SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q/A

Quarterly report pursuant to sections 13 or 15(d) [amend]

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KILROY REALTY CORP

CIK:**1025996**| IRS No.: **954598246** | State of Incorp.:**MD** | Fiscal Year End: **1231**
Type: **10-Q/A** | Act: **34** | File No.: **001-12675** | Film No.: **99574544**
SIC: **6798** Real estate investment trusts

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

(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, 1998

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 Number)

2250 East Imperial Highway, Suite 1200, El Segundo, California 90245
(Address of principal executive offices)

(310) 563-5500
(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 [_]

As of November 12, 1998, 27,639,210 shares of common stock, par value $.01 per share, were outstanding.

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PART I--FINANCIAL INFORMATION

ITEM 1. Financial Statements

KILROY REALTY CORPORATION CONSOLIDATED

BALANCE SHEETS
(in thousands, except share data)

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	September 30, 1998	December 31, 1997
	(unaudited)	
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ASSETS		
INVESTMENT IN REAL ESTATE (Note 2):		
Land and improvements	$ 236,474	$ 177,118
Buildings and improvements	767,677	622,901
Land and construction in progress	128,007	34,671
Total investment in real estate	1,132,158	834,690
Accumulated depreciation and amortization	(139,170)	(121,780)
Investment in real estate, net	992,988	712,910
CASH AND CASH EQUIVALENTS	27,311	8,929
RESTRICTED CASH	6,296	5,680
TENANT RECEIVABLES, NET	12,802	7,367
NOTES RECEIVABLE FROM RELATED PARTIES (Note 3)	6,655	
ESCROW DEPOSITS	401	5,114
DEFERRED FINANCING AND LEASING COSTS, NET	13,019	13,053
PREPAID EXPENSES AND OTHER ASSETS, NET	4,198	4,601
TOTAL ASSETS	$1,063,670	$ 757,654
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Mortgage debt	$ 133,920	$ 131,363
Line of credit (Note 4)	270,000	142,000
Accounts payable and accrued expenses	14,307	9,711
Accrued distributions (Note 7)	12,811	10,804
Rents received in advance and tenant security deposits	13,836	11,441
Total liabilities	444,874	305,319
COMMITMENTS AND CONTINGENCIES (Notes 2 and 3)		
MINORITY INTERESTS (Note 5):		
8.075% Series A Cumulative Redeemable Preferred unitholders	73,718	
Common unitholders	68,680	55,185
Total minority interests	142,398	55,185
STOCKHOLDERS' EQUITY (Note 6):		
Preferred Stock, $.01 par value, 28,300,000 shares authorized, none issued and outstanding		
8.075% Series A Cumulative Redeemable Preferred Stock, $.01 par value, 1,700,000 shares authorized, none issued and outstanding		
Common Stock, $.01 par value, 150,000,000 shares authorized, 27,639,210 and 24,475,000 shares issued and outstanding, respectively	276	245
Additional paid-in capital	486,956	403,163
Distributions in excess of earnings	(10,834)	(6,258)
Total stockholders' equity	476,398	397,150
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$1,063,670	$ 757,654

</TABLE>

See accompanying notes to consolidated and combined financial statements.

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KILROY REALTY CORPORATION (the "Company") CONSOLIDATED AND
KILROY GROUP (Predecessor to the Company) COMBINED

STATEMENTS OF OPERATIONS

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

<TABLE>
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<S>	Kilroy Realty Corporation — Nine Months Ended September 30, 1998 <C>	Kilroy Realty Corporation — February 1, 1997 to September 30, 1997 <C>	Kilroy Group — January 1, 1997 to January 31, 1997 <C>
REVENUES:			
Rental income	$ 84,817	$ 35,878	$ 2,760
Tenant reimbursements	10,041	3,441	275
Interest income	1,191	2,875	
Other income	941	454	18
Total revenues	96,990	42,648	3,053
EXPENSES:			
Property expenses	13,812	5,999	625
Real estate taxes	6,554	1,925	106
General and administrative	5,499	3,652	78
Ground leases	854	670	64
Interest expense	14,642	6,714	1,895
Depreciation and amortization	19,159	8,404	787
Total expenses	60,520	27,364	3,555
INCOME (LOSS) BEFORE EQUITY IN (LOSS) INCOME OF UNCONSOLIDATED SUBSIDIARY, MINORITY INTERESTS AND EXTRAORDINARY GAIN	36,470	15,284	(502)
EQUITY IN (LOSS) INCOME OF UNCONSOLIDATED SUBSIDIARY	(24)	187	
INCOME (LOSS) BEFORE MINORITY INTERESTS AND EXTRAORDINARY GAIN	36,446	15,471	(502)
MINORITY INTERESTS:			
Distributions to 8.075% Series A Cumulative Redeemable Preferred unitholders	(3,704)		
Minority interest in earnings	(4,093)	(2,231)	
Total minority interests	(7,797)	(2,231)	
INCOME (LOSS) BEFORE EXTRAORDINARY GAIN	28,649	13,240	(502)
EXTRAORDINARY GAIN			3,204
NET INCOME	$ 28,649	$ 13,240	$ 2,702
Net income per common share--basic	$ 1.07	$ 0.82	

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Net income per common share--diluted...	$ 1.07	$ 0.81
Weighted average shares outstanding--basic	26,770,445	16,162,243
Weighted average shares outstanding--diluted	26,865,274	16,246,435

</TABLE>

See accompanying notes to consolidated and combined financial statements.

KILROY REALTY CORPORATION CONSOLIDATED

STATEMENTS OF OPERATIONS

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

<TABLE>
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	Three Months Ended September 30,	
	1998	1997
<S>	<C>	<C>
REVENUES:		
Rental income	$ 30,369	$ 16,418
Tenant reimbursements	3,768	1,631
Interest income	308	900
Other income	74	158
Total revenues	34,519	19,107
EXPENSES:		
Property expenses	4,775	2,724
Real estate taxes	2,800	998
General and administrative	1,797	1,477
Ground leases	259	206
Interest expense	5,263	2,637
Depreciation and amortization	6,740	3,660
Total expenses	21,634	11,702
INCOME BEFORE EQUITY IN INCOME OF UNCONSOLIDATED SUBSIDIARY AND MINORITY INTERESTS	12,885	7,405
EQUITY IN INCOME OF UNCONSOLIDATED SUBSIDIARY	1	52
INCOME BEFORE MINORITY INTERESTS	12,886	7,457
MINORITY INTERESTS:		
Distributions to 8.075% Series A Cumulative Redeemable Preferred unitholders	(1,450)	
Minority interest in earnings	(1,451)	(977)
Total minority interests	(2,901)	(977)

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NET INCOME	$ 9,985	$ 6,480
Net income per common share--basic	$ 0.36	$ 0.34
Net income per common share--diluted	$ 0.36	$ 0.34
Weighted average shares outstanding--basic	27,647,688	18,931,522
Weighted average shares outstanding--diluted	27,647,688	19,025,714

</TABLE>

See accompanying notes to consolidated and combined financial statements.

