of Science degree in Business Administration from San Diego State University.

Tyler H. Rose was appointed Senior Vice President and Treasurer in March 1997. Mr. Rose was Senior Vice President, Corporate Finance of Irvine Apartment Communities, Inc. from 1995 to 1997, and was appointed Treasurer in 1996. Prior to that, Mr. Rose was Vice President, Corporate Finance of The Irvine Company from 1994 to 1995. From 1986 to 1994, Mr. Rose was employed at J.P. Morgan & Co., serving in its Real Estate Corporate Finance Group until 1992 and as Vice President of its Australia Mergers and Acquisitions Group from 1992 to 1994. Mr. Rose also served for two years as a financial analyst for General Electric Company. Mr. Rose holds a Master of Business Administration degree from The University of Chicago Graduate School of Business and a Bachelor of Arts degree in Economics from the University of California, Berkeley.

COMPENSATION DISCUSSION AND ANALYSIS

This Compensation Discussion and Analysis section discusses the compensation practices for our NEOs. Our NEOs consist of our Chief Executive Officer, our Chief Operating Officer, our Chief Financial Officer (which comprise our three mostly highly paid executive officers) and our two next most highly paid executive officers. Throughout this Proxy Statement, we refer to our (i) Chief Executive Officer, Chief Operating Officer and Chief Financial Officer collectively as our Executive Management Team, (ii) two next most highly paid executive officers as our Senior Managers, and (iii) Executive Management Team and our Senior Managers, together with our other executive officers as our executive officers.

Compensation Committee Interlocks and Insider Participation

Compensation paid to the NEOs is determined at the sole discretion of the Executive Compensation Committee (the Compensation Committee). The Compensation Committee is currently composed of the Company s five Independent Directors. In 2006, the Compensation Committee was composed of three Independent Directors, including Dr. Brennan, who served as its Chairman, and Messrs. D Eathe and Kinsella. There are no Compensation Committee interlocks, and none of our employees participate on the Compensation Committee.

Role of the Executive Compensation Committee

The Compensation Committee is responsible for:

- Reviewing and approving our compensation philosophy;
- Reviewing and approving corporate goals and objectives relating to the compensation of our Chief Executive Officer, evaluating the performance of our Chief Executive Officer in light of those goals and objectives and reviewing and approving the compensation of our Chief Executive Officer based on such evaluation;
- Reviewing and approving all compensation for our other executive officers, including cash and equity incentive compensation awards, and all executive officers employment agreements and severance arrangements;
- Administering, reviewing and approving all annual bonus, long-term incentive compensation, stock option, and other equity-based, employee pension and welfare benefit plans;
- Reviewing and approving our policy with respect to change of control or parachute payments; and
- Preparing the Executive Compensation Committee Report.

The Compensation Committee s Charter, posted on our website at http://www.kilroyrealty.com, reflects these various responsibilities, and the Compensation Committee and Board periodically review and revise the Charter. The Compensation Committee s membership is determined by the Board and is composed entirely of Independent Directors. There were eleven meetings of the Compensation Committee in 2006, five of which were executive sessions with no Company employees present. The Compensation Committee has the authority to engage the services of outside advisors, experts and others to assist the Compensation Committee. In accordance with the Compensation Committee s Charter, the Compensation Committee may retain independent compensation and other management consultants, who otherwise do not advise the Company, to assist with, among other things, evaluating our various compensation programs and levels of salary, bonus and other awards payable to our key personnel, as well as to advise the Compensation Committee with respect to the development of performance objectives that will contribute to our short-term and long-term profitability.

Compensation Objectives

We believe that the compensation programs for our executive officers should be closely aligned with the performance of the Company on both a short-term and long-term basis. Our strong performance in 2006

exemplifies our continued achievement of industry-leading results, including creation of value through our development program, strong leasing results, maintenance of high occupancy rates, and a strong balance sheet. In accordance with our goal of linking our executive compensation program to our performance, the compensation paid to our executive officers for fiscal year 2006 reflects our strong results.