KILROY REALTY CORPORATION CONSOLIDATED AND KILROY GROUP COMBINED

STATEMENTS OF CASH FLOWS

(unaudited, in thousands)

<TABLE>
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	Nine Months Ended September 30,	
	1998	1997
<S>	<C>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 28,649	$ 15,942
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	19,159	9,191
Provision for bad debts	652	172
Restricted stock compensation	405	315
Extraordinary gain		(3,204)
Minority interest in earnings	4,093	2,231
Accrued distributions to 8.075% Series A Cumulative Redeemable Preferred unitholders	757	
Other	(262)	(128)
Changes in assets and liabilities:		
Tenant receivables	(6,087)	(894)
Deferred financing and leasing costs, net	(401)	(2,481)
Prepaid expenses and other assets, net	561	(6,676)
Accounts payable and accrued expenses	4,596	2,180
Accrued cost of option buy-out and tenant improvements		(1,390)
Rents received in advance and tenant security deposits	2,395	1,087
Net cash provided by operating activities	54,517	16,345
CASH FLOWS FROM INVESTING ACTIVITIES:		
Expenditures for rental properties	(216,168)	(349,212)
Expenditures for land and construction in progress	(65,353)	
Disbursements for notes receivable to related parties	(6,655)	
Net change in escrow deposits	4,713	(1,179)
Net investment in and advances to unconsolidated subsidiary	(382)	(454)

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Net cash used in investing activities	(283,845)	(350,845)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuances of common stock	82,146	543,764
Net proceeds from issuance of 8.075% Series A Cumulative Redeemable Preferred Units	72,961	
Net borrowings on line of credit	128,000	
Proceeds from issuance of mortgage debt	5,000	98,000
Principal payments on mortgage debt	(2,443)	(219,406)
Finance costs	(1,335)	(3,989)
Restricted cash	(616)	(4,634)
Distributions paid	(36,003)	(11,125)
Deemed and actual contributions from partners, net		6,780
Net cash provided by financing activities	247,710	409,390
Net increase in cash and cash equivalents	18,382	74,890
Cash and cash equivalents, beginning of period	8,929	
Cash and cash equivalents, end of period	$ 27,311	$ 74,890
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$ 19,281	$ 10,980
Distributions paid to 8.075% Series A Cumulative Redeemable Preferred unitholders	$ 2,947	
NON-CASH TRANSACTIONS:		
Accrual of distributions payable (Note 7)	$ 12,811	$ 10,576
Issuance of common units of the Operating Partnership to acquire properties (Note 2)	$ 16,031	$ 3,979
Issuance of note payable to acquire properties		$ 6,650

</TABLE>

See accompanying notes to consolidated and combined financial statements.

KILROY REALTY CORPORATION CONSOLIDATED AND KILROY GROUP COMBINED

NOTES TO FINANCIAL STATEMENTS

Nine Months Ended September 30, 1998 and 1997
(Unaudited)

1. Organization

Kilroy Realty Corporation (the "Company") develops, owns, and operates office and industrial real estate, primarily in Southern California. The Company commenced operations in January 1997 and operates as a self-administered real estate investment trust ("REIT"). The Company succeeded to the real estate business of the Kilroy Group, the Company's predecessor, which had been engaged in the acquisition, management, financing, construction and leasing of commercial and industrial properties. The combined financial statements of the Kilroy Group comprise the operations of the properties contributed to the Company in connection with its formation, the formation of Kilroy Realty, L.P. (the "Operating Partnership") and completion of the

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Company's initial public offering ("IPO") (collectively the "Formation Transactions") on January 31, 1997. As of September 30, 1998, the Company's stabilized portfolio consisted of 77 office buildings and 83 industrial buildings, which encompassed approximately 5.4 million and 5.7 million rentable square feet, respectively, and was 94.9% occupied. The Company owns its interests in all of the properties through the Operating Partnership and Kilroy Realty Finance Partnership, L.P. and conducts substantially all of its operations through the Operating Partnership. The Company owned an 87.4% general partnership interest in the Operating Partnership as of September 30, 1998.

The majority of the Company's properties are located in Southern California. The ability of the tenants to honor the terms of their respective leases is dependent upon the economic, regulatory and social factors affecting the communities and industries in which the tenants operate.

Basis of Presentation

The accompanying interim financial statements have been prepared by the Company's management in accordance with generally accepted accounting principles 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 generally accepted accounting principles for complete financial statements. In the opinion of management, the interim financial statements presented herein 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. The results of operations for the interim period are not necessarily indicative of the results that may be expected for the year ended December 31, 1998. These financial statements should be read in conjunction with the audited consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 1997.

New Accounting Pronouncement

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"). SFAS 133 is effective for fiscal years beginning after June 15, 1999 and requires all derivatives to be recorded on the balance sheet at fair value as either assets or liabilities depending on the rights or obligations under the contract. SFAS 133 also establishes "special accounting" for the following three classifications of hedges: fair value, cash flow and net investment in foreign operations. Management believes the adoption of SFAS 133 will not have a material impact on the Company's financial position or results of operations.

2. Property Acquisitions

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During the nine months ended September 30, 1998, the Company acquired through a series of transactions 51 acres of undeveloped land, 23 office buildings and 15 industrial buildings in California and Nevada, as follows:

Description	Date Acquired	Number of Buildings	Acreage/Square Footage	Location of Property	Purchase Price (in millions)
Undeveloped land........	3/98		2 acres	San Diego, CA	$ 1.7
Undeveloped land........	4/98		13 acres	San Diego, CA	9.5
Undeveloped land........	4/98		4 acres	San Diego, CA	1.8
Undeveloped land........	4/98		18 acres	Calabasas, CA	2.9
Undeveloped land........	5/98		4 acres	San Diego, CA	2.6
Undeveloped land........	7/98		2 acres	San Diego, CA	.5
Undeveloped land........	7/98		8 acres	San Diego, CA	5.4
Subtotal undeveloped land.................			51 acres		24.4
Office building.........	1/98	1	48,000 sq. ft.	Los Angeles, CA	7.6
Office buildings........	1/98	4	149,000 sq. ft.	Fullerton, CA	10.6
Office building.........	1/98	1	70,000 sq. ft.	Santa Monica, CA	16.6
Office buildings........	2/98	2	79,000 sq. ft.	Anaheim, CA	7.1
Office building.........	3/98	1	82,000 sq. ft.	Carlsbad, CA	10.5
Office buildings........	3/98	2	200,000 sq. ft.	San Diego, CA	29.5
Office building.........	3/98	1	41,000 sq. ft.	Camarillo, CA	5.0
Office building.........	4/98	1	69,000 sq. ft.	San Diego, CA	7.3
Office buildings........	4/98	7	411,000 sq. ft.	San Diego, CA	54.5
Office building.........	6/98	1	46,000 sq. ft.	San Diego, CA	6.2
Office building.........	6/98	1	39,000 sq. ft.	San Diego, CA	5.2
Office building.........	6/98	1	45,000 sq. ft.	San Diego, CA	3.9
Industrial buildings....	1/98	9	143,000 sq. ft.	Irvine, CA	12.6
Industrial buildings....	1/98	3	234,000 sq. ft.	San Jose, CA	27.9
Industrial building.....	2/98	1	75,000 sq. ft.	Reno, NV	6.9
Industrial building.....	4/98	1	84,000 sq. ft.	Anaheim, CA	6.2
Industrial building.....	5/98	1	52,000 sq. ft.	Tustin, CA	3.5
Subtotal office and industrial buildings.		38	1,867,000 sq. ft.		221.1
Total..					$245.5

These acquisitions were funded primarily with existing working capital and borrowings on the Company's revolving credit facility. The Operating Partnership issued 496,220 common limited partnership units valued at approximately $13.5 million in connection with the acquisition of two office buildings located in San Diego, California and one industrial building located in Reno, Nevada from entities controlled by Richard S. Allen, (together, "The Allen Group") a member of the Company's board of directors. An Executive Vice President of the Company who was previously a member of The Allen Group received 158,495 of the total 496,220 units. The 496,220 units were valued based upon the Company's average closing common share price for the three-week period preceding the acquisition date. The acquisitions of the three buildings were based upon arms length negotiations.

In April 1998, 18 acres of undeveloped land in Calabasas, California were acquired from a partnership controlled by John B. Kilroy, Sr. and John B. Kilroy, Jr., the Company's Chairman and its President and Chief Executive Officer, respectively, in exchange for $346,000 in cash and the issuance of

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90,787 common limited partnership units of the Operating Partnership valued at $2.5 million. These units were valued based upon the Company's average closing common share price for the ten trading days preceding the acquisition date. The acquisition was based upon arms length negotiations. The land is part of a 66 acre development site in Calabasas, California which is presently entitled for over one million rentable square feet of office, retail and hotel

development. The Company presently plans to develop 210,000 rentable square feet of office property on the 18 acres it acquired. The infrastructure improvements on the land were financed with Mello Roos bonds which have a current principal balance of approximately $15.4 million. Principal and interest on the bonds will be charged to the Company and other owners through property tax bills through 2008 based on the relative value of land and buildings on the site. Based on the planned development of the total site, the Company's obligation for its portion of the development site is estimated at $8.2 million but may vary depending on the actual size and number of buildings built. The costs are currently capitalized as development costs and will be charged to operations upon the completion of construction.

3. Notes Receivable from Related Parties

On May 7, 1998 the Company entered into an agreement to loan up to $8.5 million to a limited partnership controlled by Richard S. Allen, a member of the Company's board of directors. Advances on the note will be used for infrastructure improvements on land in San Diego which secures the note. Pursuant to a separate agreement with the borrower, the Company will acquire a 50% interest in the land upon the completion of all infrastructure improvements. Interest accrues on all outstanding borrowings at a rate of LIBOR plus 1.85% (7.23% at September 30, 1998) and the note and accrued interest are due upon the acquisition of the 50% interest in the land by the Company. At September 30, 1998, $4.4 million was outstanding on the note.

On May 22, 1998 the Company entered into an agreement to loan up to $2.3 million to a limited liability company also controlled by Richard S. Allen. Advances on the note will be used for tenant improvements and upgrades to a building in San Diego. The note is secured by the pledge of membership interests in the limited liability company. Pursuant to a separate agreement with the borrower, the Company will acquire the building on or before June 30, 1999, subject to the completion of improvements. The note and accrued interest are payable upon the acquisition of the building by the Company. Interest accrues on all outstanding borrowings at a rate of prime plus 1.00% (9.25% at September 30, 1998). At September 30, 1998, $2.3 million was outstanding on the note.

4. Line of Credit

On February 24, 1998, the Operating Partnership converted its previous $250 million secured revolving credit facility into a $350 million unsecured line of credit (together with the previous line of credit, the "Credit Facility"). The new Credit Facility matures in February 2000, and bears interest at either LIBOR plus 1.00%, LIBOR plus 1.13%, or LIBOR plus 1.25%, (6.63% at September 30, 1998) depending on the Company's leverage ratio at the time of borrowing.

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Borrowings outstanding at September 30, 1998 were $270 million. Availability under the Credit Facility at September 30, 1998 was $76.1 million based on the value of the Company's pool of unencumbered assets. The fee for unused funds is 0.25% based on outstanding balances. The total interest expense capitalized for the three-and nine-month periods ended September 30, 1998 were $2.2 million and $6.2 million, respectively.

In July 1998, the Company entered into two interest rate cap agreements with a total notional amount of $150 million to effectively limit interest expense for borrowings on the Credit Facility during periods of increasing interest rates. The agreements have LIBOR based cap rates of 6.50% and expire in July 2000. The Company's exposure is limited to the $176,000 cost of the cap agreements, which the Company is amortizing over the term of the Credit Facility. The amortization of the cost of the cap agreements is included as a component of interest expense in the consolidated statement of operations.

5. Minority Interests

On February 6, 1998, the Company issued 1,200,000 8.075% Series A Cumulative Redeemable Preferred Units, representing limited partnership interest in the Operating Partnership (the "Preferred Units"), with a liquidation value of $50.00 per unit, in exchange for a gross contribution to the Operating Partnership of $60.0 million. The Company used the contribution proceeds, less applicable transactions costs and expenses of $1.6 million, for the repayment of borrowings outstanding on the Credit Facility. On April 22, 1998 the Company issued an additional 300,000 Preferred Units for a gross contribution to the Operating Partnership of $15.0 million. The Company used the contribution proceeds, less applicable transaction costs and expenses of $412,000, for the repayment of borrowings outstanding on the Credit Facility. The Preferred Units, which may be called by the Operating Partnership at par on or after February 6, 2003, have no stated maturity or mandatory redemption and are not convertible into any other securities of the Operating Partnership. The Preferred Units are exchangeable at the option of the majority of the holders for shares of the Company's 8.075% Series A Cumulative Preferred Stock beginning February 6, 2008 which may be accelerated under certain circumstances.

6. Stockholders Equity

In January 1998, the Company filed a "shelf" registration statement on Form S-3 with the Securities and Exchange Commission ("SEC") which registered $400 million of equity securities of the Company. The registration statement was declared effective by the SEC on February 11, 1998. Through November 12, 1998 the Company completed four underwritten offerings aggregating 3,012,326 shares of common stock and two direct placements aggregating 161,884 shares of common stock resulting in aggregate net proceeds of $82.1 million. The Company used such net proceeds to repay borrowings under the Credit Facility.

In October 1998, the Company adopted a Preferred Share Purchase Rights Plan (the "Rights Plan") under which stockholders of record on October 15, 1998

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received one Right for each share of the Company's outstanding common stock. Each Right, which entitles its holder to buy one one-hundredth of a share of voting preferred stock at an exercise price of $71.00, becomes exercisable, subject to limited exceptions, if a person or group acquires 15% or more of the Company's common stock or announces a tender offer for 15% or more of the Company's common stock. Upon such event, each Right entitles its holder to purchase, at the Right's then exercise price, a number of shares of the Company's common stock equal to the market value at that time of twice the Right's exercise price. Rights held by the acquirer will become void and will not be exercisable upon the announcement of the acquisition. In the event that the Company is acquired in a merger or other business combination, each Right entitles its holder to purchase, at the Right's then current exercise price, a number of shares of the acquiring company's common stock equal to the market value at that time of twice the Right's exercise price. The Rights Plan expires October 2, 2008. The Board may elect to redeem the Rights at $.001 per Right.

As a result of the capital transactions discussed above and the issuance of 587,007 common limited partnership units of the Operating Partnership in connection with the acquisition of certain properties during 1998 (Note 2), the Company owned an 87.4% general partnership interest in the Operating Partnership as of September 30, 1998.