Our compensation philosophy for our executive officers is based on the following principles:

- Our compensation programs should help the Company to attract and retain individuals of superior ability and managerial talent;
- Our compensation programs should ensure executive officer compensation is aligned with the Company s corporate strategies and business objectives and the long-term interests of the Company s stockholders;
- Our compensation programs should serve to increase the incentive to achieve key strategic and financial performance measures by linking incentive award opportunities to the achievement of performance goals in these areas;
- Our compensation programs should utilize stock-based compensation to reinforce the link between executive compensation and the interests of stockholders; and
- Our compensation programs should be competitive relative to the compensation paid to similarly situated executives of our peer companies.

We believe that compensation should be structured to ensure that a significant portion of compensation opportunity will be directly related to our stock performance and other factors that directly and indirectly influence stockholder value. To that end, the total compensation program for our executive officers may consist of the following components:

- Base salaries;
- Annual incentive cash bonus;
- Annual and long-term vesting equity compensation; and
- Multi-year outperformance incentive award.

In setting compensation, our philosophy is to set goals designed to link each NEO s compensation to the Company s performance. Consistent with our performance-based philosophy, each executive officer is provided with a base salary and a significant incentive-based compensation component. For our Executive Management Team, we reserve the largest potential compensation awards for performance- and incentive-based programs. Those programs include annual and long-term vesting awards based on the independent financial performance of the Company. Those programs provide compensation in the form of both cash and equity, to provide incentives to reward both short-term and long-term performance of the Company. The allocation of total compensation between cash and equity compensation is reviewed annually in comparison to the Peer Group (as defined on page 14), while also considering the balance between providing short-term incentives and long-term vesting incentives to align the interests of management with stockholders, in light of the executive officer s current equity holdings.

Stock Ownership Guidelines

We believe our Executive Management Team should hold a material amount of our stock to link their long-term economic interest directly to that of our stockholders. Accordingly, we have established stock ownership guidelines as follows:

Named Executive	Ownership Requirement as a % of Base Salary	Ownership Requirement Met as of December 31, 2006
John B. Kilroy, Jr.	500%	Yes
Jeffrey C. Hawken	300%	Yes
Richard E. Moran Jr.	300%	Yes

Determination of Compensation Awards

The Compensation Committee retained Strategic Apex Group, independent compensation consultants, to assist it in the review of our compensation programs. The compensation consultants engaged by the Compensation Committee are independent consultants specializing in compensation matters in the REIT and real estate industries. The compensation consultants evaluated the following in recommending the amount of executive compensation relative to the market, as well as the desired mix of base salary, annual incentives and long-term compensation opportunities:

Our performance as compared to other REITs, with an emphasis on office REITs, and as compared to other publicly traded real estate companies engaged in activities similar to those engaged in by us, with an emphasis on those with significant development activities; and

The current economic environment of the real estate industry and the markets specific to our properties.

The compensation consultants provided advice to the Compensation Committee with respect to competitive practices, the amounts and nature of compensation paid to executive officers, structuring our various compensation programs and recommending the appropriate levels of salary, bonus and other awards payable to our Executive Management Team. Based upon the compensation consultants recommendations, our executive compensation package for our Executive Management Team consists of a fixed base salary and performance-based cash and stock-based incentive awards, with a significant portion weighted towards the performance-based components to ensure that total compensation reflects the overall success or failure of the Company and to motivate our Executive Management Team to meet appropriate performance measures, thereby maximizing total return to stockholders.

To aid the Compensation Committee in reviewing our compensation programs, our President and Chief Executive Officer and our Chief Financial Officer provided recommendations to the Compensation Committee regarding the compensation of all executive officers. The Compensation Committee also reviewed the performance of each member of our Executive Management Team.