7. Subsequent Events

Subsequent to September 30, 1998, the Company acquired two office buildings located in San Diego, California totaling approximately 116,000 rentable square feet from an entity controlled by Richard S. Allen, a member of the Company's board of directors. The acquisition of the two properties was financed with approximately $16.7 million of borrowings on the Credit Facility and the issuance of 207,649 common limited partnership units of the Operating Partnership valued at approximately $5.0 million based on a unit price predetermined by the parties involved. An Executive Vice President of the Company who was previously a member of The Allen Group received 144,821 of the total 207,649 units. The 207,649 units were recorded by the Company at approximately $4.6 million based on the Company's closing share price on the acquisition date. The acquisition of the two properties was based upon arms length negotiations. The $16.7 million of borrowings on the Credit Facility were drawn prior to the acquisition and are included in outstanding borrowings at September 30, 1998.

In October 1998, the Credit Facility was amended to include construction in progress in the value of the Company's unencumbered assets and to modify certain financial covenants. The agreement was also amended such that the Credit Facility may bear interest at LIBOR plus 1.38%, depending on the Company's leverage ratio at the time of borrowing.

On October 12, 1998 distributions of $12.8 million were paid to stockholders and common unitholders of record on September 30, 1998.

8. Earnings Per Share

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Basic earnings per share is computed by dividing net income by the weighted-average number of common shares outstanding for the period. Diluted earnings per share is computed by dividing net income by the sum of the weighted-average number of common shares outstanding for the period plus the assumed exercise of all dilutive securities. The following table reconciles the numerator and denominator of the basic and diluted per-share computations for net income.

<TABLE>
<CAPTION>

	Nine Months Ended September 30, 1998			Period February 1, 1997 through September 30, 1997		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
		(in thousands except share and per share data)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Basic....................	$28,649	26,770,445	$1.07	$13,240	16,162,243	$0.82
Effect of dilutive securities:						
Stock options.........		94,829			84,192	(.01)
Diluted.................	$28,649	26,865,274	$1.07	$13,240	16,246,435	$0.81

<CAPTION>

	Three Months Ended September 30, 1998			Three Months Ended September 30, 1997		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
		(in thousands except share and per share data)				
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Basic....................	$ 9,985	27,647,688	$0.36	$ 6,480	18,931,522	$0.34
Effect of dilutive securities:						
Stock options.........					94,192	
Diluted.................	$ 9,985	27,647,668	$0.36	$ 6,480	19,025,714	$0.34

</TABLE>

At September 30, 1998, Company employees and directors held options to purchase 1,493,000 shares of the Company's common stock that were antidilutive to the diluted earnings per share computation. These options could become dilutive in future periods if the average market price of the Company's common stock exceeds the exercise price of the outstanding options.

9. Unaudited Pro Forma Condensed Consolidated Financial Information

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The accompanying unaudited pro forma information for the nine months ended September 30, 1998 and 1997 are presented as if the acquisitions described in Note 2 to the financial statements had occurred on January 1, 1997. Such pro forma information is based upon the consolidated statements of operations of the Company for the nine months ended September 30, 1998 and the period from February 1, 1997 to September 30, 1997 and the combined statement of operations of the Kilroy Group for the period January 1, 1997 to January 31, 1997, and should be read in conjunction with the consolidated and combined financial statements and the notes thereto.

This unaudited pro forma condensed consolidated information does not purport to represent what the actual results of operations of the Company would have been assuming such property acquisitions had been completed as set forth above, nor do they purport to predict the results of operations for future periods.

Pro Forma Income Statement
(in thousands, except share and per share data)

	Nine Months Ended September 30, 1998	Nine Months Ended September 30, 1997
Total revenues	$ 100,292	$ 58,678
Net income before extraordinary items	$ 28,634	$ 11,883
Net income	$ 28,634	$ 15,087
Net income per common share-basic	$ 1.07	$ .93
Net income per common share-diluted	$ 1.07	$ .93
Weighted average shares outstanding-basic	26,770,445	16,162,243
Weighted average shares outstanding-diluted	26,865,274	16,246,435

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion relates to the consolidated financial statements of the Company, and the combined financial statements of the Company's predecessor, the Kilroy Group, and should be read in conjunction with the financial statements and notes thereto appearing elsewhere in this report.

Overview and Background

Kilroy Realty Corporation (the "Company") develops, owns, and operates office and industrial real estate, primarily in Southern California. The Company commenced operations in January 1997 and operates as a self-administered real estate investment trust ("REIT"). The Company succeeded to the real estate business of the Kilroy Group, the Company's predecessor, which

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had been engaged in the acquisition, management, financing, construction and leasing of commercial and industrial properties. The combined financial statements of the Kilroy Group comprise the operations, assets and liabilities of the properties contributed to the Company in connection with its formation, the formation of Kilroy Realty, L.P. (the "Operating Partnership") and completion of the Company's initial public offering ("IPO") (collectively the "Formation Transactions") on January 31, 1997. The Company owns its interests in all of the properties through the Operating Partnership and Kilroy Realty Finance Partnership, L.P. and conducts substantially all of its operations through the Operating Partnership. The Company owned an 87.4% general partnership interest in the Operating Partnership as of September 30, 1998.

Results of Operations

During 1997, the Company acquired 96 office and industrial buildings totaling 2.2 million and 3.7 million rentable square feet, respectively, for an aggregate acquisition cost of $507 million. During the nine months ended September 30, 1998, the Company acquired 38 office and industrial buildings totaling 1.3 million and 588,000 rentable square feet, respectively, for a total purchase price of $221 million. Operating results for acquired properties are included in the consolidated financial statements of the Company subsequent to their respective acquisition dates.

As a result of the properties acquired subsequent to September 30, 1997, rentable square footage in the Company's portfolio of stabilized properties increased 4.2 million rentable square feet, or 60.9% to 11.1 million rentable square feet at September 30, 1998 compared to 6.9 million rentable square feet at September 30, 1997. As of September 30, 1998, the Company's portfolio of stabilized properties was comprised of 77 office properties encompassing 5.4 million rentable square feet and 83 industrial properties encompassing 5.7 million rentable square feet. The Company's stabilized portfolio consists of all of the Company's office and industrial properties with the exception of properties and projects included in construction in progress. With respect to properties developed by the Company, the Company's policy is to include properties in its stabilized portfolio upon the earlier of one year from the date of substantial completion or the date such property reaches stabilized occupancy of 95.0%. The portfolio occupancy rate at September 30, 1998 was 94.9%, with the office and industrial properties 94.8% and 95.0% occupied, respectively, as of such date.