Limitation on Deductibility of Executive Compensation. Section 162(m) of the Internal Revenue Code limits the deductibility of compensation paid to certain of our executive officers. To qualify for deductibility under Section 162(m), compensation in excess of $1,000,000 per year paid to our NEOs at the end of each fiscal year generally must be performance-based compensation as determined under Section 162(m), which includes most stock option and other incentive arrangements, the material terms of which have been approved by stockholders.

Despite the fact that our incentive bonuses are determined based on the evaluation of our performance and take into consideration certain financial and strategic goals, the Compensation Committee does not apply these factors on a strict formulaic basis. As a result, our incentive compensation may not satisfy the requirements of

Section 162(m). We believe that we qualify as a REIT under the Internal Revenue Code and are not subject to Federal income taxes, and that as a result the payment of compensation that does not satisfy the requirements of Section 162(m) does not have a material adverse consequence to us, provided we continue to distribute 90% of our taxable income. The Compensation Committee reserves the right to design programs that recognize a full range of performance criteria important to our success, even where the compensation paid under such programs may not be deductible.

Compensation Benchmarking and Peer Group

A comprehensive review of our executive compensation programs was conducted for 2006 to ensure that (1) pay opportunities are competitive with the current market, (2) there is an appropriate link between performance and pay, and (3) the programs support our stated compensation philosophy. In connection with the 2006 review, the independent compensation consultant surveyed the compensation practices of our Peer Group and utilized other well-established executive compensation surveys to assess our competitiveness and advise the Compensation Committee. The Peer Group consisted of the following thirteen leading REIT and real estate companies: St. Joe Co, Archstone-Smith Trust, Developers Diversified, Maguire Properties, ProLogis, Catellus Development, SL Green Realty, Mack-Cali Realty, Boston Properties, Arden Realty, Trizec Properties, AMB Property and Vornado Realty. The Peer Group and the compensation surveys are periodically reviewed and updated by the Compensation Committee. We generally set base salary structures and annual incentive targets between the 50^{th} and 75^{th} percentile for all our NEOs.

Policies with Respect to Equity Compensation Awards

The Compensation Committee, based upon the recommendations of the independent compensation consultant, evaluates the allocation of equity awards among stock option grants, restricted stock grants, stock appreciation rights, participation units and the various other products available under our 2006 Plan by reference to the Peer Group discussed above. We grant all equity incentive awards based on the fair market value as of the date of grant, or vest restricted stock awards based on the fair market value as of the vesting date. The 2006 Plan provides that the exercise price for stock options and SARs will not be less than fair market value of a share of common stock on the date of grant. Under the 2006 Plan, the fair market value of a share of common stock will generally be equal to the closing price of a share on the NYSE on the date on which the determination is being made.

Restricted stock awards are generally made under the compensation programs discussed above at the first meeting of the Compensation Committee following the applicable fiscal year. We may also make grants of equity incentive awards at the discretion of the Compensation Committee or the Board in connection with the hiring of new executive officers.

2006 Executive Compensation Elements

The principal elements of 2006 compensation for our NEOs were base salary, cash incentive and equity incentives. The allocation of compensation across our compensation elements for 2006 reflects our philosophy of maintaining a strong relationship between performance and pay and is consistent with the practices of our Peer Group and industry surveys.

The allocation of compensation for our Executive Management Team for 2006 was as follows:

Compensation Element **(using 2006 target compensation amounts)**	**John B. Kilroy, Jr.**	**Jeffrey C. Hawken**	**Richard E. Moran Jr.**
Salary	11%	14%	20%
Cash Incentive	17%	16%	16%
Equity Incentive	73%	70%	64%

The allocation of compensation across our compensation elements for 2006 for our Senior Managers based on actual 2006 compensation was as follows: (i) 10% salary, 13% cash incentive, and 76% equity incentive for Steven R. Scott; and (ii) 20% salary, 24% cash incentive; and 56% equity incentive for Tyler H. Rose. Incentive compensation for our Senior Managers is discretionary. The allocation across compensation elements has remained relatively consistent.