Three Months Ended September 30, 1998 compared to Three Months Ended September 30, 1997

<TABLE>
<CAPTION>

	Three months ended September 30, (in thousands) 1998	1997
<S>	<C>	<C>
REVENUES:		
Rental income	$30,369	$16,418
Tenant reimbursements	3,768	1,631
Interest income	308	900
Other income	74	158

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Total revenues	34,519	19,107
EXPENSES:		
Property expenses	4,775	2,724
Real estate taxes	2,800	998
General and administrative	1,797	1,477
Ground leases	259	206
Interest expense	5,263	2,637
Depreciation and amortization	6,740	3,660
Total expenses	21,634	11,702
INCOME BEFORE EQUITY IN INCOME OF UNCONSOLIDATED SUBSIDIARY AND MINORITY INTERESTS	$12,885	$ 7,405

</TABLE>

Total revenues increased $15.4 million, or 80.7% to $34.5 million for the three months ended September 30, 1998 compared to $19.1 million for the three months ended September 30, 1997. Rental income increased $14.0 million, or 85.0% to $30.4 million for the three months ended September 30, 1998 compared to $16.4 million for the three months ended September 30, 1997. Of this increase, $7.4 million was generated by properties acquired during 1997, subsequent to June 30, 1997 (the "Third and Fourth Quarter 1997 Acquisitions"), and $5.5 million was generated from properties acquired during the nine months ended September 30, 1998 (the "1998 Acquisitions"). The remaining $1.1 million increase in rental income was generated by properties owned at July 1, 1997 and still owned at September 30, 1998 (the "Same Store Properties") and represents a 7.5% increase in rental income for the Same Store Properties. The increase is primarily the result of leasing activity at the SeaTac Office Center, including a lease for 211,000 rentable square feet with The Boeing Company, which was effective January 1, 1998 (the "Boeing Lease"). In addition, during the second quarter of 1998, the Company leased 46,000 rentable square feet at the La Palma Business Center which was vacant at September 30, 1997. Excluding the Boeing lease, occupancy remained consistent and average rent per square foot increased 4.4% for the Same Store Properties for the three months ended September 30, 1998 compared to the three months ended September 30, 1997.

Tenant reimbursements increased $2.1 million, or 131.0% to $3.7 million for the three months ended September 30, 1998 compared to $1.6 million for the three months ended September 30, 1997. Of this increase $1.6 million was due to tenant reimbursements from the Third and Fourth Quarter 1997 Acquisitions and the 1998 Acquisitions. The remaining increase of $0.5 million was generated by the Same Store Properties, of which $0.3 million represents tenant reimbursements under the Boeing Lease. Interest income decreased $0.6 million or 65.8% to $0.3 million for the three months ended September 30, 1998, compared to $0.9 million for the three months ended September 30, 1997, due to interest earned on the proceeds from the sale of 10,000,000 shares of common stock at $25.50 per share in August 1997 (the "August 1997 Offering"). After the repayment of borrowings on the line of credit and the purchase of pending acquisitions, there were $146 million of proceeds remaining from the August 1997 Offering.

Total expenses increased $9.9 million, or 84.9% to $21.6 million for the three months ended September 30, 1998 compared to $11.7 million for the three months ended September 30, 1997. Property expenses increased $2.1 million, or 75.3% to $4.8 million and real estate taxes increased $1.8 million, or 180.6% to $2.8 million for

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the three months ended September 30, 1998 compared to $2.7 million and $1.0 million, respectively for the three months ended September 30, 1997. Of the collective increase of $3.9 million in property expenses and real estate taxes, $2.0 million was generated by the Third and Fourth Quarter 1997 Acquisitions and $1.2 million was generated from the 1998 Acquisitions. The remaining $0.7 million increase was generated from the Same Store Properties and is primarily due to management more aggressively allocating expenses which may be reimbursable by tenants to the property level, and also reflects the annual increase in property taxes. General and administrative expenses increased $0.3 million, or 21.7% to $1.8 million for the three months ended September 30, 1998 compared to $1.5 million for the three months ended September 30, 1997, due to increased management and administrative costs associated with the increased portfolio size. Interest expense increased $2.6 million, or 99.6% to $5.2 million for the three months ended September 30, 1998 compared to $2.6 million for the three months ended September 30, 1997, primarily due to interest paid on an additional $128 million of borrowings on the Company's unsecured revolving credit facility during 1998 and $32.9 million of mortgage debt assumed in connection with fourth quarter 1997 acquisitions. The Company's weighted average interest rate decreased 0.88% to 7.31% at September 30, 1998 compared to 8.19% at September 30, 1997. Depreciation and amortization expense increased $3.1 million, or 84.2% to $6.7 million for the three months ended September 30, 1998 compared to $3.6 million for the same period in 1997, primarily due to depreciation on the 1997 and 1998 Acquisitions.

Net income before extraordinary gains increased $5.5 million, or 74.0% to $12.9 million for the three months ended September 30, 1998 compared to $7.4 million for the three months ended September 30, 1997. The increase is due primarily to an increase in rental income and tenant reimbursements of $14.0 million and $2.1 million, respectively, offset by an increase in property expenses of $2.1 million, an increase in real estate taxes of $1.8 million, an increase in interest expense of $2.6 million and an increase in depreciation and amortization of $3.1 million.

Nine Months Ended September 30, 1998 compared to Adjusted Nine Months Ended September 30, 1997

The Company's management believes that in order to provide meaningful historical analysis of the financial statements, certain adjustments must be made to the historical Kilroy Group financial statements to make accounting periods comparable. Accordingly the results of operations for the period January 1, 1997 to January 31, 1997 have been adjusted to reflect interest income, general and administrative expenses, interest expense and extraordinary items as if the IPO had been consummated on January 1, 1997. The following sections discuss the results of operations as adjusted.

<TABLE>
<CAPTION>

	Nine months ended September 30, (in thousands) 1998	1997 (as adjusted)
<S>	<C>	<C>
REVENUES:		
Rental income..	$84,817	$38,638
Tenant reimbursements..................................	10,014	3,716
Interest income..	1,191	3,361
Other income...	941	472

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Total revenues	96,990	46,187
EXPENSES:		
Property expenses	13,812	6,624
Real estate taxes	6,554	2,031
General and administrative	5,499	4,015
Ground leases	854	734
Interest expense	14,642	7,480
Depreciation and amortization	19,159	9,191
Total expenses	60,520	30,075
INCOME BEFORE EQUITY IN INCOME OF SUBSIDIARY, MINORITY INTERESTS AND EXTRAORDINARY GAIN	$36,470	$16,112

</TABLE>

Total revenues increased $50.8 million, or 110.0% to $97.0 million for the nine months ended September 30, 1998 compared to $46.2 million for the nine months ended September 30, 1997. Rental income increased $46.2 million, or 119.5% to $84.8 million for the nine months ended September 30, 1998 compared to $38.6 million for the nine months ended September 30, 1997. Of this increase, $32.3 million was generated by properties acquired during 1997 subsequent to the IPO on January 31, 1997 (the "1997 Acquisitions") and $11.7 million was generated from the 1998 Acquisitions. The remaining $2.2 million increase in rental income was generated by properties owned at the IPO and still owned at September 30, 1998 (the "Existing Properties") and represents a 6.9% increase in rental income for the Existing Properties. The increase is primarily the result of leasing activity at the SeaTac Office Center, including the Boeing Lease which contributed $1.6 million of the increase in rental revenue. The remainder of the increase is primarily attributable to owning the seven properties acquired in connection with the IPO for a full nine months in 1998. Excluding the Boeing Lease, occupancy remained consistent and average rent per square foot increased 2.6% for the Existing Properties for the nine months ended September 30, 1998 compared to the nine months ended September 30, 1997.