Base Compensation

For 2006 we provided our NEOs with a base salary that is structured between the 50^{th} and 75^{th} percentile of the Peer Group. In approving 2006 base salaries for our executive officers, the Compensation Committee reviewed the market data from our Peer Group and relevant compensation surveys. The Compensation Committee also considered the performance of each executive, the performance of the Company, the contribution of each executive to our overall results, input from our Chief Executive Officer, and the desire to retain the executive. No formulaic base salary increases are provided to the NEOs. Upon review of the independently prepared comparison of base salary levels among the Peer Group of companies, we found that the median base salary level had increased. Consistent with our compensation philosophy, the Compensation Committee approved increases to salaries so we could maintain our relative position amongst our Peer Group and better compete to retain top executive talent.

Performance-Based Compensation

Performance Goals

We structure our compensation programs to reward our executive officers based on our performance. This allows our executive officers to receive bonus compensation in the event certain specified corporate performance measures are achieved. In determining the compensation awarded to each executive officer based on performance, we evaluate our performance in a number of areas.

We had two performance-based incentive programs for 2006 for the Executive Management Team: (i) the annual bonus program, which consisted of an annual cash component, a short-term vesting restricted stock component, and a long-term vesting restricted stock component and (ii) the annual long-term incentive award program. The general criteria (with the relative weightings expressed in parentheses) for both programs for evaluating our performance reflected our key financial and strategic priorities for 2006 and included 2006 funds from operations (20%), 2006 total leasing targets (10%), 2006 total revenue targets (20%), and 2006 development and redevelopment starts (50%). We believe that these measures are fundamental to enhancing stockholder value, and we focused on both operational and financial performance measures to reward our Executive Management Team for its contribution to our performance in a cross-section of key areas. We set the target performance levels for each of the performance criteria based on our 2006 business plan and believed that it was likely that the Executive Management Team would achieve the target performance levels. We also believed that it would require exceptional performance by our Executive Management Team and was possible but not likely that our Executive Management Team would achieve the exceptional performance levels.

The amounts paid under each of our programs were determined based upon our actual performance measured against the performance criteria. In the event certain threshold performance levels were exceeded but applicable target levels were not achieved, the Executive Management Team was entitled to earn proportionate awards. Incentive amounts paid under the performance-based programs may be adjusted by the Compensation Committee to account for unusual events such as extraordinary transactions, asset dispositions and purchases, and mergers and acquisitions if, and to the extent, the Compensation Committee does not consider the effect of such events indicative of our performance. Payments under each of the programs were contingent upon continued employment, though pro rata bonus payments would have been paid in the event of death or disability based on actual performance at the date relative to the targeted performance measures for each program.

2006 Annual Bonus Program

The 2006 annual bonus program (the Annual Bonus Program) was comprised of a cash component, a short-term vesting restricted stock component and a long-term vesting restricted stock component. Under the Annual Bonus Program, each member of the Executive Management Team was eligible to earn different amounts of incentive compensation depending on the level of performance achieved. The Executive Management Team had to exceed a minimum threshold performance level for each of the performance criteria to earn incentive compensation with respect to each individual performance criterion under this program.

Under this program, upon achieving certain levels of performance, the amount that each member of the Executive Management Team could earn in cash and short-term vesting restricted stock was capped (the Short-Term Component Cap). When calculating the total payout for each member of the Executive Management Team under this program, the payout under each of the performance criteria was calculated independently. In the event that the Executive Management Team achieved performance levels such that the calculated total payout would exceed the Short-Term Component Cap, the members of the Executive Management Team were eligible to earn incentive compensation in excess of the Short-Term Component Cap under the long-term vesting restricted stock component in the form of restricted stock.