Tenant reimbursements increased $6.3 million, or 170.2% to $10.0 million for the nine months ended September 30, 1998 compared to $3.7 million for the nine months ended September 30, 1997. Of this increase, $4.5 million was attributable to tenant reimbursements from the 1997 and 1998 Acquisitions and $1.8 million was generated by the Existing Properties, of which $1.0 million represents tenant reimbursements under the Boeing Lease. The remaining $0.8 million of the increase is primarily due to an increase in tenant billings correlating with an increase in reimbursable property operating expenses. Interest income decreased $2.2 million or 64.6% to $1.2 million for the nine months ended September 30, 1998, compared to $3.4 million for the nine months ended September 30, 1997, due to interest earned on the $116 million of net IPO proceeds and the $146 million of net proceeds from the August 1997 Offering during the nine months ended September 30, 1997. Other income for the nine months ended September 30, 1998 included $0.5 million in development services fees, and also lease termination fees and property management fees.

Total expenses increased $30.4 million, or 101.2% to $60.5 million for the nine months ended September 30, 1998 compared to $30.1 million for the nine months ended September 30, 1997. Property expenses increased $7.2 million, or 108.5% to $13.8 million and real estate taxes increased $4.5 million, or

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222.7% to $6.5 million for the nine months ended September 30, 1998 compared to $6.6 million and $2.0 million, respectively for the nine months ended September 30, 1997. Of the collective increase of $11.7 million in property expenses and real estate taxes, $7.4 million was generated by the 1997 Acquisitions and $2.8 million was generated by the 1998 Acquisitions. The remaining $1.5 million increase from the Existing Properties is primarily attributable to management more aggressively allocating expenses which may be reimbursable by tenants to the property level and also reflects the annual increase in property taxes. General and administrative expenses increased $1.5 million, or 37.0% to $5.5 million for the nine months ended September 30, 1998 compared to $4.0 million for the nine months ended September 30, 1997, due to increased management and administrative costs associated with the increased portfolio size. Ground lease expense increased $0.1 million or 16.3% during the nine months ended September 30, 1998 over the same period in 1997 primarily as a result of ground leases on two properties purchased subsequent to the IPO. Interest expense increased $7.2 million, or 95.8% to $14.7 million for the nine months ended September 30, 1998 compared to $7.5 million for the nine months ended September 30, 1997, primarily due to interest paid on an additional $128 million of borrowings on the Company's unsecured revolving credit facility during 1998 and $32.9 of mortgage debt assumed in connection with fourth quarter 1997 acquisitions. The Company's weighted average interest rate decreased 0.88% to 7.31% at September 30, 1998 compared to 8.19% at September 30, 1997. Depreciation and amortization expense increased $10.0 million, or 108.5% to $19.2 million for the nine months ended September 30, 1998 compared to $9.2 million for the same period in 1997, due to depreciation on the 1997 and 1998 Acquisitions.

Net income before extraordinary gains increased $20.4 million, or 126.4% to $36.5 million for the nine months ended September 30, 1998 compared to $16.1 million for the nine months ended September 30, 1997. The increase is due primarily to an increase in rental income and tenant reimbursements of $46.2 million and $6.3 million, respectively, offset by an increase in property expenses of $7.2 million, an increase in real estate taxes of $4.5 million, an increase in interest expense of $7.2 million and an increase in depreciation and amortization of $10.0 million.

Liquidity and Capital Resources

In February 1998, the Company obtained a $350 million unsecured revolving credit facility (the "Credit Facility"), which bears interest at a rate of either LIBOR plus 1.00%, LIBOR plus 1.13% or LIBOR plus 1.25% (6.63% at September 30, 1998) depending on the Company's leverage ratio at the time of borrowing, and matures in February 2000. Availability under the Credit Facility is dependent upon the value of the Company's pool of unencumbered assets and was $76.1 million at September 30, 1998. In October 1998, the Credit Facility agreement was amended to include construction in progress in the value of the Company's unencumbered assets and to modify certain financial covenants. The agreement was also amended such that the Credit Facility may bear interest at LIBOR plus 1.38%, depending upon the Company's leverage ratio at the time of borrowing. There were borrowings of $270 million outstanding at September 30, 1998.

On January 31, 1998 the Company increased the amount of its $14.0 million mortgage loan to $19.0 million and extended the maturity date to January 31, 2000. In addition, the Company repaid a $0.9 million promissory note in January 1998. As of September 30, 1998 the Company's mortgage loans had a weighted average interest rate of 8.19%.

In January 1998, the Company filed a "shelf" registration statement on Form

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S-3 with the SEC which registered $400 million of equity securities of the Company. The registration statement was declared effective by the SEC on February 11, 1998. Through November 12, 1998 the Company completed four underwritten offerings aggregating 3,012,326 shares of common stock and two direct placements aggregating 161,884 shares of common stock with aggregate net proceeds of $82.1 million. As of November 12, 1998, an aggregate of $313 million of equity securities were issuable under the registration statement. The Company, as general partner of the Operating Partnership and as required by the terms and conditions of the Third Amended and Restated Agreement of Limited Partnership of the Operating Partnership (the "Partnership Agreement"), invested the net proceeds of such offerings in the Operating Partnership, which used such net proceeds to repay borrowings under the Credit Facility.

In February 1998, the Company issued 1,200,000 8.075% Series A Cumulative Redeemable Preferred Units, representing limited partnership interests in the Operating Partnership (the "Preferred Units"), with a liquidation value of $50.00 per unit, in exchange for a gross contribution to the Operating Partnership of $60.0 million. The Company used the contribution proceeds, less applicable transactions costs and expenses of $1.6 million, for the repayment of borrowings outstanding on the Credit Facility. On April 22, 1998 the Company issued an additional 300,000 Preferred Units for a gross contribution to the Operating Partnership of $15.0 million. The Company used the contribution proceeds, less applicable transaction costs and expenses of $0.4 million for the repayment of borrowings outstanding on the Credit Facility. The Preferred Units, which may be called by the Operating Partnership at par on or after February 6, 2003, have no stated maturity or mandatory redemption and are not convertible into any other securities of the Operating Partnership. The Preferred Units are exchangeable at the option of the majority of the holders, for shares of the Company's 8.075% Series A Cumulative Redeemable Preferred Stock, beginning February 6, 2008 which may be accelerated under certain circumstances.

Capital Expenditures

As of September 30, 1998, the Company had commenced development of approximately 1.4 million and 300,000 rentable square feet of industrial and office space, respectively, at a total budgeted cost of approximately $127 million. The Company has spent an aggregate of $84.0 million on these projects as of September 30, 1998. The Company intends to finance the remaining $43.0 million of development costs with borrowings under the Credit Facility and working capital.

At September 30, 1998, the Company had escrow deposits of $401,000 for the contemplated acquisitions of two office buildings with 132,100 aggregate rentable square feet. The aggregate acquisition cost of the buildings is estimated to be approximately $21.5 million.

Subsequent to September 30, 1998, the Company completed the acquisition of two office buildings with 116,000 rentable square feet in the aggregate for a purchase price of $21.3 million. The properties were acquired from an entity controlled by Richard S. Allen a member of the Company's board of directors, with borrowings on the Credit Facility and the issuance of 207,649 common limited partnership units of the Operating Partnerships recorded at $4.6 million based on the Company's closing share price on the acquisition date. An Executive Vice President of the Company who was previously a member of The Allen Group, a group of affiliated real estate development and investment companies based in Visalia, California ("The Allen Group"), received 144,821 of the total 207,649 units. The $16.7 million of borrowings on the Credit

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Facility were drawn prior to the acquisition and are included in outstanding borrowings at September 30, 1998.

In connection with an agreement signed in October 1997 with The Allen Group the Company is committed to purchase two office properties totaling 254,000 rentable square feet for an aggregate purchase price of $40.1 million. The Company intends to finance these acquisitions with borrowings on the Credit Facility and the issuance of approximately $11.0 million of common limited partnership units of the Operating Partnership. In addition, the original agreement contemplated the acquisition by the Company of two industrial buildings in San Rafael, California and Las Vegas, Nevada, respectively, and one office building in Redwood City, California for an aggregate purchase price of $22.8 million. Based on the current amended agreement, the Company is no longer obligated to purchase these three non-strategic properties.

The transaction with The Allen Group also consists of the development of two office projects in San Diego, California with approximately 750,000 aggregate rentable square feet for an estimated aggregate development cost of approximately $100 million. The Company has agreed to purchase a 50% managing interest in the two projects upon completion of all necessary entitlements and infrastructure and is expected to manage the development of both projects. The Company has an option to purchase The Allen Group's remaining interest in both projects for a purchase price to be determined upon completion of the projects. The Company presently expects development of the two office projects to commence during the fourth quarter of 1998.

The Company believes that it will have sufficient capital resources to satisfy its obligations and planned capital expenditures for the next twelve months. The Company expects to meet its long-term liquidity requirements including possible future development and property acquisitions, through retained cash flow, long-term secured and unsecured borrowings, including the Credit Facility, and the issuance of debt securities or the issuance of common limited partnership units of the Operating Partnership.

Historical Cash Flows

The Company's net cash provided by operating activities increased $38.2 million or 233.5% to $54.5 million for the nine months ended September 30, 1998 compared to $16.3 million for the nine months ended September 30, 1997. The increase is primarily due to the increase in net income resulting from the 1997 and 1998 acquisitions and increased property operating income generated by the properties owned as of January 1, 1997. The increase was partially offset by increased interest expense and general and administrative expenses. Cash used in investing activities decreased $67.0 million or 19.1% to $284 million for the nine months ended September 30, 1998 compared to $351 million for the nine months ended September 30, 1997. The decrease was due primarily to the purchase of 38 office and industrial properties for $208 million (net of $13.5 million of contributed value in exchange for which the Company issued common limited partnership units of the Operating Partnership), the purchase of 51 acres of undeveloped land for $21.9 million (net of $2.5 million of contributed value in exchange for which the Company issued common limited partnership units of the Operating Partnership), expenditures for construction in progress of $43.4 million, and $8.2 million in additional tenant improvements and capital expenditures for the nine months ended September 30, 1998 versus the purchase of 65 office and industrial properties for $280 million (net of $4.0 million of contributed value in exchange for which the Company issued common limited partnership units of the Operating Partnership and $6.7 million of debt issued), the purchase of 7 office and industrial buildings for $58.0 million in connection with the IPO, the purchase of 25 acres of undeveloped land for $6.5 million, and $4.8 million in additional tenant improvements

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and capital expenditures for the nine months ended September 30, 1997. Cash provided by financing activities decreased $161 million or 39.5% to $248 million for the nine months ended September 30, 1998 compared to $409 million for the nine months ended September 30, 1997. Cash provided by financing activities for the nine months ended September 30, 1998 consisted primarily of net proceeds from the issuance of 3,012,326 shares of common stock through four underwritten offerings, the issuance of 161,884 shares of common stock through two direct placements, the issuance of $75.0 million of 8.075% Series A Cumulative Redeemable Preferred Units of the Operating Partnership and proceeds from the issuance of mortgage debt and net borrowings on the Credit Facility, partially offset by distributions paid to stockholders and minority interest holders. Cash provided by financing activities for the nine months ended September 30, 1997 consisted of net proceeds from the Company's IPO in January 1997, proceeds from the issuance of mortgage debt in connection with the IPO, net borrowings on the line of credit and distributions paid to stockholders and minority interest holders. The increase in distributions of $24.9 million or 223.6% to $36.0 million for the nine months ended September 30, 1998 from $11.1 million for the nine months ended September 30, 1997 is due to a greater number of shares outstanding as well as an increase in distribution rate to $1.22 per share for the nine months ended September 30, 1998 from 1.03 per share for the nine months ended September 30, 1997.

Funds from Operations

Industry analysts generally consider Funds from Operations, as defined by NAREIT, an alternative measure of performance for an equity REIT. Funds from Operations is defined by NAREIT to mean net income (loss) before minority interests of common unitholders (computed in accordance with GAAP), excluding gains (or losses) from debt restructuring and sales of property, plus real estate related depreciation and amortization (excluding amortization of deferred financing costs and depreciation of non-real estate assets), and after adjustment for unconsolidated partnerships and joint ventures. The Company considers Funds from Operations an appropriate measure of performance of an equity REIT because it is predicated on cash flow analyses. The Company believes that in order to facilitate a clear understanding of the combined historical operating results of the Company, Funds from Operations should be examined in conjunction with net income as presented in the financial statements included elsewhere in this report. The Company computes Funds from Operations in accordance with standards established by the Board of Governors of NAREIT in its March 1995 White Paper, which may differ from the methodologies used by other equity REITs and, accordingly, may not be comparable to Funds from Operations published by such other REITs. Funds from Operations should not be considered as an alternative to net income (loss) (computed in accordance with GAAP) as an indicator of the properties' financial performance or to cash flow from operating activities (computed in accordance with GAAP) as an indicator of the properties' liquidity, nor is it indicative of funds available to fund the properties' cash needs, including the Company's ability to pay dividends or make distributions.

The following table presents the Company's Funds from Operations for the nine months ended September 30, 1998 and the period from February 1, 1997 to September 30, 1997.

<TABLE>
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	Nine Months Ended	February 1, 1997 to

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	September 30, 1998	September 30, 1997
	(in thousands)	
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Net income..	$28,649	$13,240
Add:		
Minority interest in earnings..................	4,093	2,231
Depreciation and amortization..................	19,159	8,404
Other..	405	315
Funds from Operations..............................	$52,306	$24,190

</TABLE>

Inflation

The majority of the Company's tenant leases require tenants to pay most operating expenses, including real estate taxes and insurance, and increases in common area maintenance expenses, which reduce the Company's exposure to increases in costs and operating expenses resulting from inflation.

Year 2000

The Year 2000 issue ("Y2K") refers to the inability of certain computer systems, as well as certain hardware and equipment containing date sensitive data, to recognize accurate dates commencing on or after January 1, 2000. This has the potential to affect those systems adversely. In 1997 the Company's Information Technology Committee, which is comprised of representatives from senior management and various departments including accounting, property management and information systems, identified three phases in the Company's Y2K efforts: discovery and assessment, remediation and implementation, and testing and verification. Although many of the phases are being completed simultaneously, the following sections describe the activities that the Company has or expects to perform to meet its Y2K objectives, as well as management's assessment of the Company's risk of non-compliance.

The Company's State of Readiness

The initial phase of discovery and assessment consists of evaluating and identifying all of the Company's information technology and non-information technology systems that contain date sensitive data. The following summary describes the classifications of systems that were identified and the Company's current state of readiness for each classification.