2006 Annual Bonus Program Cash Component

Under the cash component of the Annual Bonus Program, our President and Chief Executive Officer was eligible to earn up to 158% of his 2006 base salary in the event target performance levels were achieved for all of the performance criteria and had the ability to earn additional incentive compensation up to a maximum payout of 262% of his 2006 base salary depending on the level of performance achieved for each performance criteria. Our Chief Operating Officer was eligible to earn up to 114% of his 2006 base salary in the event target performance levels were achieved for all of the performance criteria and had the ability to earn additional incentive compensation up to a maximum payout of 152% of his 2006 base salary depending on the level of performance achieved for each performance criteria. Our Chief Financial Officer was eligible to earn up to 82% of his 2006 base salary in the event target performance levels were achieved for all of the performance criteria and had the ability to earn additional incentive compensation up to a maximum payout of 109% of his 2006 base salary depending on the level of performance achieved for each performance criteria. We believe that the payment of this portion of the annual incentive bonus in cash provides incentives necessary to retain executive officers and reward them for short-term company performance.

2006 Annual Bonus Program Short-Term Vesting Restricted Stock Component

Under the short-term vesting restricted stock component of the Annual Bonus Program, our President and Chief Executive Officer was eligible to earn up to 53% of his 2006 base salary in the event target performance levels were achieved for all of the performance criteria and had the ability to earn additional incentive compensation up to a maximum payout of 66% of his 2006 base salary depending on the level of performance achieved for each performance criteria. Our Chief Operating Officer was eligible to earn up to 38% of his 2006 base salary in the event target performance levels were achieved for all of the performance criteria and had the ability to earn additional incentive compensation up to a maximum payout of 51% of his 2006 base salary depending on the level of performance achieved for each performance criteria. Our Chief Financial Officer was eligible to earn up to 27% of his 2006 base salary in the event target performance levels were achieved for all of the performance criteria and had the ability to earn additional incentive compensation up to a maximum payout of 36% of his 2006 base salary depending on the level of performance achieved for each performance criteria. We believe that the payment of this portion of the annual incentive bonus in restricted stock provides incentives necessary to retain executive officers and reward them for short-term company performance while creating long-term incentives to sustain performance. Individual awards under this component were made under our 2006 Plan and were paid in restricted stock that will vest over a one-year service period ending December 31, 2007 based on continued employment through that date.

2006 Annual Bonus Program Long-Term Vesting Restricted Stock Component

Under the long-term vesting restricted stock component of the Annual Bonus Program, the members of the Executive Management Team had the ability to earn incentive compensation in excess of the respective Short-Term Component Caps, including an uncapped component, in the event exceptional performance levels were achieved. If exceptional performance levels were achieved for the 2006 funds from operations, 2006 total leasing and 2006 total revenue components, our President and Chief Executive Officer was eligible to earn up to 36% of his 2006 base salary, our Chief Operating Officer was eligible to earn up to 21% of his 2006 base salary and our Chief Financial Officer was eligible to earn up to 15% of his 2006 base salary. If exceptional performance levels were achieved for the 2006 development and redevelopment starts, our President and Chief Executive Officer was eligible to earn up to 36% of his 2006 base salary, our Chief Operating Officer was eligible to earn up to 21% of his 2006 base salary and our Chief Financial Officer was eligible to earn up to 15% of his 2006 base salary. Further, for each additional 100,000 square feet of 2006 development and redevelopment starts in excess of 468,000 square feet, our President and Chief Executive Officer earned an additional 175% of his annual 2006 base salary and our Chief Operating Officer and our Chief Financial Officer each earned an additional 75% of their annual 2006 base salaries. In the event the Short-Term Component Cap was exceeded but the exceptional performance levels were not achieved, the Executive Management Team had the ability to earn proportionate awards. Awards under this component will vest 34% on December 31, 2007, 33% on December 31, 2008 and 33% on December 31, 2009 based on continued employment through the applicable vesting date.

Long-Term Incentive Compensation

We believe that, while the annual incentive program provides awards for positive short-term and mid-term performance, the interests of our stockholders are best served by giving key employees a direct interest in the performance of our common stock through stock-based incentives. We believe that share performance, over the long-term, will reflect executive performance and that such arrangements fur