Information Technology Systems

The Company's information technology systems fall into three general categories: accounting and property management systems, network operating systems, and desktop software. The Company replaced its accounting and property management system, acquired all new network hardware and software, and updated all of its desktop systems and software after its IPO in early 1997. The new accounting and property management system, which was tested upon its implementation in 1997, and all the Company's network hardware and software, desktop systems and software packages are Y2K compliant as asserted by the software vendors. Management believes there is no material Y2K exposure with respect to its information technology systems.

Non Information Technology Systems

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Building Management Systems

The Company has identified five categories of building management systems that could have potential Y2K exposure: building automation (e.g., HVAC), security card access, fire and life safety, elevator, and office equipment. During 1998, property management executives and personnel began gathering data to identify all of the Company's Y2K sensitive building management systems and to assess whether such systems are currently Y2K compliant or will need to be modified or replaced. Management expects to complete the discovery and assessment phase and be able to determine the Company's state of readiness as to building management systems by May 1999. In addition management expects to complete the remediation and implementation phase by September 1999 and the testing and verification phase by the end of fiscal year 1999.

Costs to Address the Company's Y2K Efforts

Since the replacement of the accounting and property management system, the acquisition of new network hardware and software and the installation of updated desktop systems and software was performed as a result of the Company becoming a public traded REIT and not in response to Y2K compliance issues, and further, since phase 1 of the building management systems efforts are being performed by 13 salaried Company

employees who are not paid for overtime and who management expects will spend 10% of their annual working hours over a 2 to 3 year period focusing on Y2K compliance issues, Y2K costs incurred to date have been minimal and have not been material to the Company's financial position or results of operations.

While expected future costs, which will include costs to complete phases 2 and 3 for the building management systems, are not readily quantifiable at this time, it is management's belief that a significant portion of such costs will be treated as operating expenses and will be reimbursed to the Company under most tenant leases. Consequently, management does not believe that such expenses will have a material effect on the Company's financial position or results of operations.

Efforts to Identify the Y2K Issues of Significant Third Parties

Due to the Company's diverse tenant base, the success of the Company's business is not closely tied to the success of any one particular tenant. In addition, the success of the Company's business is also not closely tied to the operations of any one vendor, supplier or manufacturer. However, the Company is in the process of surveying significant tenants, vendors, suppliers and other relevant third parties, to determine that their systems will be Y2K compliant and that the Company's normal operations will continue without interruption. Management anticipates this project will be completed by December 31, 1998.

The Risks of Y2K Non-Compliance

Management does not believe that the impact of the Y2K issue will have a material adverse effect on the Company's financial condition or results of operations. This belief is based upon both the analysis of the Company's Y2K issues and the Company's assessment of the Y2K exposure related to tenants, vendors, and other significant third parties as discussed above. No assurance can be given about facts and resultant effects of Y2K issues unknown to the Company at this time.

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The Company's worst case Y2K scenario would be that the Company's information and building management systems fail. In the event that the Company's information systems fail, the Company would be forced to manually perform its accounting and property management record-keeping functions until the information systems could be restored. In the event that the Company's building management systems fail, the Company's tenants would not have access to or be able to conduct their normal business activities at the Company's properties until the building management systems could be restored. These events could have a material adverse effect on the Company's financial position and results of operations.

Developing Contingency Plans

The Company does not currently have a contingency plan in place in the event of a Y2K failure. Such a contingency plan is expected to be developed by the end of the third quarter 1999.

PART II--OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

During the nine months ended September 30, 1998, no legal proceedings were initiated against or on behalf of the Company, the adverse determination of which would have a material adverse effect upon the financial condition and results of operations of the Company.

ITEM 2. CHANGES IN SECURITIES

Subsequent to September 30, 1998, the Operating Partnership issued 207,649 common limited partnership units issued at an aggregate value of $5.0 million to an entity controlled by Richard S. Allen, a member of the Company's board of directors, in exchange for two office buildings totaling approximately 116,000 rentable square feet in San Diego, California. An Executive Vice President of the Company who was previously a member of The Allen Group received 144,821 of the total 207,649 units. The 207,649 units were recorded by the Operating Partnership at approximately $4.6 million based on the Company's closing share price on acquisition date. These units were issued in reliance on an exemption registration requirement pursuant to Regulation D under the Securities Act of 1933 as amended.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES--None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS--None

ITEM 5. OTHER INFORMATION--None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

<TABLE>
<CAPTION>

Exhibit Number	Description
<C>	<S>
4.1	Rights Agreement, dated as of October 2, 1998 between Kilroy Realty Corporation and ChaseMellon Shareholder Services, L.L.C., as Rights Agent, which includes the form of Articles Supplementary of the Series

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	B Junior Participating Preferred Stock of Kilroy Realty Corporation as Exhibit A, the form of Right Certificate as Exhibit B and the Summary of Rights to Purchase Preferred Shares as Exhibit C.(1)
10.1	First Amendment to Third Amended and Restated Agreement of Limited Partnership by Kilroy Realty Corporation, as general partner of Kilroy Realty, L.P., dated as of October 2, 1998.(1)
10.2	Amended and Restated Revolving Credit Agreement, dated as of October 8, 1998 among Kilroy Realty, L.P., Morgan Guaranty Trust Company of New York, as Bank and as Lead Agent for the Banks, and the Banks listed therein.(3)
10.3	Amended and Restated Guaranty of Payment, dated as of October 8, 1998, between Kilroy Realty Corporation and Morgan Guaranty Trust Company of New York.(3)
10.4	Contribution Agreement, dated October 21, 1997 by and between Kilroy Realty, L.P. and Kilroy Realty Corporation and The Allen Group and the Allens.(2)
10.5	Amendment to the Contribution Agreement, dated October 14, 1998, by and between Kilroy Realty, L.P. and Kilroy Realty Corporation and The Allen Group and the Allens, dated October 21, 1997.(3)
27.1	Financial Data Schedule.(3)
99.1	Press Release of Kilroy Realty Corporation, dated October 2, 1998.(1)

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* Filed herewith.

(1) Previously filed as Exhibits 4.1, 10.1, and 99.1, respectively, to the Current Report on Form 8-K (No. 1-12675) dated October 2, 1998 and incorporated herein by reference.

(2) Previously filed as Exhibit 2.1 to the Current Report on Form 8-K (No. 1-12675) dated October 29, 1997 and incorporated herein by reference.

(3) Previously filed as Exhibits 10.2, 10.3, 10.5 and 27.1, respectively, to the Company's Form 10-Q (No. 1-12675), for the quarterly period ended September 30, 1998, and incorporated herein by reference.

(b) Reports on Form 8-K.

The Company filed a Current Report on Form 8-K, dated October 2, 1998, in connection with the adoption of the Preferred Share Purchase Rights Plan.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on March 24, 1999.

Kilroy Realty Corporation

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By: /s/ John B. Kilroy, Jr.

John B. Kilroy, Jr.
President and Chief Executive Officer

By: /s/ Richard E. Moran Jr.

Richard E. Moran Jr.
Executive Vice President and Chief Financial Officer

By: /s/ Ann Marie Whitney

Ann Marie Whitney
Vice President and Controller

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